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COTTON VALUE CHAIN CASE STUDY FOR NORTHERN UGANDA

GUIDED CASE STUDIES IN VALUE CHAIN DEVELOPMENT FOR CONFLICT-AFFECTED ENVIRONMENTS

microREPORT #91



January 2008

This publication was produced for review by the United States Agency for International Development. It was prepared by Rachel Locke and Karri Goeldner Byrne of the International Rescue Committee under the Accelerated Microenterprise Advancement Project Small Grant Facility administered by Pact, Inc., subcontractor to Weidemann & Associates.

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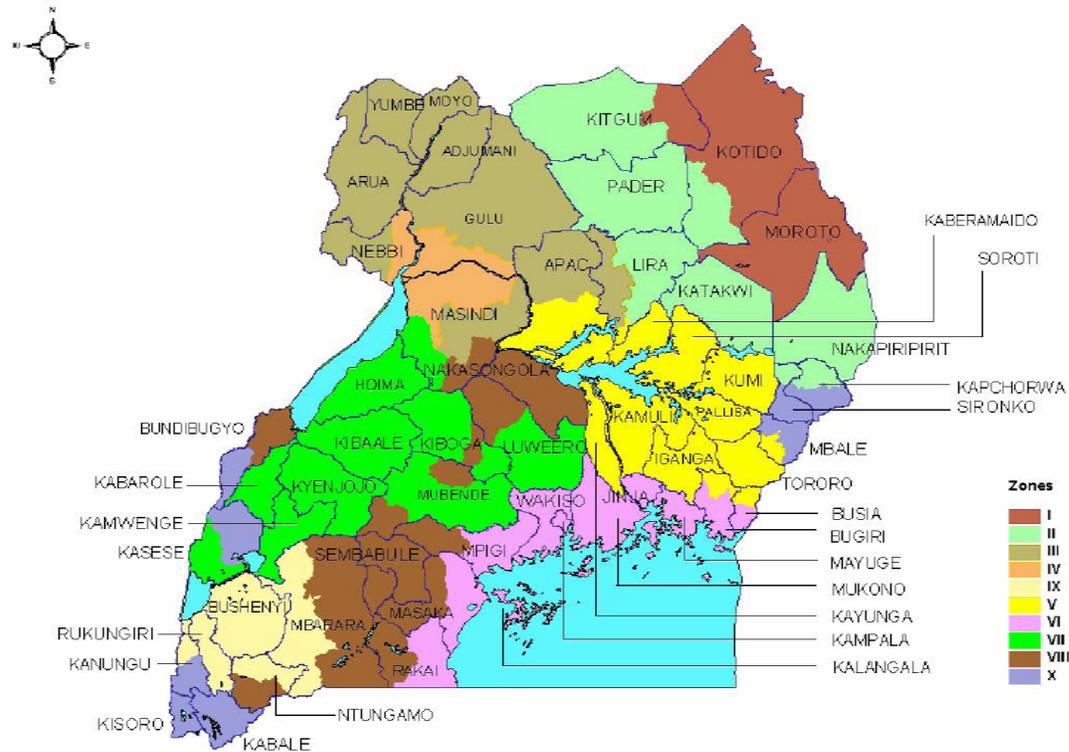
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MAP OF UGANDA DISTRICTS BY AGRICULTURAL PRODUCTION ZONES GOVERNMENT OF UGANDA, AUGUST 2004



Source: FAO

IRC’s project area of Kitgum is shown at the top of the map, with market centers in Lira to the south and Gulu to the southwest.

LIST OF ACRONYMS

AGOA	African Growth and Opportunities Act
APEP	Agricultural Productivity Enhancement Program
CDO	Cotton Development Organization
CMC	Collective Marketing Committee
CPA	Comprehensive Peace Agreement
CSOPNU	Civil Society Organizations for Peace in Northern Uganda
DAO	District Agricultural Officer
EDF	Equatoria Defense Force
FAO	Food and Agriculture Organization
GDA	Global Development Alliance
GoS	Government of Sudan
GoU	Government of Uganda
HSM	Holy Spirit Movement
IDP	Internally Displaced Person(s)
IMO	Institute for Marketecology
IRC	International Rescue Committee
LRA	Lord's Resistance Army
LDU	Local Defense Units
NAADS	National Agricultural Advisory Services
NGO	Non-Governmental Organization
NRA	National Resistance Army
NRM	National Resistance Movement
SPLA	Sudan People's Liberation Army
UNLA	Uganda National Liberation Army
UPDF	Uganda People's Defense Force
USAID	United States Agency for International Development
Ushs	Ugandan Shillings
VCA	Value Chain Approach
WFP	World Food Program
WTO	World Trade Organization

EXECUTIVE SUMMARY

In 2005, the International Rescue Committee (IRC) began investigating potential avenues for economic development in Kitgum District, northern Uganda, where most humanitarian work consisted of emergency interventions. The intent was to identify economic activities that were sustainable and consistent with traditional Acholi employment and business opportunities and also had a reliable market. IRC focused the search on agriculture. However, land limitations and a lack of insecurity on the roads made this an extremely precarious undertaking.

Because access to land was through kinship or rental fees, it was difficult for internally-displaced persons (IDPs) with limited income to pay fees. IRC persuaded local landowners to provide land access to IDP farmers at no cost. Another concern was that crops would have to be transported to town to sell, which would put the IDPs at risk while on the road. IRC selected cotton following discussions with Dunavant Uganda, Ltd (hereinafter referred to as Dunavant), a cotton processor that represented a secure market for harvested cotton and was able to collect the bulked crop from the camps. The arrangement would help assure the safety of the IDP farmers and facilitate economies of scale. IRC worked with Dunavant to provide inputs and training to the farmers and to ensure they understood the potential of the trade relationship.

This small pilot project succeeded in improving farm household incomes and illuminating ways to support economic recovery programs, even in the midst of violent conflict. Connecting farmers in an otherwise marginalized and isolated area with a functioning market by examining relationships among actors within the cotton value chain increased economic growth, rebuilt trade networks and improved stability. This case study provides an example of the ways humanitarian actors can work with the private sector and use the value chain approach and linkages to facilitate economic recovery.

1. A value chain approach should be used as a tool for determining how to link conflict-affected populations with functioning market structures. Prior to the IRC cotton project, all of the economic activities involving IDPs prioritized the supply side—what they wanted to do or to supply. There was an assumption that there was no market and few emphasized market demand. To focus only on the beneficiary is a traditional humanitarian perspective, one that does not serve the long-term needs of IDPs. Focusing on a market that is present both during and after the conflict can rebuild relationships and trust, improve stability as caretakers re-assume their roles, and increase incomes. However, the market analysis must also take into account non-economic factors such as access to land and security issues. The value chain approach can help illuminate these and others.

2. Continue developing tools and training modules to help humanitarian staff become more familiar with and adept at implementing the VCA. While VCA is a valuable tool, support should be provided to humanitarian actors in order to make it more accessible. One should not underestimate how intimidating an economic analysis can be for humanitarian actors more familiar with emergency response programming.

3. Combine the value chain approach with existing tools and participatory approaches. The situational analysis and needs assessment tools currently used by most humanitarian organizations provide little or no information on barriers to trade or value chain issues. Combining value chain tools with those that exist and are well-known by humanitarian staff can add richness to the analysis and open dialogue about how to support long-term economic needs. As with a needs assessment, it is critical to involve participants in the analysis. Given the challenges of education in camps, new tools should be developed to help farmers provide the current and historical value chain information that researchers need for the analysis. In addition, it is crucial to remember that other chain actors, such as processors and purchasers, must be included in the research and analysis.

4. Support staff training staff and meet the financial needs inherent in the VCA. A value chain analysis helps humanitarian actors shift their focus from those they work with at the bottom of the chain to the markets at the top and

identifies ways to build pathways between the two. In addition, both donors and implementers must recognize that a thorough value chain analysis is likely to require the implementers to travel to locations outside of the project area to interview other chain actors. This will require additional funds and donors should be prepared for the extra expense. This is especially true in camps where people hope to leave and return home or to resettle.

5. Use community-focused, innovative ways to address land ownership and usage issues, especially with regards to marginalized and vulnerable groups. In many conflict and post-conflict settings, particularly where displacement is an issue, land access and rights are a major concern. Access to land often defines whether a person is vulnerable or not, and finding equal access to land for those who are otherwise disenfranchised is critical. However, given the economic power that land gives people, it is a very contentious issue. NGOs and others need to work extensively with community members, local leaders, landowners and government to find equitable solutions for both the short and long terms. Relying solely on the government is insufficient given how problematic land issues are.

6. Consider activities that rebuild trust and provide incentives for both vertically and horizontally linked chain actors. Opportunities to rebuild and expand networks are clearly present, but these relationships must be nurtured slowly, and implementers must recognize when trust does not exist. Many humanitarian projects in northern Uganda were built on the premise that beneficiaries were all from the north and therefore prepared to help one another. In fact, this often was not the case. People still hold allegiance in order of family, kinship, village, parish and only then to larger designations. This order impacts incentives, and humanitarian projects must be aware of and understand it.

An important lesson of this research was that even among horizontally-linked farmers, trust was not a given and farmers from different parishes did not trust one another. Instead, automatic trust seemed to end shortly after village designations disappeared (and with them kinship). Projects with short timeframes should consider grouping individuals at the closest levels of social familiarity, such as the village-level where trust is more inherent, rather than trying to build bonds where they are not already strong. With more time, representatives of these groups can be brought together to build social connections.

7. Be realistic about the role of each participant in the chain and what is truly manageable and in their interest. Often, farmers are poorly informed participants in the system and their lack of understanding inhibits their integration into markets. IRC sought to increase farmers' knowledge of their role and leverage in the value chain, but the short project timeframe did not allow this goal to be fully realized. Kitgum District has been in a state of conflict for twenty years, and people's education and exposure to the outside world have suffered greatly. Ensuring that farmers are well informed within the chain requires significant, ongoing, costly and time-consuming education and training. While a private company may not have the time, money or interest in investing in education, a neutral third party such as government, an NGO or a donor agency can play a critical role. NGOs that understand, but are not influenced by historical issues, profit or governance of the chain can provide an objective facilitating role in the chain. It is also important to appropriately match participants' roles, abilities and interests to ensure sustainability.

8. Careful selection of crops can help mitigate non-economic concerns, including security. It is beneficial to explore the non-market impact of crop choice. Examination of crops should be done with farmers both prior to and following conclusion of the project. Post-harvest workshops for farmers to look at prices received for their crops and which ones best fit their familial and social demands and constraints would substantially increase farmer empowerment and contribute to improving both vertical and horizontal linkages.

9. NGOs should ensure positive roles for government in economic recovery projects. Although it may not be easy to overcome existing, often inappropriate patterns, including these elements in recovery projects provides an opportunity for setting better examples, creates buy-in from government, and can improve relationships between producers and government employees. It also gives public officials the information they need to better govern their areas of responsibility.

I. INTRODUCTION

OVERVIEW

Cotton has been grown in northern Uganda for so long that many consider it to be part of the social fabric of the north. Cotton farming began in 1903 and, with coffee and tea, is one of Uganda's three major traditional crops. Cotton can be produced in most parts of the country, but 50 percent of production takes place in areas north and east of the Nile River. Cotton is normally grown on small plots of less than half an acre and is often inter-cropped with other cash and food crops. Farmers use traditional farming practices and tools—hand hoes and axes—for cultivation and all crops are rain-fed. In the 1970s, cotton production peaked and represented about 40 percent of the country's foreign exchange. During this time, many ginneries were built to support cotton production. However, the political disruptions in the 1980s and 1990s caused a serious decline of the industry and only 23,000 bales were produced in 1990 (4,370 tons) compared with 400,000 bales (76,000 tons) in 1974.¹ In 1994, the government liberalized Uganda's cotton sub-sector in the hope of addressing the decline. In particular, the government hoped to solve the problem of crop financing in order to increase production and productivity and to remove inefficient institutions. By 2003, cotton production had increased, but was still low at just 18,000 tons, accounting for only 3.6 percent of foreign exchange. Today, although many ginneries operate at less than 40 percent of their estimated capacity,² cotton is estimated to contribute to the incomes of 10 percent of Uganda's population—about 2.5 million people in rural areas in the North, East, and West since 2003.³ Cotton is considered second only to coffee in its ability to alleviate rural poverty.⁴

SUMMARY OF RELEVANT RELIEF ACTIVITIES IN THE AREA

When IRC intervened in 2005, there were several domestic and international humanitarian organizations operating in Kitgum District, most focused on emergency relief with an emphasis on health, water, sanitation and HIV/AIDS. Because of the nature of the conflict, which affected children and youth disproportionately due to recruitment and abduction into the Lord's Resistance Army (LRA), many NGOs also emphasized education, vocational training, psycho-social and other activities to help children and youth lead healthy lives in the midst of fear and conflict. Very few NGOs concentrated on economic development and those that did designed programs in a way that almost guaranteed short-term results rather than long-term sustainability. For example, hundreds of people received training in carpentry, tailoring and brick-laying—a close examination of the market would have shown limited demand for these skills. Support, including start-up grants, was often distributed based on vulnerability criteria, rather than on the probability of economic success.

Since the start of the current round of peace talks in 2006 and continuing improvements in the security situation, more organizations have begun operating in northern Uganda, significantly increasing the number of projects with an economic focus. There also has been a notable increase in donor interest in funding activities such as land clearing and agricultural development that support a return to villages from IDP camps.

RELATIONSHIP TO THE RELIEF TO DEVELOPMENT CONTINUUM

When the IRC project began, most organizations viewed the population of Kitgum as vulnerable and in need of emergency assistance, and their projects addressed short-term emergency needs, rather than recovery. Because donors and NGOs prioritized vulnerability over hard work, people soon realized that to receive a grant to start a business

¹ Tulip, Alan and Ton, Peter *Organic Cotton: Uganda Case Study*, Pesticide Action Network: 2002.

² *Cotton Textile and Apparel Value Chain Report*, Regional Agriculture Trade and Expansion Support Program (RATES), April 2003

³ *Uganda Cotton Price Risk Management: Phase Two Report*, R.W Nsibirwa and PTiffen, March 2003.

⁴ *The Path Forward for Uganda's Cotton and Textile Sector*, COMPETE Project, USAID, 2002.

they had to prove they had HIV/AIDS or were a former child-soldier rather than a good business risk. IRC's project was an attempt to move away from this distorted perception to one that considered economic potential a key factor. While the population was vulnerable and people were suffering, they also were trying to make a living and retain a sense of normalcy in an abnormal situation. IRC's focus helped people regain self-confidence and be proud of what they could achieve, even in the face of immense hardship. IRC's work also provided an example of how to support agricultural activities in displacement or return scenarios. Dissemination of results in Kitgum and Kampala encouraged other actors to move towards more private sector support. Creating this momentum was critical to ensuring that people were more able to care for themselves within an IDP camp context and that once they were ready to return to their villages, relationships would be in place to help them quickly take advantage of economic opportunities.

DESCRIPTION OF PROJECT

In 2005 the International Rescue Committee began investigating potential avenues for economic development in Kitgum District. The focus was on economic activities that were sustainable, had a reliable market, and were conducive to traditional Acholi labor practices. This focused the search on agriculture, the traditional base of the Acholi economy. The insecurity of the roads and land limitations made agriculture an extremely precarious undertaking and one that had been nearly abandoned on any meaningful economic scale.

At the time of IRC's intervention, each IDP camp was surrounded by what was referred to as a safe radius, generally extending about 1.5-2km from the camps. Within this radius the Uganda People's Defense Force (UPDF) and Local Defense Units (LDU) provided security patrols so people could cultivate the land. Given the burgeoning population of most camps, this meant that the majority of IDPs had access to an average of 1.5 acres of land per household.⁵ Access was geographically limited as there was only so much acreage inside the safe radius and also financially since land had to be rented from private owners. IDP camps were situated on land belonging to individuals who received no compensation for the destruction these thousands of people caused, and so they sought remuneration from the IDPs. Those IDPs who were unable to get land for free through kinship ties (with landowners) paid an average of \$8/acre per season (Ushs15,000).

