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- ▶ **Paving the way for better jobs and improving livelihoods for refugees and host communities in Arua, Uganda**

**An Approach to Inclusive Market Systems
(AIMS) for Refugees and Host Communities**

May 2020

Approach to Inclusive Market Systems (AIMS) for refugees and host communities in action: Arua, Uganda

Uganda has long been known for its progressive policies towards refugees, who are guaranteed fundamental rights including the right to work and establish business, access to education, freedom of movement and access to documentation for identification. Furthermore, refugees are allocated land for shelter and agricultural use. However, a worsening domestic security situation in the Democratic Republic of the Congo (DRC), coupled with conflicts sparking in South Sudan, caused Uganda's refugee population to nearly triple since July 2016. Uganda is currently hosting more than 1.3 million refugees, making it the third-largest hosting country for refugees worldwide.

In this context, between July and October 2019, the ILO conducted an integrated enterprise and market systems assessment in Uganda in Arua District, in the context of the *"Partnership for improving Prospects for host communities and forcibly displaced persons"* (PROSPECTS)¹. The purpose of the assessment² was to identify local sectors and value chains with potential for growth, profitability and employment for refugee and host communities. The analysis then determined how the identified value chains could be developed to include both refugees and host communities in the labour market, and how to enhance the overall functioning of the value chain to create more and better jobs. The study also elucidated skills and capacities of the target group, as well as barriers that prevent them from accessing employment and economic opportunities in local value chains.

The assessment provides the knowledge base from which targeted interventions to promote economic opportunities for refugee and host communities in Arua will be developed in the context of PROSPECTS. Subsequently, the selected value chains and the recommendations do not constitute an exhaustive list of ILO intervention areas but are rather to be seen as an evidence-based contribution to the ILO's intervention plan.

¹ Funded by the Government of the Netherlands, PROSPECTS brings together five agencies (IFC, ILO, UNHCR, UNICEF, World Bank) to devise collaborative and innovative approaches for inclusive job creation, education and protection in eight countries across Eastern Africa and the Middle East.

² The assessment followed a combined approach including a review of the literature, survey and questionnaires, key informant/stakeholder and expert interviews, focus group discussions with the target population consisting of refugee and host communities, and finally validation workshops at the district and national levels to ensure alignment with stakeholders.

INFO BOX 1

What is the ILO's Approach to Inclusive Market Systems?

The [ILO-UNHCR Approach to Inclusive Market Systems \(AIMS\)](#) for refugees and host communities is based on the premise that initial humanitarian assistance at the onset of displacement be followed by a transition toward sustainable economic development. AIMS therefore works at the humanitarian-development nexus by strengthening local market systems and enabling refugee and host communities to seize the economic and employment opportunities therein.

AIMS utilizes a “push-pull approach” that seeks to work on demand and supply sides of the labour market. On the one hand, targeted push interventions aim at developing the skills and capacities of the target group to engage with the market, for instance through technical or entrepreneurial skills development, by strengthening social networks or through transfer of assets. On the other hand, the [ILO's market systems development approach](#) is used to identify and develop sectors and value chains with potential to expand and diversify the opportunities available to the target groups, as well as to better target any “push” interventions.

Finally, rather than intervening in local markets through direct delivery of goods and services, AIMS focuses on strategic facilitation that enables local actors to support the market system in a sustainable manner.

Refugees and host communities in Arua: An agricultural community

In Arua district, refugees represent 16 per cent of the total population, and an estimated 60 per cent of Arua's refugees live in poverty.³ The majority are hosted in Imvepi settlement and Rhino camp. The assessment focuses on Rhino camp, where most of the refugees are rather recent arrivals because of the latest instability in South Sudan (96.8 per cent of refugees are South Sudanese).

Overall, host-refugee relations are positive, with relatively high social cohesion as services are provided equally to refugees and hosts. However, small quarrels over land use exist, since host communities are expected to share their land with the refugees.