IRC did not want to perpetuate a system in which kinship was the dominant factor in determining economic security and worked with landowners to convince them to provide land access to IDPs—including those outside their clan—at no cost. In exchange, land that had been lying fallow for years because it was outside the safe radius was plowed and provided with security patrols. The combined plowing and security provision allowed landowners to utilize their land again for the first time in years.

One of the benefits of cotton is its ability to serve as a cleansing agent for fields, which can then be used in following years for other crops. This element of cotton helped to further entice landowners to provide free usage rights for IDPs on all their land. The following year all their land would be open, clean and ready to plant.⁶ Meanwhile, for the 2006 season landowners and their families received ten acres per block area and participating IDP farmers received two acres each. Dunavant Uganda, Ltd, a local cotton processor, plowed all land within the block farm at a subsidized cost to farmers. Situating land in a block farm formation was critical to providing services, including plowing, security patrols and training through demonstration plots. It also helped farmers support one another as they shared labor on neighboring plots.

⁵ Various agencies, including AVSI, WFP, CSOPNU, FAO, IRC and others have done surveys of land access. During 2005-2006 most surveys found that the majority of IDPs had access to less than 1.5 acres of land in Kitgum District.

⁶ Land was negotiated only for one planting season, though discussions were held with the landowners, local leaders and farmers to set up systems that would allow future negotiations for land access without the involvement of an external agency.

IRC was concerned about promoting crops that people would need to transport to town to sell, which would put them at risk of murder, mutilation or abduction while on the road. The emphasis was on economies of scale to increase incentives for buyers to pick up bulked crops from the camp. This put the risk of road travel (at the time the most dangerous location) on buyers who were better able to protect themselves than the average farmer.⁷ Another security issue concerned food crops that attracted the LRA and potentially increased the risk for neighboring IDPs. It was important to identify an appropriate cash crop that took time to harvest and had to be sold (rather than eaten) so it would be of little interest to the LRA.

After significant data collection in eight IDP camps, IRC selected cotton as the crop that best fit the criteria of the project because 1) farmers were familiar with the crop; 2) a local company, Dunavant, was ready to purchase the raw cotton and agreed to provide subsidies and guarantees (including contracts with farmers) to ensure that any market volatility would not result in the loss of farmer income; 3) cotton provides a cleansing function attractive to landowners; and 4) security concerns could be addressed through project design. IRC, with support from USAID and its Agricultural Productivity Enhancement Program (APEP), began a partnership project with Dunavant. The intent of the one-year pilot was to immediately support farmers' access to economic opportunities and provide evidence of methods that a diverse range of actors could use to support increased agricultural production. The pilot project, which began in October 2005 and ended in January 2007 (one full production and purchasing cycle) was designed with the following components:

1. IDPs in 4 camps, approximately 100 farmers per camp, were involved.
2. Landowners were consulted and, under supervision and with signatures from local leaders and IRC, signed contracts with the farmers.
3. Land was provided to IDPs free of charge and ten acres was set aside for each landowner's household to cultivate.⁸ While the landowners already owned the ten acres, a benefit of their participation in the project was the clearing of large sections and access (security) to large sections of those fields.
4. All land utilized by IDPs was outside the safe radius and not under cultivation at the start of the project; a deliberate attempt to avoid weakening food security, which was a major concern. IRC did not want to displace currently grown food crops with cotton.
5. Due to the food security concerns, farmers were provided one acre on which to grow cotton and one on which to grow food crops. They also were provided seeds, tools and training for all food and non-food crops.
6. Dunavant plowed land for food and cotton at a subsidized price paid by farmers at the time of sale. Farmers were contractually obliged to sell their cotton only to Dunavant, which assured payment for the plowing. The contract also ensured that farmers received a minimum price guarantee from Dunavant, which allowed them to make a more informed decision regarding the profitability of cotton versus other crops at the start of the project.
7. UPDF and LDU were engaged to provide additional security to the newly opened land which was located in a block farm formation to make it easier to patrol. Farmers negotiated directly with the security personnel

⁷ While many buyers, NGOs, and others have been attacked in their vehicles on roads in northern Uganda, the incidence of abduction, rape and murder was much higher for single individuals either walking or riding bicycles along roadsides. Although soldiers were meant to patrol the roads, this could not guarantee security, further reducing IDP mobility and access to economic opportunities.

⁸ In Kitgum Matidi and Palabek Kal landowners held significant acreage of over 100 acres each and IRC worked with one and two landowners, respectively, per IDP camp. In Potika and Agoro, IRC worked with five landowners per camp, each possessing about 45 acres.

about times during which they would cultivate and the UPDF/LDU accompanied them to their fields during the negotiated hours.

8. Food crops were planted close to the IDP camps and cotton further out, because food crops were more vulnerable to theft from LRA and UPDF/LDU. Farmers thought that planting food crops close to the camps would help protect them as people in the camps could see the fields and any raiders. Fields further away cannot be seen from the camps and are easier to steal from. While UPDF/LRA were not compensated for their patrol support on this project, some farmers offered them food crops during their patrols.
9. Farmers formed Collective Marketing Committees (CMC) responsible for collecting, bulking and marketing cotton. Dunavant sent trucks to collect cotton from the camps, purchasing directly from the marketing committees which then paid farmers. IRC and Dunavant trained the CMCs in post harvest management of cotton, group management, record keeping, principles of collective marketing, and commission transactions.

IRC did not conduct a value chain analysis as the project was being developed, but made the decision to work with the cotton sector after examining the conditions the targeted IDP farmers faced. Project management then integrated value chain analysis into project development, including investigation of several sub-sectors to select the one with the best potential for impact. The IRC research data revealed specific price and marketing information for commodities in different locations and this information was shared with farmers to ensure they were fully informed of the relative benefits of cotton production.⁹ While the research showed that some crops, such as ground-nuts, could yield higher profits than cotton, there were significant barriers in terms of market access. It is important to note that in mid-2005, when the project was being designed, the security situation in northern Uganda was extremely poor. Roads to IDP camps were constant targets of attack and transportation to town markets in the region was very insecure and unreliable. At the same time, markets inside camps were almost non-existent due to dramatically decreased incomes. A major factor in selecting cotton was to choose a crop that would not negatively impact personal safety and had a guaranteed market. Working directly with a private company that could absorb relatively high levels of product and assume some of the security risks were the main determinants of cotton selection.

IRC also held extensive interviews with cooperative organizations, cotton companies, farmers and other NGO project personnel to determine opportunities and constraints to land opening, food security, pricing strategies, and information sharing. It was these discussions that determined the decision to create new Collective Marketing Committees.

While the project had its limitations, the pilot did meet the intended result of both increasing economic opportunities for farmers and providing evidence of how agricultural support could be provided to IDPs. Following conclusion of the pilot, Dunavant entered into a Global Development Alliance (GDA) partnership with USAID to support the continued expansion of cotton production in Acholiland through direct support to 12,000 farmers.¹⁰ APEP, a partner in IRC's pilot project, is also a partner in the GDA, although IRC is not.

INTRODUCTION TO THE SUB-SECTOR

The Cotton Development Organization (CDO) holds strict control over the distribution of cotton seeds in Uganda, distributing them directly to private companies and cooperative structures. Fertilizers are used infrequently, even when there is diminished soil fertility, because few farmers can afford inputs. The average landholding size for cotton producers in Uganda is about two hectares¹¹ and harvesting is done over a period of three months. After picking,

⁹ Locke, Rachel (February 2006) *NGO Involvement in Cotton Production Among Displaced Populations in Northern Uganda: Report of Phase One Field Work*, International Rescue Committee report submitted to USAID.

¹⁰ Interview with Ravi Patel, Managing Director Dunavant Uganda, Ltd.

¹¹ FAO Reports, 2006.

farmers sort the harvested cotton into clean and stained cotton, which is either purchased at the farmgate by agents, or delivered to cooperatives, buying centers, or ginneries by the farmers.

Uganda's cotton is regarded as 'high premium' on the world market. However, because production is low, there can be shortages locally, which fuels inter-regional trade. In addition to raw cotton, there is trade in yarn, garments and apparel. Products are sold at virtually all stages of the value chain on both a large and small scale.

When asked about the importance of cotton, many northern Ugandans express views similar to Sam Eyul Abila: "Every farmer returning from internally displaced people's camps in the country wants to plant cotton. It was our lifeline. Most of us went to school on cotton money."¹² Because cotton can provide an immediate infusion of substantial cash, it traditionally pays for high cost family needs—school fees, dowries, or new homesteads. Today, many people continue to grow cotton because of this historical affiliation and because they are accustomed to it.¹³

SUMMARY OF CASE STUDY PREPARATION

Research began with a review of support documentation and relevant literature (see references) and a meeting with the AMAP ACDI/VOCA Technical Advisor and IRC Economic Recovery and Development Director that provided an initial briefing and identified research priorities.

Field research included key informant interviews and focus group discussions. To get a complete picture of the cotton industry in Uganda, the research team conducted interviews in three geographic areas: Kampala, Lira (Lango region) and Kitgum (Acholi Region). In Kampala the team interviewed government officials, and management and staff of the Cotton Development Organization, international organizations and donors, and Dunavant Uganda, Ltd. Lira, although outside of the Acholi region, sits just south of Acholiland and is a major industrial hub, supplying most of the agricultural inputs and serving as a central management location for many of the large national and international companies operating in the north. Interviews in Lira focused on these actors. In Kitgum, interviews were with the local Dunavant management and farmers in IDP camps, including those who were and were not growing cotton. One further interview was held in Gulu District, which is seen as the center of Acholi power and where a majority of NGOs operating in the north are based.

It is worth mentioning that access to IDP camps and villages in Lira and Kitgum was severely limited due to heavy rains (cited as the worst in 35 years by the BBC). This limited research to just two IDP camps in Kitgum District (IRC's pilot project operated in four camps, two of which were completely inaccessible at the time of research). The research also included a retroactive analysis of the cotton value chain conducted by IRC staff based in Lira and Kitgum. This process identified local sources and provided information that the team integrated with interviews from other sources. A full list of interviews is included in Annex 1.

¹² *Organic Cotton Brings Hope to Northern Farmers*, New Vision (Kampala), 7 August 2007.

¹³ Interview in Kitgum Matidi IDP camp with cotton farmers.

II. ANALYSIS OF THE CONFLICT AND TRANSITION TO POST-CONFLICT

The conflict between the Government of Uganda (GoU) and the Lords Resistance Army that has gripped northern Uganda for over 20 years has inflicted staggering human, social and economic damage. Thousands have died; nearly two million have been displaced; tens of thousands have been abducted and forced into combat; and tactics on both sides have been characterized by atrocities against civilians. Vital infrastructure has been destroyed, investment squandered, capital stocks depleted, and education and other social services severely degraded. The economic costs of the conflict may appear small when measured against the violence committed, but economic disenfranchisement fuels the political disaffection that is a driving force behind the decades of violence.

INCENTIVES FOR VIOLENCE

The conflict in northern Uganda is rooted in a political history in which systems of patronage and deprivation guaranteed authority and suppressed dissent. From the colonial period onward power was maintained by placating favored constituencies at the expense of the politically marginalized. The British Empire presided over the most effective of these divide-and-rule structures, creating what essentially amounted to an ethno-regional caste system. The Baganda, who dominate the central-southern region of the country, but are a minority nationally, were favored with the greatest degree of political authority and economic investment and South Asian families were imported to form a mercantile class. Meanwhile the Acholi, Langi, and other groups living in the northern region were far from the seat of power; colonial authorities considered them ill-suited to wield authority and so relegated them to the status of laborers and soldiers.¹⁴

The colonial government maintained these divisions as an explicit matter of policy that they enforced through an agenda, which created the lasting impression that governing is a zero-sum game that benefits one group at the expense of another.¹⁵ Though the relative positions of various ethnic groups have shifted with the identity and priorities of successive regimes, postcolonial governance has, for the most part, been a reiterative series of the original colonial scheme. That structure, which resulted in a number of northern ethnic groups being both systematically disenfranchised and at the same time heavily embedded in the military, has had a lasting impact on Ugandan history.

Following independence in 1962, Milton Obote, a Lango from the north, held power under a multiparty democratic system that became increasingly authoritarian over time. In 1971 General Idi Amin Dada, hailing from the marginalized West Nile region of north-western Uganda, led a coup to depose Obote and claim power for himself. Amin's eight year reign was marred by brutality, incompetence and the reinforcement of ethnic divisions to retain political control. Approximately 800,000 Ugandans were killed; the traditional Baganda power structure was methodically attacked; and northerners from the Acholi and Lango regions were targeted as perceived supporters of Obote. Amin also expelled 70,000 Asians, confiscating their property and redistributing it to political allies and favored polities.¹⁶

Amin was ultimately overthrown in 1978 by a Tanzanian-backed rebellion that included the current Ugandan President, Yoweri Museveni. Milton Obote reassumed power in 1980 through elections—widely believed to have

¹⁴ International Alert (2006) "Mobilizing the Ugandan Business Community for Peace: An Exploration of Issues and Perspectives" *International Alert Scoping Study*

¹⁵ *Ibid*

¹⁶ *Ibid*

been rigged—that prompted Museveni to launch a guerilla war in 1981.¹⁷ Obote’s second term, defined largely by internal guerilla warfare focused in West Nile and the area north of Kampala known as the Luwero triangle, was nearly as violent as Amin’s. Obote was forced from office in 1985, this time due in part to unrest among Acholi soldiers (who made up a large percentage of the army) who were doing a considerable amount of fighting and felt they were bearing the brunt of the conflict with little reward.¹⁸ General Tito Okello, an Acholi, took over as President under a power-sharing deal with Museveni’s forces. However, only a year later Museveni’s troops took control of Kampala and deposed President Okello. To many Acholis this signified a breach of trust on the part of Museveni that has never been reconciled.

President Museveni and his National Resistance Movement (NRM) have held on to power since 1986, making him one of Africa’s longest-serving presidents. The early years of Museveni’s rule gave cause for considerable optimism as democratic governance, at least at the local level, and economic reform were pursued, power decentralized and ethnic and regional inclusiveness made a clear policy objective. Indeed, Uganda’s national statistics have shown positive signs of development over the past 20 years. Unfortunately these successes have not been distributed evenly throughout the country with particular areas in northern (Acholiland), north-eastern (Karamoja) and north-western (West Nile) regions being particularly excluded.

CONFLICT MOBILIZATION AND EXPANSION DYNAMICS

Immediately following Museveni’s successful march on Kampala in 1986 the majority of Acholi soldiers in the army retreated to the north. Many of these soldiers attempted to hide among the local population fearing reprisals from the national government. This relocation sparked interesting consequences. Much of the local population was aware of the atrocities committed by northern soldiers in Luwero and resisted welcoming them home. For some soldiers this induced them to seek spiritual cleansing (see next paragraph), while for others the resistance forced them further north into southern Sudan to hide among the Acholi living there. The Sudanese Acholi integrated many of these soldiers into the Equatoria Defence Force (EDF), a southern Sudan movement supported by the Government of Sudan (GoS) in Khartoum to fight against the Sudan People’s Liberation Army (SPLA).¹⁹ The Sudanese Acholi resented the SPLA, which was dominated by the Dinka. This led to a relationship between Ugandan soldiers and the GoS that would have critical implications on sustaining and, eventually, curtailing the conflict between the LRA and GoU.

The upheavals caused by Museveni’s takeover increased the demand for spiritual movements as an attempt to heal returning soldiers. One of these, led by Alice Lakwena and named the Holy Spirit Movement (HSM), gained significant support that would have a lasting impact. “She [Lakwena] performed healing rituals for UNLA²⁰ soldiers after their retreat from the south, and through her, her spirits offered an interpretation of the UNLA defeat by the NRA²¹ that seemed compelling to many” (Allen 2006). The HSM grew in popularity, eventually amassing thousands of soldiers, who were taught lessons of purity, including abstaining from sex and alcohol. These soldiers believed that they would be protected by their purity. In October 1987 Lakwena led a force of 10,000 soldiers towards Kampala. They were defeated about 80 miles from Kampala and Lakwena fled to a refugee camp in Kenya, where she spent the last decades of her life.

¹⁷ International Crisis Group (May 2006) “Conflict History.” www.crisisgroup.org.

¹⁸ Allen, Tim (2006) *Trial Justice: The International Criminal Court and the Lord’s Resistance Army*, London: Zed Books.

¹⁹ For decades the SPLA and GoS have engaged in fighting over the right to self-determination of southern Sudanese. Much of the conflict concerns rights to oil resources located in south Sudan that the GoS is unwilling to lose. The GoS and SPLA signed a comprehensive peace agreement in 2004, which has halted much of the fighting. For more on the conflict between the SPLA and GoS see www.crisisgroup.org.

²⁰ Uganda National Liberation Army, formed during Amin’s rule, comprised mainly Lango and Acholi and formed part of the coalition that overthrew Amin in 1979. It was nominally the national army under the Obote II and Okello regimes.

²¹ National Resistance Army, the armed wing of Museveni’s NRM prior to the creation of the Uganda People’s Defense Forces.

Many were inspired by Lakwena's successes, including Joseph Kony who claimed to be a cousin of hers.²² Kony was able to assemble a body of troops and, following a 1988 peace agreement between the NRM and other northern resistance groups, became the only armed force still fighting in the Acholi region. In 1990 Kony dubbed his forces the Lord's Resistance Army and ruled with some of the same doctrines of purity that Lakwena taught. Over the years, this claim to spirituality became increasingly dubious as the tactics of the LRA became increasingly gruesome. While asserting his desire for Uganda to be ruled according to the Ten Commandments and espousing adherence to pure living, Kony's LRA massacred civilians, abducted young girls to use as sex slaves and forced young recruits to drink blood and murder family members.

The strength of the LRA has ebbed and flowed over time, largely in relation to the support received from the GoS. When Acholi soldiers retreating from the UNLA defeat entered Sudan, many took up arms with the EDF. The GoS wanted to secure additional assistance in its fight against the SPLA and, as the LRA gained strength, the GoS used it as a proxy force in its fight against the SLPA.²³ Even though the LRA had been operating out of Southern Sudan for years, it was not until 2003-4 that the GoU received permission to enter Sudan to pursue the LRA leaders. The timing was not coincidental. Discussions begun in 2003 between the GoS and the SPLA significantly reduced tensions and, as there no longer was a need for the Sudanese government to support the LRA, its military support to the group began drying up.²⁴ At the same time, relations between the GoS and GoU improved, which allowed the Ugandan army to enter Southern Sudan.

While there are no clear, proven channels of economic support for the LRA, that provided by the GoS helped sustain them for many years. The LRA is a low-technology, low-cost operation that functions on minimal funds. Abducted children serve as soldiers who walk for days and miles through the bush. They do not use cars; their material needs (including food) are often stolen, and camps are basic. Some LRA who belong to the diaspora have been involved in this year's peace talks, but there is no convincing evidence of whether or how much support these individuals provide to sustain the conflict.

Almost since its inception, the tactics of the LRA have brought terror to the people of northern Uganda, particularly the Acholi districts of Gulu, Kitgum and Pader, but also to the Lango and Teso regions. Although the group consists of a relatively small core of trained soldiers, the LRA forces are bolstered by legions of child conscripts abducted from villages across northern Uganda. This was a key LRA strategy, which initiated these child soldiers through various practices, including drugging them and forcing them to murder members of their own families so they would be less inclined to try to return home. The LRA also turned on the civilian population, committing ruthless atrocities against their own ostensible constituency. During 1994 peace talks, Kony justified the actions of the LRA by stating, "If you picked up an arrow against us and we ended up cutting off the hand you used, who is to blame? You report us with your mouth, and we cut off your lips. Who is to blame? It is you! The Bible says that if your hand, eye or mouth is at fault, it should be cut off" (Allen 2006:42). Indeed many in the north have lost limbs, lips and even breasts in horrible acts of terror. These acts were not limited to those who actually informed the GoU of LRA movements—just about anyone living in the area was a suspected accomplice and at risk of attack.

Two major features of the LRA conflict—the widespread abduction of children and the pervasive use of sexual violence by combatants on both sides—have had a devastating impact on families and social structures in the north. According to international reports, as many as 25,000 children have been abducted since the start of the conflict, including 7,500 girls.²⁵ These abuses were not restricted to the LRA; UPDF forces and auxiliary LDU both

²² These kinship claims have been disputed. For a longer discussion on the matter see Allen, 2006.

²³ ICG May 2006.

²⁴ *Ibid.*

²⁵ Annan, Jeannie, Blatman, Christopher and Horton, Roger, *The State of Youth and Youth Protection in Northern Uganda: Findings from the Survey of War Affected Youth*, Report for UNICEF Uganda: September 2006.

conscripted children and victimized the civilian population.²⁶ The psychosocial impacts of these atrocities are incalculable; their clearest, most apparent manifestation a general breakdown in traditional social networks and hierarchies with no new system of communal relationships arising to replace them.²⁷

INSTITUTIONAL CAPACITY OF STATE AND CIVIL SOCIETY ACTORS

The government's ultimate response to the conflict has been nearly as destructive as the tactics of the LRA. It created protective villages, ostensibly to protect the civilian population from abduction and looting. These villages, referred to as Internally Displaced Persons camps were, in theory, protected by the UPDF and LDU, the latter made up of local recruits who received guns, but little else in terms of training from the government. In 2002 the GoU began a major offensive against the LRA—Operation Iron Fist. Everyone remaining in villages outside of the IDP camps was forced into the camps. This resulted in the massive displacement that has continued to this day in Acholiland. (In 2005, 90 percent of the Acholi population was living in IDP camps.²⁸) This strategy was intended to prevent LRA elements from hiding among the civilian population and receiving whatever support the northern communities were still willing to offer them.²⁹ It also allowed UPDF soldiers to patrol wide swaths of land in the north at will and kill indiscriminately anyone found in the bush, whether belonging to the LRA or not. This policy of intentional displacement has all but destroyed traditional social systems in many communities and fostered a general sense of cultural anomie among the northern populations. At the same time it has further alienated these people from the government and contributed to their longstanding sense of persecution, marginalization and economic disenfranchisement.

REGIONAL AND GLOBAL FORCES AFFECTING CONFLICT DYNAMICS

The LRA tactic of terrorizing the Acholi communities it purports to fight for has gradually eroded whatever popular support it initially possessed. Yet the insecurity the LRA created has stymied both NRM and international efforts to rectify the fundamental grievances that sparked the conflict—economic stagnation and political marginalization. In fact, the north today is more disenfranchised and disconnected from the national economy than at any time since the colonial period, and the northernmost district, Kitgum, is largely isolated from the rest of the country and almost totally dependent on international aid. This dependency is a contributing factor to the ongoing collapse of traditional social structures and community self-sufficiency³⁰ and is further deepening the socioeconomic crises that are at the heart of the conflict.

The ongoing loss of popular legitimacy for the LRA, a result of its terror tactics, combined with the signing of the Comprehensive Peace Agreement (CPA) between North and South Sudan finally forced the LRA to the negotiating table. In July 2006 peace talks began between the LRA and GoU in Juba, South Sudan. Although the talks have been underway (though interrupted) for over a year, they have yet to reach a conclusive agreement. While most LRA soldiers have relocated to staging areas in South Sudan, the leaders, including Kony, have relocated to Garamba National Park in north-eastern Congo. Violence in northern Uganda has decreased markedly in the past year and hopes are high. However, critical issues of a peace agreement—whether the LRA leaders will be handed over to the

²⁶ Paul, Diane (2006) *Heading Home? Protection and Return in Northern Uganda*, in Humanitarian Exchange no.36 pp.4-7

²⁷ Carlson, Christopher and Dyan Mazurana (2006) *Beating Wives and Protecting Culture: Violent Responses to Women's Awakening to Their Rights*, in Humanitarian Exchange no.36 pp.14-16

²⁸ Ugandan Ministry of Health (2005) *Health and Mortality Survey among Displaced Persons in Gulu, Kitgum and Pader Districts, Northern Uganda*

²⁹ Paul, 2006.

³⁰ Locke, Rachel (2006) *Community-Driven Economic Development in Northern Uganda*, in Humanitarian Exchange no.36 pp.16-19

International Criminal Court (ICC) to face criminal charges³¹ and the desire for power-sharing in the national government—have yet to be successfully resolved.

WINDOWS OF VULNERABILITY

Recent tensions over oil resources in Sudan are showing threatening signs of destabilizing the CPA. Given the historical role played by Sudan in the LRA conflict, any destabilization in southern Sudan could have an immensely destructive role on hopes for peace in northern Uganda. The relocation of LRA leadership to north-eastern Congo, an area fraught with violence, valuable natural resources (including large gold deposits) and a power vacuum, also poses serious concerns about the entrance of new actors into the conflict.

Another serious concern that could hinder attempts to stabilize the region is the prospect of unemployed youth. Many children and youth have never lived in a village, having spent their entire lives in IDP camps knowing nothing but war and without viable economic alternatives, young people could resort to violence as a means of survival. Even if this does not result in a complete return to LRA-led conflict, it could delay attempts at regional stabilization and recovery.

Continued fighting and lawlessness in the Karamoja region of eastern Uganda is also cause for concern. The Karamojong people living in this region have long survived on cattle raiding, a practice that has become more violent and destructive as traditional warriors traded spears for guns. Areas bordering Karamoja, including parts of Acholiland in northern Uganda, have for years been victim to Karamojong raiders from the east stealing cattle and violently raiding their villages. While the situation in Karamoja is not significant enough to destabilize the entire Acholi region, it continues to have localized impacts in the eastern parts of Acholiland and is something to continue watching.

Uganda's political system, while relatively stable today, has the potential to become unstable. President Museveni has been in power since 1986, when he took control through a coup and has been elected to the office by national vote three times—1996, 2001 and 2006. In the last election, Museveni and his allies altered the constitution to allow him to run for a third term. While there was no long-lasting repercussion to Museveni's actions from the opposition, rallies in Kampala and other locations turned violent. Lessons from several other African countries show that length of time in power often comes with increasingly autocratic behavior. Given the existing ethnic and regional divisions in Uganda, any increase in centralized governing behavior could lead to a resurgence of ethnic-based grievances.

CURRENT CONFLICT TRENDS

The massive displacement of civilians has recently begun to reverse itself. In the Lango Districts nearly all displaced populations have returned to their home villages and in the Acholi Districts of Gulu, Kitgum and Pader, the population is moving into satellite camps, smaller IDP camps located closer to people's traditional homelands, giving them increased cultivation opportunities and much improved sanitation conditions. Economic activity is resuming, with new investment, both domestic and international, continuing apace. Trade also has grown substantially in the past year and even the dangerous and unpredictable routes to southern Sudan are seeing increased traffic. And importantly, agriculture is slowly and surely reasserting itself as the foundation of the northern Ugandan economy.

³¹ The ICC issued indictments for the top five LRA leaders, based on a GoU request. This is a critical negotiating point for the LRA, which, for obvious reasons, wants the indictments dropped. See, Raby, Tim (2006) *Advocacy, the International Criminal Court, and the Conflict in Northern Uganda*, in Humanitarian Exchange no.36 pp.22-24.

In spite of this progress, the LRA remains a viable fighting force. Though substantially weakened and increasingly hemmed in by UPDF and SPLA forces, the specter of a breakdown in the Juba talks continues to threaten the nascent peace in northern Uganda. This threat is highlighted by the inability of participants to reach an agreement after a full year of talks and by the increasing presence of LRA elements in eastern DRC.³² It is even possible that neither side is really interested in a resolution with each believing that their positions will improve the longer the talks continue.

³² ICG 2006.

III. VALUE CHAIN ANALYSIS OF NORTHERN UGANDAN COTTON

VALUE CHAIN SUMMARY

In the project area, farmers have limited control over inputs for most crops, including cotton; access to land is restricted by security concerns and kinship ties; and the majority of tools are sourced from businesses in Kampala or Lira and provided by government or NGO programs. The market for independent input dealers is severely constrained both by these distorting forces and a lack of household income that prevents most farmers from purchasing fertilizers or pesticides. With the greatly improved security situation of 2007, a few private input dealers are beginning to move into Kitgum, but they rely on purchases by NGOs and government agencies for a major portion of their sales. All seed comes from CDO distributions through private companies and cooperative structures. Given the presence of IDP camps filled with unemployed people, labor is the one input that is readily available. However, the ability to pay for casual labor is problematic for some farmers.

Prior to IRC's intervention, most IDP farmers worked on plots of less than two acres. The presence of landowners with significantly larger plots created the opportunity for the IRC program. As IDPs move home in 2008, their acreage access will increase greatly as they are no longer restricted by a camp's safe radius. Cotton is often intercropped with other cash and food crops and is seen as having a cleansing affect on the land, improving it for other crops in the next season. The planting of cotton normally takes place from May to July, and it takes about seven months from planting to harvesting for a production investment to yield revenue. Although the CDO announces an indicative price, based on the Cotton Outlook "A" Index, farmers usually base their planting decisions on prices received the previous season. The limited quantities of land IDPs have access to means they are unable to diversify their fields with various crops, leaving them extremely vulnerable to any depression in prices for the crops they do plant. This is particularly the case for non-edible crops such as cotton, for which there is no alternative but to sell.

Harvesting is done over a period of three months. After picking, farmers sort the harvested seed cotton into clean and stained cotton. Stained cotton is retained in households or sold on the local market as *ffifi*, a pillow and mattress filling. Buyers who work with a specific ginner or are independent agents purchase clean cotton at the farmgate, or farmers deliver it to cooperatives, buying centers or ginneries. IRC designed its project to encourage wholesale collection by Dunavant due to security concerns that severely restricted the ability of farmers to deliver the cotton.

There are 23 privately owned ginneries in Uganda (primarily by African-Indians) and 17 others owned by cooperatives. Seven cooperatives have leased out their ginneries to private operators; five have created joint ventures with private firms; the remaining five operate their own ginneries. The use of ginneries is low—about 30 percent—due mainly to low production quantities of seed cotton, but some are upgrading their facilities. New investors include Mudu Awulira, Dunavant, Clark and NC Enterprises.³³

Quality is grown into the cotton—it is difficult to add at other levels of the value chain. Therefore, ginneries play an important role in determining cotton quality because they (and their agents) are the interface between the farmer and the market. In the past, there were few or no organized backward linkages between ginneries and farmers, although this is changing with programs funded by the CDO, USAID and other donors such as SIDA.³⁴

³³ *Cotton Textile and Apparel Value Chain Report*, USAID Regional Agriculture Trade and Expansion Support Program (RATES), April 2003

³⁴ <http://eastafrika.usaid.gov/>

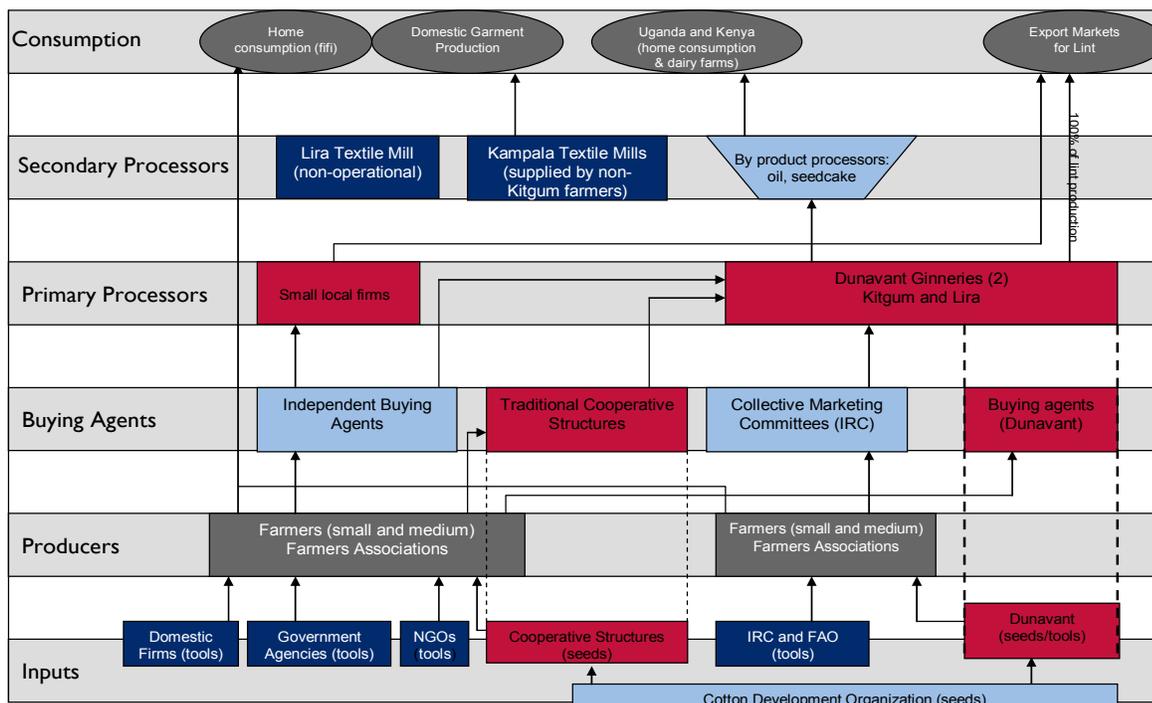
Ginners either export directly or sell to local textile mills; over 90 percent of all Ugandan cotton is exported. Textile firms are mostly small or medium-sized, and low-capacity use is common. There are only six large textile mills in Uganda, two of them not fully functional. These mills produce both clothing and cloth for sale on the local market; one produces only organic clothing. The production of clothing in Uganda is also still very minimal due to the low purchasing power of consumers, competition from second-hand clothing markets and cheap imports.

Most ginners sell the cotton seeds to companies that process them into seedcake or oil. The cotton ginners do not control these processing facilities. However, there are opportunities for both cotton companies and local producer associations to become more involved in seed processing; according to Muzoora Hans Windsor of the CDO, the demand for cotton seeds could rise because of the recent interest in bio-fuels.

Cotton exports in the region also are low, although there is some unrecorded inter-regional trade. The UK, China, Switzerland and Kenya are major importers of Ugandan cotton and minor importers include Germany, Italy and the Far East. The South African, U.S., French, Belgian and Indian markets buy only organic cotton.³⁵ Many of the domestic cotton merchants operate with short-term pre-financing from international lenders who require financial returns immediately after the harvest. Given the low production in Uganda, this can mean that cotton must be imported from Northern Tanzania to make up the deficit.³⁶

VALUE CHAIN MAP DURING PROJECT IMPLEMENTATION³⁷

Value Chain for Northern Ugandan Cotton 2006, Kitgum



³⁵ *Cotton Textile and Apparel Value Chain Report*, USAID Regional Agriculture Trade and Expansion Support Program (RATES), April 2003; and interview with Dunavant, Kampala.

³⁶ *Ibid.*

³⁷ The 2007 planting season (2007-08 buying season) will see some minor changes to this map, specifically relating to a major increase in organic production and exporting; additional companies entering the market at harvest time due to de-regulation; and the elimination or reduction in importance of collective marketing committees.

NARRATIVE DESCRIPTION OF VALUE CHAIN DYNAMICS

END MARKETS

Between 1960 and 2001 there was a doubling of global cotton output, with about 90 percent of all cotton produced in the Northern Hemisphere.³⁸ The countries most responsible for this growth include China, India, Turkey, Greece and Pakistan. During the same period, the output from East African producers declined. Most of the advancements in increased yield are a product of improved mechanization and inputs, including genetically modified seeds. East Africa has not taken advantage of these improvements and this has resulted in an inability to keep up with the global increases in yield.

The demand for cotton depends primarily on textile industries in importing countries. In the late 1990s, China consumed about 25 percent of all international cotton production to feed its textile industry, the world leader. India, the U.S. and Turkey are also major textile manufacturing countries, accounting for two-thirds of all cotton consumption when combined with China.³⁹

While African cotton generally is regarded as the least expensive to produce, it also has one of the lowest production rates globally. In 2001 the International Cotton Advisory Committee conducted a survey of 28 cotton-producing countries and found Uganda to be among the lowest-cost cotton producers globally. This advantage provides Uganda an excellent production opportunity. However, Uganda's smallholder farmers continue to realize low yields (when compared to larger producers) and struggle to earn a living wage from their land.

Additionally, Uganda's reputation for producing high-quality cotton may be declining in importance. According to Baffes (2004), "Substantial technological improvements in the textile sector have made it possible to obtain high-quality fabric from lower-quality cotton, a trend that holds for many products whose main input is a primary commodity." While the quality of cotton lint itself cannot be improved post-harvest, these advancements mean that textile manufacturers can get higher-quality cloth from lower-quality cotton. Unless Uganda can increase its yield through production incentives to take advantage of economies of scale (to attract more markets and improve production and transportation systems), its current reputation for high quality may not be sufficient given the dynamics of the global industry. At the same time, the benefit of low cost production, while important, risks being trumped by an inability to produce at sufficiently high levels.

The insignificant amounts of cotton produced in northern Uganda supply the domestic markets. This is both because Dunavant, which exports all cotton, held zoning rights (see more below on zoning) in Kitgum and because the conflict limited production and reduced incentives for smaller companies to invest in or purchase from Kitgum. Home consumption of *jjiji* (discolored or otherwise non-salable cotton) will remain similarly insignificant to the overall chain, particularly in the north where many NGOs are distributing mattresses and other non-food items as a part of return packages to IDPs, people may be less likely to purchase locally-made, less comfortable mattresses. In fact, in Uganda today there is little demand for these locally made mattresses; most people prefer the machine-made ones. Little growth in this market is anticipated by anyone interviewed during the research. There are opportunities to exploit domestic and regional markets for cotton byproducts (seedcake and oil) but Kitgum producers have so far not taken advantage of these opportunities, particularly the potential market for fodder in the Karamoja region. The feasibility of exploiting this market is questionable given that most Karamojong pastoralists see their wealth in cattle and do not have a monetary income.

³⁸ Baffes, John (2004) *Cotton: Market Setting, Trade Policies, and Issues*, World Bank Policy Research Paper No. 3218.

³⁹ Baffes, 2004.

BUSINESS ENABLING ENVIRONMENT

In the post-colonial period, the cotton industry was government-controlled and administered by the Uganda Marketing Board and a system of cooperative unions at the District level and Primary Cooperative Societies at parish and village levels. Political disruptions in the 1980s and 1990s caused a serious decline in the cotton industry when cooperatives purchased large quantities of cotton, but never actually paid farmers for their crops. Many farmers still do not trust cooperatives because of this and consider the cooperative unions to be dysfunctional, corrupt and redundant.⁴⁰

By 1994, the Ugandan cotton sub-sector was liberalized in the hope of addressing the decline it faced. The government wanted to solve the problem of crop financing to increase production and productivity and remove inefficient institutions. Liberalization removed controls at all levels of the chain and many private players began competing with the Unions, investing heavily in rehabilitation and upgrading and building new ginneries.

The government maintained some control over the sector by establishing the CDO, a quasi-government body outside of the Ministry of Agriculture. According to the CDO, its main roles are: 1) to ensure the quality and distribution (through companies and cooperatives) of cotton seeds, which it does by conducting quality tests of appropriate seed varieties within controlled environments;⁴¹ 2) supporting the organization of collective marketing;⁴² 3) setting the purchase price of Ugandan cotton through consultation with the ginners association⁴³ and based on world prices; and 4) regulating the industry⁴⁴. The work of the CDO is somewhat contentious; ginners are required to pay a tax and development levy to the CDO, which also places restrictions on the same ginners, such as which seed varieties can be used.

The tax and development levy equals about Ushs62.4 per kilo of raw cotton paid by the ginners.⁴⁵ This tax is passed on to producers, effectively reducing the price they offer farmers. The decrease in farmers' profit margins, combined with the risks associated with agriculture activity, means farmers are unlikely to find production finance through commercial banks or microfinance institutions. Ginners complain that the tax prevents them from increasing payments to farmers, although there is no evidence to support their claim that they would pay farmers higher prices if this levy were not in place.

One industry source also asserts that the CDO's control over seed variety distribution hurts the industry by not allowing the introduction of improved seeds through private channels.⁴⁶ In fact, during the most recent planting season a common complaint of farmers (that the CDO concurred with), was that seeds they received were damaged and germination rates as low as 50 percent.⁴⁷ While many countries have adopted genetically modified cotton (referred to as Bt cotton), Uganda's CDO has not allowed companies in Uganda to utilize Bt seeds. In other countries the adoption of such seeds has increased yields substantially without requiring additional, usually expensive chemical inputs. "In China, for example, where genetically modified cotton is used extensively by smallholders, the costs of producing cotton declined by 20-25 percent. This cost reduction meant a doubling of net income for cotton

⁴⁰ Locke, February 2006.

⁴¹ The CDO is responsible for seed multiplication to raise the stocks required to meet demand. However, they also import new seed varieties to test their appropriateness to the Ugandan environment.

⁴² Field research by IRC indicates that evidence of this support in the north is minimal. Field research was not conducted in other production zones in Uganda and it is unclear how effective it is elsewhere.

⁴³ In 1997 cotton ginners in Uganda organized themselves into the Uganda Ginners and Cotton Exporters Association, which was officially launched in 1998.

⁴⁴ Interview with CDO.

⁴⁵ Pelrine, Richard John and Besigye, Asaph, *Value Chain Analysis: Mapping Maize, Sunflower and Cotton Chains*, Report prepared for Chemonics International, Inc for USAID. October 2005.

⁴⁶ Anonymous interview, Kampala, August 2007.

⁴⁷ Interviews with farmers in Kitgum District, Dunavant staff in Lira District and CDO in Kampala.

growers.”⁴⁸ Unlike consumer resistance to genetically modified food crop seeds, this has not been an issue with cotton. Consumers disassociate themselves from any direct health concerns as a result of genetic modification with cotton because they are not ingesting the item. Although this research did not uncover whether or not the ginners association has taken a collective stand on the issue of opening up seed selection through private channels, representatives of cotton companies interviewed for this research did express their desire for a change to this regulation. It is not clear how much they are doing to achieve change, however, or how willing they are to confront the CDO, which is an extremely powerful and political institution.

In 2003, a zoning policy was put into effect to determine which companies could purchase cotton from which locations. The intent was to spur investment by these companies in their production zones. In Acholiland, and particularly the more remote Kitgum District where insecurity was already a disincentive to investment, Dunavant (which had zoning rights) was essentially the only private buyer of cotton and therefore held a monopsony position. In other areas more than one large company had zoning rights though open competition was still limited.

CDO officials claimed that the zoning policy was always meant to be time-bound, and in early 2007 Uganda was de-zoned. This means that all companies have the right to purchase cotton anywhere in Uganda. The results of this policy shift are yet to be fully understood. Some argue that in Acholi areas where the presence of cotton companies is now limited, there may be a decrease in substantial private investment due to fears that a large increase in competition at harvest time could decrease the return on investment made by companies with a permanent presence. Specifically, there are concerns that higher concentrations of ginners in the eastern region will substantially increase competition in the western and northern parts of Uganda.⁴⁹ This was not observed at the writing of this case study, which was finalized prior to the 2007-08 buying season. In the coming buying seasons, however, companies may provide more price premiums to the price floor set by the CDO. As an example, last year in Lira District, Dunavant out-priced Boweevil for organic cotton, providing initial evidence that this likely will be the case.

There are opportunities to take advantage of premium prices on organic cotton and several companies are working hard to make this their niche business in Uganda. Both Dunavant and Boweevil (the two largest cotton companies operating in Kitgum and Lira Districts) have set up subsidiary companies to support the cultivation of organic cotton and food crops. They also are working with international certifying boards to ensure that land is appropriately certified as organic and products can be sold as such on the world market. (See a more in-depth discussion on organics below.)

The United States has tried to support the development of Uganda’s cotton and textile markets by supporting increased trade through the African Growth and Opportunities Act (AGOA),⁵⁰ but in 2005 the U.S. Trade Commission placed Uganda last on AGOA’s list of East African performers. Uganda’s trade earnings with the U.S. totaled \$25.8 million in 2005, down from \$34.8 million in 2003. Kenya’s U.S. trade earnings were \$184 million in 2005.⁵¹ The decline was attributed to low apparel exports—an industry constrained by high production costs, including expensive transport, few economies of scale and the lack of a cotton-spinning industry. The State Minister for Trade responded by pointing out that as a landlocked country, Uganda faces higher transport burdens than their East African neighbors and that it is investing in its transportation systems. Opportunities remain, but Uganda’s past performance places in question its ability to take advantage of such opportunities in the short term. Without substantial investment in the apparel industry, Uganda most likely will continue to under-perform in AGOA.

⁴⁸ Baffes, John (2004) *Cotton: Market Setting, Trade Policies, and Issues*, World Bank Policy Research Paper No. 3218.

⁴⁹ Interview with Dunavant, Kampala.

⁵⁰ AGOA opens up trade potential through duty-free and quota-free access to U.S. markets for apparel made in eligible sub-Saharan African countries, including Uganda.

⁵¹ Mukobozi, Robert and Olanyo, Joseph. (February 22, 2006) *Uganda Under-Performs in AGOA in 2005*, The Daily Monitor (Kampala: Uganda).

VALUE CHAIN PARTICIPANTS

INPUT PROVIDERS

Cotton companies in northern Uganda provide seeds (from the CDO) to farmers. Some also supply farmers with tools⁵² through partnerships with development agencies (such as USAID with Dunavant and SIDA with Boweevil). While farmers believe they receive cotton seeds for free,⁵³ in fact the cost of the seeds is deducted from the price cotton companies pay farmers. The CDO provides cotton companies with seed at a cost covered by the development levy. Because the CDO controls seed distribution, when germination rates are low (as they were in 2007) farmers who want to obtain additional seeds are unable to do so, as there are no private channels through which to purchase them. Instead farmers must simply face a significant reduction in yield—and income—from their cotton harvest.

Dunavant provides tools and organic pesticides⁵⁴ for farmers (especially those in the current GDA project) free of charge.⁵⁵ Increasing competition resulting from de-zoning could mean that companies become less confident about farmers reselling to them at harvest. This may prompt them to stop providing this input package for free unless they can ensure resale back to them through contract farming. As expected in a post-conflict environment, government agencies, particularly NAADS (National Agricultural Advisory Services) and many NGOs also provide farmers with tools to assist in land opening.

In addition, there are domestic input suppliers from which farmers can purchase tools, but there are no reliable private input suppliers currently based in Kitgum; most are located in Lira. In an interview with one of the main suppliers of tools to Kitgum, the Farmers Center in Lira indicated that it began supplying Kitgum in 2006 and the majority of orders still come from NGOs and government agencies, which then distribute the inputs free to IDPs. This free distribution of tools creates disincentives for private providers to market to farmers, and they deal almost exclusively with the NGOs and government. While this is slowly building up the local supply industry, the lack of customer marketing could pose future challenges when NGO funds dry up and selling direct to farmers is critical. In the short term there will continue to be free tool distributions to motivate people to return to their home villages and some agencies (including IRC and DANIDA) are setting up structures to support and increase private distribution channels through voucher and other systems that create linkages between suppliers and farmers.

FARMERS

Though there are some exceptions, very few farmers in the project area hold large tracts of land. The IRC project negotiated access to two acres per farmer, one acre for food and one for cotton. This level of cultivation is consistent with the average land size for cotton producers in Uganda⁵⁶ and there is no breakout of large and small-scale farmers in the value chain map. As IDPs continue moving back home in 2008, larger plots of land will become available, though land planted in cotton most likely will remain limited as evidence from the rest of Uganda suggests. There are some informal farmer associations, but they generally do not work the same plots of land, but assist each other on individual plots. The lack of storage facilities—all were destroyed during the war—makes the situation even more problematic. Most farmers cannot afford to build their own storage units for cotton, which economies of scale and efficiencies in collection and transportation a necessity. (See more on this topic below.)

⁵² Tools are often of poor quality and new ones need to be purchased each year, although this varies by farmer.

⁵³ Interviews with cotton farmers in Kitgum Matidi and Palabek Kal IDP camps.

⁵⁴ The USAID Agricultural Productivity Enhancement Project is developing an organic package for distribution to farmers by Dunavant.

⁵⁵ The organic pesticide package costs about \$6/acre. APEP is developing an organic production package that they believe will be ready for distribution in the 2008 planting season. Interview with APEP, Kampala.

⁵⁶ FAO Reports, 2006.

COOPERATIVE STRUCTURES

For historical reasons, many farmers continue to distrust government-supported cooperative structures, especially the cooperative unions.⁵⁷ IRC held extensive interviews with farmers and management and staff of cooperatives, cotton companies, and NGOs during project planning, which led to the creation of Collective Marketing Committees (CMCs). Trust in traditional primary cooperative societies and cooperative unions had broken down because of credit purchases they made from farmers in the 1980s and 1990s and did not honor. The farmers also did not trust buying agents in the District, accusing them of cheating by paying low prices.⁵⁸ In forming CMCs with farmers elected from farmer groups, IRC wanted to support local cooperative-like systems by providing an alternative to cooperatives weakened by lack of trust. The CMCs were charged with purchasing cotton from farmers, bulking it and reselling it to Dunavant.

While the internal CMC structure is similar to the old cooperative societies, there are two critical differences. First, the CMCs have new people. The change in leadership was required to make a symbolic shift away from the perceived corruption of the old leaders. Second, the CMCs are not attached to any one company or cooperative union. Instead, IRC works with the CMCs to market a range of products more broadly. The emphasis is on increasing their autonomy and capacity to make independent, market-based decisions based on reliable information.

Because the IRC project operated in four IDP camps, it set up four CMCs. While Dunavant is willing to purchase from these CMCs in the next buying season if they market cotton, IRC does not plan to create additional CMCs. The role of the four will therefore become extremely limited, particularly as more farmers move out of camps and purchasing occurs at the village and parish levels. Dunavant plans to use either traditional buying agents or cooperatives (where they exist) to purchase cotton from new production areas.

BUYING AGENTS AND PURCHASING CHANNELS

Following the harvest, most farmers in Kitgum sell their cotton either to Dunavant or to the East Acholi Cooperative Union. Dunavant purchases cotton through various channels, the primary one being buying agents who receive a commission of Ushs20/kilo for cotton. Dunavant also purchases cotton through the cooperative societies that still operate in various locations. Under the IRC-Dunavant partnership program of 2006, farmers also sold through the CMCs. This year Dunavant may use these committees, but will not rely on them exclusively. Finally, some farmers sell directly to individual buyers who work for domestic firms. These domestic firms do not have a presence in Kitgum and the buying agents are not necessarily attached to them (as Dunavant has buying agents attached to it), but are independent and sell to firms opportunistically. These individual agents are difficult to find because of the informality of their operations and the small quantity of cotton they trade and they are particularly hard to locate outside of the buying season and for these reasons were not interviewed as part of this research.

GINNERS AND OTHER PROCESSORS

The ginnery in the project area is owned by the East Acholi Cooperative Union and rented and operated by Dunavant. Because of high yield and low processing capabilities at the Kitgum ginnery (due mainly to power problems) much of the cotton harvested in 2006 was sent to the Lango Cooperative Union owned-ginnery in Lira. The only textile mill in the region with potential to provide spinning and weaving is in Lira and is not currently operational. There are no finishing mills doing bleaching, dyeing, or printing in the north, and almost 98 percent of ginned cotton in the project area is exported directly to conventional markets in Europe or China or to organic markets in South Africa, Indonesia, China, the U.S., France, Belgium and India.

⁵⁷ Locke, February 2006.

⁵⁸ Ibid.

Only a small amount of cotton produced and ginned in the north—about 2 percent—is sold domestically, most of it to one company, Phoenix Logistics in Kampala, which purchases only organic cotton. Nearly all of that supply comes from one company, Boweevil, a Dutch company operating in Lira and supporting only organic. Phoenix produces combed yarn (648 MT/year) and clothing (11000/dozen shirts per year).⁵⁹ The barriers to entry for textile production facilities are high given the level of investment required, the vibrant market for second-hand clothes, low domestic purchasing power, and Uganda’s legendary power outages.

The CDO says it would like to see more farmer control over ginning processes, but it is unclear how they intend to support this process.⁶⁰ The CDO’s intention to do this through the old cooperative structure is probably overly optimistic and could be detrimental to the industry if it discourages investment from private companies.

SUPPORTING MARKETS

FINANCING

Financing opportunities are extremely limited for producers in northern Uganda due to the lack of financial institutions, particularly in Kitgum District. Banking fees among both microfinance institutions and at Stanbic Bank (the one commercial bank in Kitgum) are prohibitively high for many potential borrowers and access to town-based banks puts individuals traveling on the roads at risk. For this reason, farmers and their families participating in the project were included in the IRC Village Savings and Loan Associations to help them better manage the income they received from cotton production. These groups were formed prior to the harvest season, helping to ensure that once money was received from Dunavant, farmers would have an opportunity to securely save of their incomes.

Access to town improved markedly in 2007 and additional bank branches opened, some with agriculture-based financial products. A USAID-Rural SPEED program study found that as long as cotton prices remained around Ushs440/kilo, producers would increase their return on investment enough to cover bank fees and interest.⁶¹ In the 2006 buying season, conventional cotton earned only Ush 400/kilo, still an unattractive product to finance. However, organic cotton and the premium it earns may open opportunities for farmers to access financing through the new bank branches anticipated to open, assuming continued peace and stability.

TRANSPORTERS

Exported cotton is shipped from Kampala overland to the Port of Mombasa in Kenya at a cost of \$0.06/pound, double the cost per pound to transport from Mombasa to China.⁶² The high cost of overland transport is mainly a function of poor roads (resulting in slow delivery and increased maintenance) though border stops and high petrol costs are also factors. While much cotton is transported via road, Uganda’s railway system also serves as a link to Mombasa, a trip that takes between four and seven days. Only 30 percent of Uganda’s external trade goes by railway, mostly coffee followed by cotton, timber, tea, tobacco and food grains. In 2001 the railway served 856,335 tons total.⁶³ Uganda’s railway system has improved markedly over the past decade and further improvements are anticipated, which should help reduce costs through efficiencies in the system.

⁵⁹ *Cotton Textile and Apparel Value Chain Report*, Regional Agriculture Trade and Expansion Support Program (RATES), April 2003.

⁶⁰ Interview with CDO, Kampala.

⁶¹ Pelrine 2005.

⁶² Interview with Dunavant, Kampala.

⁶³ University of Georgia, Trade in Uganda. <http://www.uga.edu/internationalpsu/ugandatextiles/uganda.html>

LINKAGES AND RELATIONSHIPS WITHIN THE CHAIN

Relationships between cotton value chain actors in northern Uganda have been strained during recent years. Although the cotton industry was deregulated in the mid-1990s, the CDO continues to maintain tight control over ginneries and the restrictions and costs placed on ginneries trickles down to farmers whose isolation, low levels of education and historical animosities prevent them understanding their role in the chain. Farmers do not grasp the role of the CDO, do not know they pay for seeds, think are free because the companies that provide the seeds must “buy” them from the CDO through a tax, and they do not comprehend organic farming. The impact of the conflict and events such as lack of payment for their cotton in the 1990s compel them to believe they are being taken advantage of, and their isolation prevents them from investigating the reality or organizing to better position themselves in the value chain. It also keeps from them the information they need to operate in a global economy (see section on Analysis of Incentives for an example of this). The breakdown in traditional communal support is also a contributing factor, as farmers are less willing to work together or organize without external motivation or incentives.

Some actors, including USAID-supported projects, have contributed valuable research into the usefulness of cotton in supporting Ugandan farmers. They have tended not to focus specifically on the north, but rather the national industry. Whereas issues relevant to other areas in Uganda are also applicable to the north, those relating to lack of trust, isolation and ignorance that may appear in northern Uganda often are not a concern elsewhere. The IRC project demonstrated that, while relationships were very strained when investigations first began in 2005, within a single planting season trust had visibly increased and farmers had more faith in Dunavant and in each other. However, staff noted that among farmers trust was highest at the village level where clan ties were closer and began to fray at the parish or sub-county levels where there was less closeness and familiarity. Supporting a gradual process of internal trust-building is important rather than assuming that all farmers trust one another equally. Farmers also had more faith in themselves and their ability to be caretakers after years of dependency. Very clearly one season was not sufficient to fully rebuild relationships, but that positive indications were visible indicates that, with sufficient time and effort, they will be rebuilt.

VALUE CHAIN FINDINGS

OPPORTUNITIES AND CONSTRAINTS TO UPGRADING

DE-ZONING

The de-zoning has created both opportunities and constraints for upgrading—opportunities for those companies not yet working in certain geographical areas and constraints for those who face increased competition. Some argue that, especially in the Acholi areas where there are few cotton companies, the de-zoning may result in lower investment by companies with a long-term presence. This is because they have invested—and would continue investing—in farmer training, subsidized plowing, pesticides and infrastructure. This investment is likely to result in an increased yield, which is advantageous for both farmers and companies. However, such investments are expensive and unless companies can be assured that farmers will sell back to them, they may decrease them, particularly if the company cannot out-compete those that have not invested for premium prices at harvest. Another concern is that more competition among ginneries in eastern Uganda will force companies to move into the western and northern parts of Uganda, increasing the competition there.⁶⁴ This has not yet been seen, though the results of this policy shift may be clearer after the buying season ending in January 2008. If Dunavant, as the main company currently investing in Acholiland, does not make a good return on its investment, it may choose to reduce farmer support in the upcoming planting season.

⁶⁴ Interview with Dunavant, Kampala.

At the same time, there is a significant argument to be made in favor of de-zoning; namely that more competition will increase prices paid to farmers through higher price premiums. Companies may also be forced to improve their outreach and farmer support if farmers have other options and can be more discerning in who they work with. Companies also may choose to undertake more contract farming, which will hold both them and farmers to certain standards. What are needed to make such a system work are farmer education to enable them to better choose the company they most want to work with and a functioning justice system that ensures contracts are adhered to and have the rule of law behind them. In northern Uganda, serious concerns regarding these two constraints will challenge the effectiveness of the new system increasing competition.

Dunavant is avoiding an immediate reduction in farmer investments through its Global Development Alliance with USAID, which provides financing for Dunavant to give additional support to farmers in the form of free plowing,⁶⁵ food crop seed distribution and marketing and training. Support is conditional upon farmers selling to Dunavant, with whom they have a contract. However, without support from USAID and contracts, Dunavant would be unable to provide this level of support. A critical component of the GDA is focused on opening up land that has been fallow as a result of the conflict and displacement (much of it having trees and brush that is hard to clear without expensive tools). Opening up such land with hand tools is extremely onerous and labor-intensive. By providing plowing in the initial return phase, Dunavant and USAID are significantly contributing to the return process. In the future, plowing services will be less critical as land will already have been cultivated. The GDA has allowed Dunavant to attract an additional 12,000 farmers to provide another 12,000 acres of cotton and 12,000 acres of food crops.⁶⁶

It is unknown whether in the upcoming buying season new buyers will enter the market as a result of the de-zoning policy. The impact on Dunavant depends on whether farmers remain loyal to the company based on the incentives it provides and the organic premium it said it would pay farmers in Kitgum.⁶⁷ It also depends on the number of other companies that offer incentives and/or organic premiums.

ORGANIC

One way to counter the risks associated with low production levels is to shift to more organic production. For a country such as Uganda with low production rates, organic offers the opportunity of also having relatively low input consumption demands (compared to conventional), while at the same time offering higher prices. In courting this market, Uganda can improve its industry support structures through the higher prices received while still respecting traditionally low production levels. At the same time, there are opportunities for growth within the organic market, particularly as environmental concerns increase globally. Conversely, John Baffes of the World Bank argues that while organic production has been embraced by environmentalists, organic cotton is less important to consumers, posing a challenge to the assumption of market growth.⁶⁸ Baffes reasons that there is a distance between cotton production and the final product (cloth) that people are consuming. Unlike organic food, people disassociate from perceived chemical risks in clothing and are less motivated to buy organic clothing. People also tend to choose clothing or cloth based on a host of factors (color, size, style, etc) among which “organic” is just one. They are less likely to be pro-active organic consumers because of this. Trends tend to support this argument as global production of organic is low if compared to conventional (8,150 tons organic produced in 1997 compared to just under 20 million tons conventional). Other trends, however, such as the increase in organic marketing by large retailers such as Walmart, point towards an increase in demand. Given its relative low productivity and lack of extensive chemical exposure, Uganda is well poised to take advantage of its position within what for now remains a niche market for organic.

⁶⁵ In contrast, the IRC project did not subsidize the cost of plowing, but instead negotiated payment arrangements that allowed plowing costs to be paid at harvest time.

⁶⁶ Following the IRC model, the GDA provides farmers with access to two acres: one for food crop and one for cotton.

⁶⁷ Interview with Dunavant, Kampala.

⁶⁸ Baffes, John (2004).

One positive outcome of the displacement caused by the conflict is the increased potential to fast-track organic farming. Because large tracts of land have lain fallow for many years, northern Uganda has an opportunity to reduce organic certification periods to only one year as opposed to the usual three years for land under cultivation. With the recent de-zoning described above, the opportunity to invest in the organic product market is open to a large number of players in the value chain. Dunavant is investing heavily in organic production, and intends to convert all lint production in the north to organic. Boweevil, the primary operator in Lango, also is investing heavily in organic cotton.

In 2005-06, Dunavant joined two Ugandan companies experienced in producing organic cotton, sesame seeds, and chili to create *Northern Uganda Eco-Organic* (NUEO) to help farmers in northern Uganda broaden and improve the practice of organic agriculture. IMO Control, a major certifying organization and leading force in the establishment of *Global Organic Textile Standards*, helped put certification procedures in place and NUEO expanded the internal control system to register and supervise more farmers and ensure that production would concur with organic procedures and regulations. Dunavant registered and contracted around 11,690 organic farmers for the 2006-07 season. The production procedures, internal control systems, and export structures of two ginneries, Odokomit and Ngetta, in Lira district, were certified in July 2006. Production of organic roller-ginned cotton reached about 6,600 bales (200 kg) in the 2006-07 season despite adverse weather conditions (following a drought in 2005-06, untimely rains and El Niño reduced the cotton crop by 40 percent), a very successful first season.⁶⁹

In seeking to secure production, processors will offer farmers a premium on their organic cotton crops. In Lira District, Dunavant increased the premium for organic cotton from 20 percent above conventional last year, which Boweevil matched, to 25 percent.⁷⁰ Dunavant's strategy is predicated on a limited number of companies being able to pay this premium; thereby helping to ensure its position as a major buyer. However, Dunavant is not the only buyer of organic cotton. Others, including Boweevil and Twin Brothers, pose serious competition by offering a similar premium. This could spoil gains Dunavant hopes to realize from its shift to organic by driving up farmgate prices, which may reduce investment. Alternatively, if several companies invest in organic production and processing, it could increase production and create economies of scale that open up new markets at several levels in the chain. There is at least some indication that this is the trend, given that both Boweevil and Dunavant are also offering similar support for organic food crops (sesame and chili) in Lango region. All this is good news for farmers, of course, but to spark growth it must be accompanied by an enabling environment in which companies and producers are not over-taxed on production.

The shift to organic is creating another challenge. Essential to ensuring organic compliance in this environment is a monitoring system that estimates the amount of yield anticipated from a plot of land given the organic inputs and practices. The organic appellation does not currently require any regular re-certification or product testing that would prevent double-marketing. Because organic tends to yield smaller harvests than conventional, if a farmer's yield is much higher than the estimate, the company will assume that the farmer has used some form of chemicals and refuse to purchase. However, if a farmer can sell to two separate companies, then he/she has an incentive to use chemicals, obtain a higher yield and sell half to one company and half to the other, still under the claim that the cotton is organic.

A case currently being heard in Uganda's High Court relates specifically to the sale and purchase of organic cotton. The case is a result of the Ministry of Agriculture pre-designating particular geographic areas in Lango region as Boweevil purchase areas in order to pre-empt double-selling. This contradicts the de-zoning policy and is, therefore, contentious. A solution to the problem of double-selling is required, but at the time of research had yet to be declared by the Ministry, the CDO or the companies themselves.

⁶⁹ <http://www.dunavant.com/Offices/Geneva/OrganicCotton/tabid/152/Default.aspx>

⁷⁰ Interview with Boweevil, Lira.

POOR INFRASTRUCTURE

One of the main concerns farmers expressed to IRC when conducting initial research in 2005 was the lack of appropriate storage capacity in the IDP camps. Many facilities that existed prior to the conflict were destroyed, either through lack of use or direct violence resulting from attacks on camps. Storage facilities that escaped destruction needed repair and farmers could not afford to pay for storage. IRC worked with Dunavant to rehabilitate and rent storage facilities and a goal of collective marketing committees was to use the commissions they earned to pay for storage in subsequent years.

To some extent, opportunities to upgrade are limited by poor infrastructure, particularly inadequate power and poor road networks.⁷¹ Insufficient investment in northern Uganda in the past has left some with the perception that the government deliberately does not invest in the north in an attempt to weaken an historically strong political opponent. There is little optimism that this situation will change in the near future, but it is an area where large, traditional rehabilitation projects could leverage private sector initiatives in upgrading.

NEED FOR FINANCIAL SERVICES IS A CONSTRAINT TO UPGRADING

There are limited credit opportunities available to farmers in Kitgum District, which has only one formal financial institution and some small, town-based microfinance institutions with very low capacity. Another financial institution—Centenary Rural Development Bank—plans to enter the district and has sound agricultural financing packages available. Their introduction into Kitgum will open up opportunities for many, but it has been years since word of their entry was first expressed. Centenary has a branch in Lira, an area served by several other formal financial institutions (including Barclays and Crane Bank) and microfinance institutions. Access to financing would help Kitgum farmers increase their ability to pay for land and/or casual labor and, because cotton is harvested only once a year, financing would sustain them while they wait for the cotton harvest. It also would increase the likelihood that farmers will decide to plant a crop that is harvested once a year rather one that can be planted twice yearly. Even if a crop that can be planted twice a year provides less income than cotton, farmers may choose to plant it if they need money throughout the year. Financing can help to offset this disincentive to cotton.

SEEDCAKE AND OIL BY-PRODUCTS

There is potential for increasing production of cottonseed oil and seedcake. The number of dairy farms in both Uganda and Kenya is increasing, and these farms will need fodder. Cattle and livestock are a primary economic asset and point of cultural pride and remain a critical asset to many in the region. An increased demand for alternative cattle feed may be an opportunity because many traditional grazing areas in Kenya and Eastern Uganda experience ongoing drought. In addition, increased demand for bio-fuels will increase demand for cotton seed.

Currently, Dunavant does not have any processing facilities for making oil or seedcake from by-products. There are, however, around ten processing facilities in Uganda and Dunavant and other ginners sell by-products to these processors. These products require a different ginning process than that required for ginning for lint, and Dunavant has yet to invest in it. However, it is something they are considering for the future.⁷² Already, existing processors are involved in the sale of soap and cooking oil to domestic and Kenyan markets and seedcake to dairy farmers in Kenya and Uganda.

There may be some opportunities here for cotton farmers to take advantage of the fact that large cotton companies are not processing by-products and set up their own small processing centers. Though it has not been done to date, it

⁷¹ As an example, rains during the month of September were so heavy and road infrastructure so poor that two of the bridges connecting Kitgum with its southern neighbors were destroyed, halting most heavy truck traffic and limiting movement to the District.

⁷² Interview with Dunavant, Kampala.

is a potential future upgrading opportunity. As the GoU and others try to stimulate the cattle economy in northern Uganda, there may be opportunities to increase the development of local seedcake production as a supporting market.

TRANSPORT

Uganda is acutely aware of the need to improve transportation networks in order to increase trade and improve its economy and it has made efforts, particularly with its train system. However, trains still do not run to northern Uganda and road networks in the north are extremely poor. Increased advocacy on this issue by different business sectors and development agencies could improve conditions, but substantial efforts to open access—particularly to the north—have fallen short.

TEXTILE MILLS AND FINISHING MILLS

According to Dunavant sources, the cost of opening a garment production facility in Uganda ranges from \$10–\$20 million.⁷³ This is a significant investment and one that would need to have a guaranteed market for anyone willing to invest. AGOA-related opportunities could help stimulate investment interest, but the high cost of transport would continue to present a barrier for many potential investors, and neither of the cotton companies interviewed had an interest in making such an investment. However, advancements in economic conditions may help to increase opportunities in this area.

ANALYSIS OF INCENTIVES

Cotton companies and other primary processors have the knowledge, skills and resources to invest in upgrading (primarily through support to farmers) and an interest in doing so because of consumer demand for organic products, though it is relatively low compared to that for conventional products. Once the investment is in place, these companies will have a significant incentive to protect their investment and maintain a peaceful, stable environment for production and trade. However, because they have little control over the destabilizing factors in northern Uganda, the companies are likely to seek a balance between being “first-movers” of organic cotton products and matching their level of investment with a comfortable level of risk.

Organic upgrading will be a benefit for several players in the chain. Farmers can benefit from a more secure market for their products and the premium paid on organic products.⁷⁴ If cotton companies pressure the CDO to provide better quality seed, particularly genetically modified seeds, farmers may also benefit from improved yields. Buying agents will benefit to some extent, as their income will increase as the volume of cotton traded increases.

IMPROVING FARMER KNOWLEDGE

Dunavant has an incentive to increase farmer knowledge: securing their buying rights through a shift to organic. However, in interviews with several farmers it became clear that farmers had very limited information on what organic production actually meant. One farmer indicated that organic meant you can’t use pesticides or fertilizers. He stated that when the Dunavant site coordinator came with organic pesticide he was confused because he didn’t think he was supposed to use anything. Instead of explaining the difference, the Site Coordinator informed the farmer simply to trust him because he came from Dunavant and the product he had was safe to use. The farmer was correct to question the application of a product after being told that organic requires no inputs, but the response was inadequate. The farmer now does not know whether applying additives is acceptable. Without more information the farmer is at risk of not complying with organic practices. There is a substantial opportunity here for Dunavant to invest in improving farmer linkages through training and information sharing.

⁷³ Interview with Ravi Patel, Dunavant, Kampala.

⁷⁴ No cost/benefit analysis for labor on organic cotton as compared non-organic has yet been done.

There also is potential for cotton companies to invest in processing for cotton by-products such as seedcake and oil. The incentive for upgrading for by-products will be driven in part by the market for bio-fuels. Currently, there are only seven large mills in Uganda and Kenya that can process cotton oil correctly. Cotton companies currently sell cottonseed separated in the ginning process to these companies, thus removing the potential benefit of another income stream for smallholders and a contribution to the cattle value chain that seedcake could provide. Since a persistent threat to civilians in northeastern Uganda is the violent cattle raids carried out by Karamojong pastoralists,⁷⁵ increasing the availability of inexpensive feed could have a positive impact on reducing tensions between farmers and herders in the area.

As the situation becomes more secure, farmers should come to understand the benefits of investing in appropriate storage facilities, either individually or through producer groups such as the CMC that would help them manage the timing of the sale of cotton and make them less vulnerable to price fluctuations.

The upgrading of secondary processors depends not upon conflict dynamics, but on regional demand for textiles. Given the competition in textile production, high start-up costs in the industry and remaining transportation barriers, it is unlikely this upgrading will happen in the near future, though it may be possible.

Critical to any organic value chain are strong relationships and loyalty between processors and producers. Strengthening this buyer/seller linkage will allow farmers to take increasing advantage of their position as organic farmers. To date, most farmers in northern Uganda have a limited understanding of what organic means and how to comply with standards and market their products. Better linkages through improved training and information in these areas will substantially improve farmer benefits.

RELATIONSHIP BETWEEN VALUE CHAIN AND CONFLICT DYNAMICS

It is important to consider the coping strategies developed by the population of northern Uganda during their displacement and dependency on aid. It is not uncommon for people to claim they have not received what they have in fact received or to lie about offers made in order to try to secure additional gain. It is very possible, therefore, that farmers would tell the IRC researcher that they are being cheated in the hope that IRC would somehow compensate them. This is not a criticism of behavior—coping strategies are a necessary component of life under such stressful conditions—but it does complicate the ability to gather information on relationships between value chain participants.

In addition, the zoning policy and insecurity in the north have made farmers feel compelled to sell to anyone who offers to buy at whatever price they offer, even if it does not provide a return on investment substantially over the cost of production.⁷⁶ This lack of confidence in the future is common to conflict-affected populations and means that farmers do not engage in long-term thinking and keep their assets as liquid as possible. This is likely a major factor in the low prices that farmers complain about.

The cotton sector has not played a specific role in the conflict as has happened with some commodities in other conflicts. Nor has it contributed directly to peace negotiations or the role played by different parties in the conflict, which is perhaps the strength of working with this particular crop. Cotton is not special or attractive in any particular way for the military factions in northern Uganda and, as such, is “below the radar” for many soldiers in the area. If an edible food crop had been chosen, it may have been more prone to looting by soldiers, but the need for processing protected the farmers’ investment and they were less prone to having crops looted by military units in the area.

One interesting item of note is the ability of cotton to increase interactions and therefore trust and cooperation among farmers. One of the IRC project goals in forming farmer groups and CMCs was to support the process of

⁷⁵ Stites, Elizabeth, *Movement as a livelihood and protective strategy in Northern Uganda*, Feinstein International Center, Tufts University.

⁷⁶ Including labor hours and opportunity cost of other crops.

rebuilding trust and social networks and what became clear was that this worked well at the village and parish level where trust and social networks already existed, but was insufficient at the larger sub-county level. Still, this was important, as village and parish networks had been weakened by the conflict and reinvigorating them was a major step in the recovery process. Unfortunately, broader benefits at larger geographical and broader population levels were not realized.

IV. STATEMENT AND ANALYSIS OF CASE STUDY RESEARCH QUESTIONS

TO WHAT EXTENT CAN VERTICAL AND HORIZONTAL VALUE CHAIN LINKAGES HELP INTEGRATE THOSE AFFECTED BY CONFLICTS INTO ECONOMIES WITH FUNCTIONING MARKETS?

Bringing together displaced farmers and an international cotton company in northern Uganda has provided a valuable example of how even marginalized IDPs can become active participants in a functioning market. People living in the IDP camps in Kitgum were almost totally cut off from the rest of Uganda and had only minimal trade links through Lira and Gulu to the south. This research has shown that linking conflict-affected populations with functioning markets can stimulate growth and improve stability. One measure of the success of the program is that the cotton company has replicated and expanded the activity through a GDA grant. The case study illuminates how humanitarian actors can work with the private sector using value chain linkages to stimulate economic recovery.

HUMANITARIAN RESPONSES: FOCUSING ON THE MARKET

Prior to the start of IRC's cotton project, all of the economic activities that were done for IDPs focused inwardly—looking only at the desires of the IDPs themselves. Almost by definition these activities were not connected to the market. To focus only on the beneficiary is a traditional humanitarian perspective, but it did not (and does not) serve the long-term needs of IDPs. In contrast, IRC sought an economic support activity that was connected to the market, while also recognizing the many constraints (access to land, security) that existed for the target population. Information gathered from stakeholders indicated that cotton was a crop that had a secure, local market and was familiar to farmers. An in-depth value chain analysis was not done; still, it has become clear that IDP farmers were given a market opportunity that would not have been available to them had IRC not looked at ways to address the constraints of land access and security. The selection of cotton as the crop to focus on was in part due to the fact that agents were willing and able to travel to the producers, instead of producers needing to travel alone on insecure roads. In addition, the work with CMCs and price floor negotiations were done with the goal of empowering farmers to have greater understanding of and control over their role in the chain. While it may seem obvious to recommend that recovery programs examine market opportunities prior to interventions, it should not be underestimated how intimidating this can be to humanitarian actors more familiar with emergency response programming than with market assessments. Simple value chain tools can provide a methodology for bringing the broader market picture into the discussion on response options.

The project was very successful from the perspective of farmers, Dunavant, and donors. In hindsight, we question whether an initial value chain analysis of cotton compared with other crops such as groundnuts might have suggested a different programmatic response. It is not clear whether groundnut processors would have been willing to collect nuts from the camp to address the security concerns. Groundnuts also would have required more inputs at the processor level and there is still a great deal of discomfort for many humanitarian workers, particularly those familiar with emergency responses, in working with higher levels of the chain. Economic interventions that do not directly support vulnerable beneficiaries (such as supporting processors) is seen as helping those who already have plenty of resources at the expense of those who have nothing. Once cotton was selected, there was a great deal of discussion with other NGOs and IRC decision-makers who felt that this was an inappropriate crop to work with due to price volatility. Concern from these groups was not based on a clear analysis of opportunities in the chain; it was more of an instinctive humanitarian bias against working with large, for-profit companies. A value chain analysis helps present a

clear argument for market-focused programming, which requires a fundamental shift in thinking for many traditional humanitarian workers.

OPPORTUNITY TO STRENGTHEN BUYER-SELLER LINKAGES

Farmers often operate within the system as poorly informed participants, and their lack of understanding can inhibit their integration into markets. The IRC program sought to increase farmers' knowledge regarding their role and leverage position in the chain by developing the CMCs. However, the short timeframe of the project did not allow these goals to be fully realized. Dunavant has not continued efforts to strengthen buyer-seller linkages as IRC had hoped. In part, this is not a surprise. Kitgum District has been in a state of conflict for 20 years and IDP education and exposure to the outside world have been minimal at best. Ensuring that farmers are well informed about the chain requires significant and ongoing education and training that cost money and take time. This is not Dunavant's area of expertise, nor is it necessarily their role as a private business. This is where intervention by an NGO or government or donor agency is critically important.

For example, when the team interviewed farmers, they were unaware of the price benefit of growing organic. When asked how much they should expect to receive from their organic harvest, farmers only indicated that the price should be higher than that paid for conventional, but they did not know how much. The researcher posed the following example: if the conventional price is Ushs500/kilo and a private buyer from outside Kitgum (not attached to Dunavant) came to purchase your cotton for Ushs550/kilo, would you sell to him? All farmers in the focus group indicated yes, of course, they would go for the higher price. The researcher then asked how this compares to the higher price Dunavant will give you for the organic premium? They said they did not know the higher price and therefore would sell on the spot to whoever offered the most money.⁷⁷ If conventional is Ushs500/kilo then the organic price should be 25 percent higher, in this case Ushs625. If farmers don't know this, they will have less incentive to sell back to Dunavant and would sell on a first come, first serve basis for Ushs550/kilo. Clearly, farmers require more and better information to maintain the relationship Dunavant needs to succeed in the organic market.

According to Dunavant at the time of the research, they had not yet shared information with farmers on organic pricing. However, it is curious that they waited so long given that the information is readily available to anyone who asks and that education is a process that takes months, not weeks. Dunavant's strategy is focused less on building capacity or training farmers to understand information—such as what 25 percent means (in an area of low literacy and numeracy percentage calculations are difficult)—than it is on providing basic information to farmers as it is needed. The reason for this is probably quite simply that this kind of education takes time. Dunavant always operated from a monopsony position in Kitgum where farmers had no option but to sell to them and it did not need to spend months educating farmers and could simply inform farmers of the price when the time came. With changes made in the cotton market in 2007, it may be in Dunavant's interest to engage more in education to ensure that their investment in these farmers is protected.

No matter what happens, in the short term there will continue to be an opportunity for NGOs and donors to support the process of education and access to information to improve linkages between all actors in the chain. As former IDPs move back to their land, re-engage in farming activities and become increasingly exposed to markets, their knowledge and empowerment will increase. However, this is a process that will take years and will need to be supported. Private companies cannot be expected to do all the work. Governments, donors and NGOs also must play a role in ensuring that farmers are able to act as informed participants in the chain, rather than uninformed producers.

⁷⁷ Focus group discussion, Kitgum Matidi.

DESTRUCTION OF OLD STRUCTURES MAKES WAY FOR NEW STRUCTURES

IRC's project, and its support to CMCs, was a concerted effort to bring farmers into the system and help them make informed decisions by strengthening horizontal linkages. Farmers elected CMC committee members in each participating sub-county (IDP camp) based on their work with the farmer groups (3-4 groups per camp, about 20 farmers per group). IRC and Dunavant trained the CMCs in weighing, storing and record keeping and Dunavant advanced them money to purchase cotton from farmers and collect it in Dunavant-rented stores. The CMCs received the Ushs20/kilo commission for this work. When they saw the commission their CMC received, the farmers had confidence that they were receiving the right price for their cotton and through a general assembly, they and the CMCs determined how to spend the commission in a way that would re-invest in their production. The result of this objective was mixed in the four pilot locations.

In one location, the CMC saved the commission and brought it to Dunavant during the next planting season for payment of additional plowing.⁷⁸ In another location, the CMC felt the commission was very small and did not know what to do with it. They stated that they still had the money and were waiting for some direction or advice. Some farmers in the larger group believe this, while others think that members of the CMC have simply "eaten" the money and they will never see it.⁷⁹ Although farmers were supposed to monitor the activities of the CMCs, it often happens that without some kind of external motivating factor such as an NGO or government agent, this kind of pro-active questioning of peers does not take place. IRC set up systems that were meant to increase transparency of the CMCs (including general assemblies), levels of trust between the CMCs and the rest of the farmers as well as cultural tendencies towards hierarchy make this a challenging and long-term prospect (see more below on trust levels between community members).

In the third location investigated, Kitgum Matidi IDP camp, the commission was redistributed back to farmers. However, in this location there continues to be disagreement over the final amount of commission Dunavant paid the CMC. The CMC believes it is still owed money, while Dunavant believes it received less cotton from the CMC than it paid for. IRC is trying to mediate negotiations on this front, but as of this writing a conclusion has yet to be reached. What is important to note is that farmers do not understand why such a small amount of money was redistributed to them and they do not have complete faith in the CMC as an honest broker. In the fourth IDP camp, the CMC has also saved the commission money and intends to use it for future marketing strategies.⁸⁰

It is unfortunate—though perhaps not surprising—that the CMCs have not shown more independence in leveraging this money for other opportunities. There is agreement that setting up cooperative-type structures is a long-term proposition that can take years⁸¹ and this clearly is an example of the problems that can arise with short-term support to collective or cooperative structures. The CMCs were supported directly only for a few months, after which the marketing season and the pilot project ended. The CMCs were unable to provide internal direction without continued external support. Because the conflict had caused education levels to stagnate, social systems to break down, and traditional hierarchies fail to function effectively, there was a greater need for medium-term facilitation from outside entities such as IRC.

The CMC in Kitgum Matidi was unique in that it was made up of members from one specific parish (the geographical designation following villages). The intent here was that this would ease the process of parish-based CMC creation after a return to villages. However, what it seems to have resulted in is some resentment between farmers from other parishes and the CMC. This provides evidence that linkages based on village (that often are also related to kinship)

⁷⁸ Potika IDP camp as reported in an interview with the Dunavant site manager in Kitgum.

⁷⁹ Interviews with farmers and members of the CMC, Palabek Kal IDP camp.

⁸⁰ The fourth location cited here was Agoro IDP camp. The researcher was unable to reach Agoro due to the heavy rains. Information cited here comes from the IRC Project Officer based in Kitgum.

⁸¹ Robbins, P., Bikande, F., Ferris, S., Hodges, R., Kleih, U., Okoboi, G., and Wandshneider, T. (2004) *Advice Manual for the Organization of Collective Marketing Activities by Small-Scale Farmers*, Chatham UK: Natural Resources Institute.

carry with them a certain amount of trust. Between different parishes, this trust is much less apparent. The implication for any type of project is that mechanisms to enforce higher levels of accountability and transparency are required when forming groups of individuals from various geographical locations or ethnic groups. In this case, the CMC should have been supported to make greater efforts at explaining the precise financing complications they were presented with, rather than simply asserting that there was no more money from Dunavant.

Prior to the conflict people had fewer interactions with individuals from different geographical locations and the market transactions that they did have were based on years of building trust. Displacement meant that people from various geographic locations had to work together without those years of trust-building. Over the long term this could have a positive impact on the larger society if people are able to increase their trust networks. In the short term, however, it poses the challenge of requiring additional levels of formality within market transactions. The lesson from this seems to be that if a project has only a short timeframe it should consider grouping individuals at the closest levels of social familiarity such as the village-level. With more time, representatives of these groups can then be brought together to begin to build social connections and business linkages. With even more time, a larger, more comprehensive committee comprising a range of villages can be established. This, of course, would depend on the purpose, nature and longevity of the group.

While use of the commission by CMCs did not happen exactly as planned, farmers in Kitgum Matidi and Palabek Kal said they supported the CMCs over buying agents or cooperative societies as they felt they had more control and the money would come back to them. Unfortunately, the heavy rains made Agoro and Potika inaccessible, and farmers there were not interviewed on this issue. However, it is likely they would have responded much like the farmers in the other two locations.

Dunavant has indicated that in the next marketing season it will not replicate the CMCs elsewhere and will rely instead on existing buying agents and cooperatives. Marketing committees take a long time to set up and to become effective, and Dunavant may be right in feeling its structure is not the appropriate one to support their formation. It is unfortunate, however, because farmers now feel more engaged in the cotton industry, both as farmers and also as marketers and their access to the company is a good part of what motivated them to grow cotton. Farmers complain continuously that buying agents cheat them by paying lower prices than those advertised. Having more control over various functions in the chain (such as wholesaling) would be an important step to increasing their understanding of their role and potential in the value chain.

CONSTRAINT: GOVERNMENT DOES NOT PLAY AN APPROPRIATE OR FACILITATING ROLE

Initially, the local leadership in Kitgum was very supportive of IRC's programs; they opened and closed the farmer trainings and played an important role in negotiating the land secured in Kitgum Matidi after the first land owner withdrew. However, in the long run their influence was limited; government systems in Kitgum are too weak to take an effective role in supporting economic growth. Officials at various levels of government clearly are not acting in the best interest of the farmer—from the CDO controlling the seed market and extracting levies and the local leaders unwilling to assist with land access without financial compensation, to the ineffectiveness of the Ministry of Agriculture.⁸² The causes and results of the conflict are partly to blame for the lack of sufficient and transparent engagement. This gap between producer and government provides an important role and opportunity for NGOs—without the involvement of another, neutral actor farmers will continue to perceive themselves, and indeed continue to be, mere suppliers of raw materials disconnected from the production process and disenfranchised from economic decision making.

⁸² One Ministry Official interviewed indicated that she knew little about northern Uganda and had never been to Acholiland because she “feared the place.”

One very unfortunate example of this occurred during the pilot project when IRC invested considerable time in creating agreements for land use between land owners, farmers and local leaders. One intention of this effort was to enable farmers, supported by local leaders, to negotiate access to land in the future (should displacement continue). In one location when asked whether they were able to again secure land access for the 2007 planting season, farmers said they had tried, but were unsuccessful. They stated that the landowners required payment of Ushs15,000/acre and said they had tried to involve local leaders, but the leaders were also trying to obtain financial benefit out of the deal and therefore were not going to put any work into supporting free land use. Eventually farmers secured land elsewhere. While it is perhaps expected that the landowners would continue to seek payment, it is an unfortunate indicator that the local leaders were unable support their constituents without receiving financial benefit. It is unknown whether this was the case in other locations as well.

Where possible and recognizing the challenges of this approach, NGOs should identify potential positive roles for government in economic recovery projects. IRC would do this in coordination with the Governance and Rights team, which works with the Economic Recovery and Development team to address areas where economics and government structures overlap. Although it may not be easy to overcome existing inappropriate patterns, including local leaders and government in recovery projects provides an opportunity for them to set better examples, creates buy-in from government structures, and can improve relationships between producers and government figures. It also gives public officials the information they need to better govern their areas of responsibility.

CONSTRAINT: SUBSIDIES IN INTERNATIONAL MARKETS

A common complaint echoed by an interviewee at the Ministry of Agriculture is that cotton is not “a paying crop”.⁸³ Many people would assert that the real reason behind this has little to do with the Ugandan cotton industry, but rather with the worldwide industry and, specifically, the subsidies provided to farmers in wealthy countries. In 1994-95 the world price of cotton was \$0.91/pound. This price dropped markedly to \$0.42/pound in 2001-02 and increased only slightly to \$0.52/pound in 2004-05.⁸⁴ At the same time, developed countries (mainly the U.S.) and China provided an estimated \$6 billion in domestic cotton subsidies. According to a 2002 Oxfam report, the impact of the cotton subsidies on depressing world market price is greater than U.S. foreign aid to African cotton-producing countries, making the case that eliminating subsidies—and not increasing foreign aid—is the key to promoting economic growth.⁸⁵

While there is not necessarily a clear step that Ugandan cotton growers can take to reduce the negative impact of international subsidies, having this information can at least help them understand why their cotton prices fluctuate. Without the information, they are likely to blame those close at hand, such as Dunavant’s buying agents, leading to distrust and a breakdown of the chain. Having this information may also help domestic farmers push industry associations and government bodies to either lobby for improved terms of trade or support expansion into alternative industries where international subsidies will not be as harmful to domestic prices.

HOW CAN MISTRUST BETWEEN BUYERS AND SELLERS BE OVERCOME TO DEVELOP MORE EFFECTIVE VALUE CHAINS AND FURTHER PEACE AND SECURITY?

Trust plays an important role in all trade relationships. In Uganda the lack of trust between farmers and other chain players was long-standing and exacerbated by the conflict. By focusing on trade relationships and the potential

⁸³ Interview with MAAIF, Kampala.

⁸⁴ Boccanfuso, Dorothee and Savard, Luc, *Poverty and Inequality Impact Analysis Regarding Cotton Subsidies: A Mali-based CGE Micro-Accounting Approach*, Journal of African Economics: March 9, 2007.

⁸⁵ Oxfam (2002) *Cultivating Poverty: The Impact of U.S. Cotton Subsidies on Africa*, Oxfam Briefing Paper No. 30. London.

benefits of increased incomes, it is possible to move people from a focus on ‘us versus them’ to recognition of the mutual benefits of peace. A value chain analysis helps the humanitarian community identify who should be talking to whom so it can facilitate those conversations. IRC designed its activities to empower farmers and to persuade processors that it was in their interest to take a more active role in rebuilding trust with farmers.

REBUILDING TRUST

Due to historical payment issues and the more recent conflict and displacement, trust is a barrier to increasing production in the cotton value chain. Prices paid to farmers are one of the areas where a significant lack of trust can be seen. The Lira DAO and others indicated that buyers tell farmers about high prices at the time of planting, but then offer much lower prices at harvest time.⁸⁶ While the lower price is a result of world market price fluctuations and input costs, the perception that farmers are not getting a fair price is extremely common and undermines trust relationships in the value chain.

The price offered to cotton farmers in Uganda is agreed upon and set by the association of Ugandan ginners together with the CDO and is based on world market prices. Farmers in the north, however, have little knowledge of how this works and when they are informed that the price is based on world market prices, they do not really understand why this should concern them. The concept of world prices is, perhaps, too abstract. Farmers do not blame the over-supply of world cotton that may be responsible for reducing the price. Instead they blame Dunavant, buying agents or government—physical entities they can relate to. When told that the price is announced on the radio and is nationally set many indicate that it is not the price they received from buying agents.⁸⁷ This is because the commission that buying agents receive on cotton is often taken out of the price offered. If the national price is Ushs450/kilo and agents’ commission is Ushs20/kilo, farmers receive Ushs430/kilo. This results in farmers’ feeling cheated by the agents. It is paradoxical that cotton companies think the system of advertising prices increases farmer confidence in them, when it actually contributes to their sense of being cheated. Given their displacement and the lack of competition and of information about commissions (or of belief that commissions are justified), farmers feel they are required to accept lower prices, even if they believe they should be getting more. This leads to diminished trust between farmers and the buying agents and ultimately between farmers and Dunavant. Clearly price advertising is necessary, but a more complete and thorough system of farmer education is required to build trust. This could be taken on by processors, district agriculture officials, the CDO, or NGOs and donors interested in promoting agriculture in the region.

When asked, most farmers are not aware of the CDO, or have heard of it and know it has something to do with the Unions, but do not understand its role or how it affects prices. For example, all farmers believe the seeds they receive are free. They do not understand that they pay for the seeds through the reduced price they receive for their harvest and that the announced prices have this cost factored in them. The government has little incentive to advertise this; if it did farmers might try to push it to reduce the costs. Likewise, companies are not motivated to mobilize farmers around this issue as it could put them into direct conflict with the government. Farmers, the only ones who have a reason to advocate for a reduced tax, are also the least informed. Given the social and educational breakdowns in the north, they also are the least likely to have systems in place to challenge any national policies or to advocate for improved policies. This provides another opportunity for NGOs—to create systems and structures that ensure that even actors at the lowest level of the chain understand pricing issues and can dialogue with the appropriate entities when necessary.

⁸⁶ Interviews with farmers in Kitgum Matidi and Palabek Kal.

⁸⁷ Locke, February 2006.

To address the confusion on pricing and improve relationships between farmers and Dunavant, an important component of the IRC project was to get Dunavant to set a guaranteed price floor per kilo of cotton and to disseminate this information widely to farmers. In this way, no matter what the CDO-announced price was, farmers knew that they would receive at least this amount, helping them to better determine whether cotton was a profitable crop for them to plant. IRC took every opportunity to reinforce this message and test whether farmers understood and remembered this price information. Staff quizzed farmers during site visits and reminded them of the terms to which they had agreed. Having this information and receiving the advertised price increased farmers' confidence in Dunavant and improved the level of trust between producer and buyer. By offering a guaranteed price floor, Dunavant showed farmers it was willing to take risks. It also was an important step in farmer education that required them to think about profitability. With a longer timeframe IRC or Dunavant could have held post-harvest workshops with farmers to look at prices received for all their crops that planting season and determine which were the most profitable and best fit their familial needs/constraints. More time could substantially increase farmer empowerment and be an important contributing factor in improving vertical linkages.

Due to the breakdowns in traditional societal cohesion created by the conflict, networks amongst all value chain players must be rebuilt. Opportunities to rebuild and expand the networks are clearly present in the relationships that cotton farmers and Dunavant agents have, but they must be nurtured slowly and the presence—or absence—of trust needs to be recognized. Many humanitarian projects in northern Uganda were built on the premise that the IDPs were all from the north and, therefore, prepared to help one another. In fact, this often was not the case. People still hold allegiance in order of family, kinship, village, parish, then tribe, region and nation—an order that impacts incentives and of which humanitarian projects must be conscious. In retrospect, it would have been helpful to map these dynamics in the trade relationships to learn where and how the project could leverage trust.

NEW PARADIGMS FOR HUMANITARIAN ASSISTANCE

A value chain analysis is a valuable tool that shows how specific markets work. Because humanitarian organizations, especially in conflict situations, tend to see and address only the immediate needs of beneficiaries, they can miss opportunities for addressing root causes over the long term. Even when humanitarian actors identify the root causes that undermine coping mechanisms (e.g., the lack of social cohesion), they do not know what to do about it and focus their efforts on supply side issues such as improving skills or increasing production. Because they rarely address the demand drivers, these actors miss early opportunities for rebuilding trust through the mutual benefits that trade offers. Camp settings exacerbate the problem as implementers complain "...but there is no market here!" In conducting a value chain analysis, humanitarian players can shift their focus from the producers at the bottom to the potential markets at the top of the chain and identify where the markets are and build pathways between the two. Only when a complete value chain analysis is done, can the barriers to trade be fully understood and a clear set of market-driven solutions identified. This understanding is essential to creating the conditions for a peaceful, stable society.

Both donors and implementers need to recognize that a complete analysis is likely to require implementers to travel outside of their project areas to where the various value chain players work. Such travel requires funds, and donors must be prepared to finance it. This is especially true in camp situations that people want to leave in order to return home or to resettle. Value chain analyses in these contexts need to look at the end point of return more closely than they do in an emergency setting, and this requires a major shift in their thinking.

However, many organizations and individuals are very uncomfortable with the message that a value chain analysis brings—that those who have funds and stability (such as traders and processors) should be supported with public funds. This is not a small issue for economic programs of any kind, but when working in conflict settings, it is even more of a concern. If asset ownership is a result of inequalities in the system, patronage or theft, then activities to support those further up the chain may be seen to endorse this behavior. In this project, IRC found that land access

was linked to kinship ties and it had to find a solution that would allow beneficiaries, regardless of ethnic group, to have access to land. Dunavant's decision not to address this issue in its follow-on GDA project could lead to a renewal of tensions over land that undermine the fragile and limited trust the IRC pilot project enabled. It is understandable that Dunavant does not consider this to be in their interest to manage, but this puts the onus of programming once again on the humanitarian partner.

The situational analysis and needs assessment tools that most humanitarian organizations now use do not provide much, if any, information on the barriers to trade or other key value chain issues. Because a value chain analysis provides another lens through which to view needs, combining these tools with existing ones could add richness to the analysis used to develop responses. If complementary tools provide information on trust issues for example, this could be used to provide an overlay regarding governance of the chain.

V. CONCLUSIONS AND RECOMMENDATIONS

Economic recovery activities in conflict and post-conflict settings, especially in refugee or IDP camps, frequently are not market-driven. This is due in part to humanitarian organization (focused on emergencies) inexperience with assessing market opportunities. The value chain framework provides a tool for analyzing local markets, but for it to be useful, NGOs need to look beyond their own areas of operation and move up the chain to regional or even international markets. While NGOs may not choose to work with participants at the highest level of the chain, they must take the time to understand the needs at those levels in order to provide appropriate assistance to their target populations, most often producers. NGOs can provide a neutral, facilitating intermediary that understands, but is not influenced by, historical issues, profit or governance of the existing chain. Particularly during the early recovery phase, it is helpful to evaluate existing, traditional trust networks—local groups with a high level of trust usually allow a lower level of formality in transactions, while a higher level of formality often is necessary with more diverse groups.

Once they understand this, NGOs can focus on their target populations—most often at the lowest levels of the chain—to ensure they have access to, and feel empowered to take advantage of, market information. This may require the development of additional tools that simplify and make value chain concepts real for target populations. Structured guidance is important to ensure that work is done in a sustainable, informed and transparent manner, particularly when local field staff, who may have biases, are using the value chain approach.

Increased knowledge of markets and how they work by those at the lowest levels can help address the perceived unfairness of pricing structures and purchasing arrangements and improve their understanding of the need for quality control, especially when dealing with premium markets such as organic. Because different actors have different incentives, or disincentives, for providing information to other chain players, NGOs can help ensure a level playing field for weaker participants. This does not necessarily need to be done by the NGO itself—a chamber of commerce, cooperative society or other neutral structure can be a good information broker and help bring government structures appropriately into the governance of the chain. However, in conflict situations these associations are often severely weakened, and it is important to support them.

A serious challenge to successful economic recovery programs, especially in the early recovery phase, is the short project cycle—most economic activities take a significant amount of time to have an effect. Specifically, IRC found that the impact and sustainability of alternative marketing systems could not be properly evaluated because a one-year project does not provide enough time to change behavior at any level—producer, agent or processor. While the IRC project provided an alternative to the inherent weaknesses of the existing system, support was needed over a period of years, not months. While this may seem like poor programming, the decision to create the CMCs was made as a result of interviews with cooperative structures, cotton companies, farmers and other NGO project personnel at project start-up. IRC has continued to engage the CMCs under a new, SIDA-supported agricultural program. There was, however, a gap in support at a critical time in CMC development, which now has to be made up for with more concerted support for a longer and sustained period of time.

It is important to recognize that many private sector actors have no manageable interest in empowering farmers through the provision of additional information, education, etc. This takes time and money, and large firms may not believe there is enough benefit to justify the costs of additional training and inputs. In the follow-on GDA cotton project, USAID is relying on Dunavant to do this,⁸⁸ but indicators to date imply that it may be overly optimistic to

⁸⁸ Interview with USAID, Gulu.

expect the private sector to do this work. The destruction of old structures makes room for new ones, but these often need facilitation.

Local systems of land management exist, even if they have been weakened by displacement. NGOs should support this process by responding to needs articulated by the local population and, where appropriate, by filling in gaps. Ensuring that marginalized and vulnerable groups have equitable access to land is a key component of this because social capital greatly influences land allocations, which leaves those who are most marginalized or without social capital without access to land. Management structures must have the capacity to handle these challenges and increased engagement between local land management systems and government structures is necessary for long-term sustainability and the protection of rights.

A recap of the recommendations of the case study follows:

1. VCA should be used as a tool for determining how to link conflict-affected populations with functioning market structures. Prior to the start of IRC's cotton project, all of the economic activities that were done with IDPs focused on the supply side, i.e., what IDPs wanted to do or wanted to supply. Few focused on market demand, due to an assumption that there was no market. To focus only on the beneficiary is a traditional humanitarian perspective, but it does not serve their long-term needs. Rather, by focusing on a market that is present both during and after the conflict, relationships and trust can be rebuilt, stability can improve as caretakers can re-assume their roles, and incomes can increase. Such market analysis, however, must take into consideration non-economic factors, which the VCA tool can help illuminate.

2. Continue development of tools and training modules to make the VCA more familiar to humanitarian staff. While VCA is a valuable tool, support should be provided to humanitarian actors in order to make it more accessible. It should not be underestimated how intimidating an economic analysis can be for humanitarian actors more familiar with emergency response programming.

3. Combine VCA with existing tools and participatory approaches. Situation analysis and needs assessment tools currently used by most humanitarian organizations do not provide much, if any, information on the issues of barriers to trade for key value chains. Combining existing, well-known tools with value chain tools will add richness to the analysis and open dialogue about how to support more lasting economic needs.

As with needs assessments, it is critical to involve participants in the analysis. Given the challenges of education, tools should also be developed in order for farmers to provide value chain information (both present and historic) that aids the analysis. It is key to remember, however, that participation of other chain actors, such as processors and purchasers, is also necessary to the analysis.

4. Support the training of staff and financial needs inherent in VCA. By doing a value chain analysis, humanitarian actors can lift their focus from the bottom to the top, identifying where potential markets are and building pathways between the populations they are working with and the existing or potential markets. Both donors and implementers need to recognize that this analysis is likely to require implementers to work outside of their project area. In order to do a complete value chain analysis, implementers may need to travel to the locations of various actors in the chain. The travel will require funds, and donors will need to be prepared for that. This will be especially true in camp situations, where people hope to leave the camp and return home or resettle.

5. Use community-focused, innovative ways to address land ownership and usage issues, especially with regard to marginalized and vulnerable groups. In many conflict and post-conflict settings, particularly where displacement is an issue, land access and rights are a major concern. Access to land often defines whether a person is vulnerable or not, and therefore finding equal access to land for those who are otherwise disenfranchised is critical. Given the economic power that land attributes to people, however, it is a contentious issue. NGOs and others need to

work extensively with community members, local leaders, landowners and government structures in order to find equitable solutions for both the short and longer term. Relying solely on the government is insufficient given how contentious land issues are.

6. Consider activities that rebuild trust and are mindful of incentives among actors within the chain—both vertically and horizontally. Opportunities to rebuild and expand networks are clearly present, but these relationships must be nurtured slowly, and the absence of trust should be recognized. Many humanitarian projects in northern Uganda were built on the premise that beneficiaries are all from the north and therefore are prepared to help one another. In fact, this often was not the case. People still hold allegiance in order of family, kinship, village, parish, then up to larger designations. This order has impact on incentives and humanitarian projects must be conscious of it.

An important lesson of this research was that even horizontally among farmers, trust was not something to be taken as given. Farmers from different parishes were not trusting of one another. Instead, automatic trust seemed to end shortly after village designations disappeared (and with them kinship). Projects with short timeframes should consider grouping individuals at the closest levels of social familiarity, such as the village-level where trust is more inherent, rather than trying to build up bonds in short periods of time where they are not already strong. With more time, representatives of these groups can then be brought together to build social connections.

7. Be realistic about the role for each participant in the chain and what is truly in their manageable interest. Farmers often operate within the system as poorly-informed participants and their lack of understanding can only inhibit their integration into markets. IRC's program sought to increase farmers' knowledge of their role and leverage in the value chain. However, the short project timeframe did not allow these goals to be fully realized. Kitgum District has been in a state of conflict for twenty years and education and exposure to the outside has suffered greatly. Ensuring that farmers are well-informed within the chain requires significant and ongoing education and training programs that cost money and take time. While a private company may not have the time, money or interest in investing in this education, a neutral third party, such as a governmental body, NGO or donor agency, can play a critical role. Sustainability can be at risk if roles are not appropriately matched with participants' abilities and long-term interest. NGOs can provide a neutral facilitating role in the value chain that understands, but is not influenced by, historical issues, profit or governance of the chain.

8. Careful selection of crops can help mitigate non-economic concerns, including security. It is beneficial to explore the non-market impact of crop choice. Examination of crops should be done with farmers both prior to start-up and following conclusion of the project. Post-harvest workshops with farmers to look at prices received for all their crops and which fit in with their familial and social demands and constraints would substantially increase farmer empowerment and be an important contributing factor in improving both vertical and horizontal linkages.

9. NGOs should ensure positive roles for government structures in economic recovery projects. Although it may not be easy to overcome existing, often inappropriate patterns, including these elements in recovery projects provides an opportunity to set better examples, create buy-in from government structures, and improve relationships between producers and government figures. It also gives public officials the information they need to better govern their areas of responsibility.

This project and case study have been invaluable in helping IRC learn how to connect IDP populations to existing markets and providing insight on how humanitarian actors can use value chain analysis to strengthen the design their programs. Most importantly, the project was successful in improving incomes of farmer households and made an important contribution to reducing aid dependency.

ANNEX I: LIST OF INTERVIEWS

Kampala Interviews

Name	Position	Affiliation	Sector	Contact	Interviewer
Ravi Patel	Director	Dunavant Uganda, Ltd	Business	041-345-242	Rachel Locke and Seth Miller
Hans Muzoora	Principal Market Information and Monitoring Officer	CDO	Gov	041-423-2975	Rachel Locke and Seth Miller
Tusumume Rhoda Peace	Commissioner of Planning and Development	MAAIF	Gov	041-320-722	Rachel Locke
George Otim	Assistant Commissioner M&E for Northern Uganda	MAAIF	Gov	075-236-2799	Rachel Locke
Mark Wood	Commodity Commercialization Director	APEP	NGO	077-277-6942	Rachel Locke
Terri Kristalsky	Managing Director	Rural SPEED	NGO	041-346-864	Rachel Locke and Seth Miller

Lira Interviews

Name	Position	Affiliation	Sector	Contact	Interviewer
Patrick Abal	Head of office	UNDP	UN	Head of Office	Rachel Locke
Ajugu Peter	District Agricultural Officer	Lira District Local Government	Gov	0772332596	Rachel Locke
Yuventino Obong	Research Officer	Ngetta Zonal Agricultural Research and Development Institute/ NARO	Gov	047-342-7748	Rachel Locke
Doi Fred	Store Manager	Ngetta Zonal Agricultural Research and Development Institute/ NARO	Gov	077-265-1587	Rachel Locke
Jan Alex		Boweevil and	Business	0772-395-	Rachel Locke

Fokkens		Lango Organic		947	and Nick Obot
Ayo Julius	Regional Manager	EcoOrganic & Outspan	Business	0772591879	Rachel Locke, Nick Obot and Sean Lathrop
Dr. Otim	Coordinator	NAADS	Gov	0772389146	Sean Lathrop
Jan Alex Fokkens	Regional Manager	Boweevil	Business	077-239-5947	Rachel Locke, Nick Obot
Okwir Mike	Chair person	Lira District Farmers Association	NGO	0772372438	Sean Lathrop
Okello Habat	Manager	Farmers Center	Business	0782711322	Sean Lathrop
Brigesh Patel	Regional Manager	Dunavant	Business	0782-477-499	Rachel Locke

Kitgum & Gulu Interviews

Name	Position	Affiliation	Sector	Contact	Interviewer
	Collective Marketing Committee - 6 members	Palabek Kal Sub-County (IDP Camp)	Farmers	Through IRC Kitgum office	Rachel Locke, Okello David Ben (IRC)
	Farmers (not growing cotton) - 6	Palabek Kal Sub-County (IDP Camp)	Farmers	Through IRC Kitgum office	Rachel Locke, Okello David Ben
	Farmers (growing cotton) - 3	Palabek Kal Sub-County (IDP Camp)	Farmers	Through IRC Kitgum office	Rachel Locke, Okello David Ben
	Farmers (growing cotton) - 5	Kitgum Matidi Sub-County (IDP Camp)	Farmers	Through IRC Kitgum office	Rachel Locke, Okello David Ben
	Collective Marketing Committee – 6	Kitgum Matidi Sub-County (IDP Camp)	Farmers	Through IRC Kitgum office	Rachel Locke, Okello David Ben
Patel	Kitgum Manager	Dunavant	Business	Through Lira Dunavant Office	Rachel Locke
Christine Gottschalk	Northern Uganda Advisor	USAID	Donor	077-222-1677	Rachel Locke

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