Economic activity among refugee and host communities in Arua district is mainly agricultural, with 80 per cent of households engaged in some form of agricultural activity, the majority (86 per cent) in the crop sector. Reliance on rainfall is problematic, as consistent rain is sporadic

³ World Bank. 2019. Informing the Refugee Policy Response in Uganda. Results from the Uganda Refugee and Host Communities 2018 Household Survey.

and results in droughts, thought to be caused by climate change. Non-agricultural economic activities include general retail, arts and crafts production, construction, metal and wood fabrication, and fish and livestock farming.



Picture: General retail activity in Rhino camp and access to mobile money (yellow kiosks).

The overall market system in Arua

Integrating refugees and host communities sustainably into markets means helping them earn income and make a living as producers, workers and consumers. A thorough understanding of the extant market system, and the role of refugee and host communities within it, is therefore crucial.

INFO BOX 2

What is a market system?

Market systems consist of the market core, that is, the exchange of goods and/or services, as well as supporting functions, rules and regulations. Supporting functions are all the elements people need to be part of that market, including information about markets, training, coaching, finance and any other forms of support. Rules and regulations, as well as prevailing social norms and cultures, influence how markets work and how actors can participate in them.



Figure 1: Market system framework in Arua.

The analysis showed that some of the key constraints to the market supporting functions are:

- ▶ Inadequate infrastructure between camps and urban centres – specifically for refugees, this is a major problem
- ▶ Limited access to technical training on agricultural techniques that would allow refugees and host community farmers to improve productivity
- ▶ Limited or inexistent networks or alliances between refugees and host community farmers and traders; they largely act on an individual basis, which increases transaction costs
- ▶ Inadequate access to finance, owing to the limitations of informal savings groups which serve refugees and some host community members. Lack of collateral and uncertainty on the policy of Uganda's Financial Intelligence Authority impedes refugees' access to the formal credit market. Although refugees can open bank accounts using their refugee cards or attestation cards identification, challenges still exist.

In terms of rules and regulations the key restrictions pertain to land access regulations:

- ▶ Refugees in Rhino camp are allocated less than 0.22 acres for agricultural production. Host communities start at a minimum of 0.25 acres, with most of them (47 per cent) having between 1.25 and 5 acres, and 22 per cent of them having between 5 and 20 or

more acres.⁴ Land disputes also constitute one of the few sources of tension between refugees and host communities.

Selecting value chains with the greatest potential for refugees and hosts

The goal of selecting sub-sectors and value chains is to identify segments of the economy that hold economic and employment opportunities for refugees and hosts, and to devise targeted interventions that improve income earning opportunities for the target groups in these value chains. A wide range of sectors are scanned and rated according to a) their potential for employment creation, b) their relevance to the target group, and c) the feasibility of intervention. Through the steps described above, the value chains selected for further analysis were cassava, sesame and cattle.

Cassava

Cassava is the second-largest crop grown in the country, and it is widely consumed in Uganda.



Pictures: Cassava plantations in Arua.

⁴ UNHCR: Inter-Agency Livelihood Assessment Targeting Refugees and Host Communities in Imvepi and Rhino Settlements, World Vision Uganda, 2017.

The crop is commonly consumed at household level as fresh tubers and in the form of cassava chips, but it can also be processed into products such as starch and high-quality cassava flour and grits. It can be used for livestock feed, packaging, paperboard-making and in pharmaceutical industries, among others. It is estimated that most of the cassava that is produced in Uganda is consumed in fresh form, while 40 per cent is marketed in processed form.

In Arua, both refugees and host communities engage in growing cassava. Cassava producers are scattered throughout the district and intercrop predominantly with maize and beans. These producers sell the cassava to rural retailers and/or aggregators in fresh form or after processing it into chips. Other farmers also function as retailers by selling fresh tubers and chips directly to consumers, mainly households and local restaurants.

The analysis revealed that cassava marketing in Arua takes three different channels to reach the final consumer, as demonstrated in Figure 2.

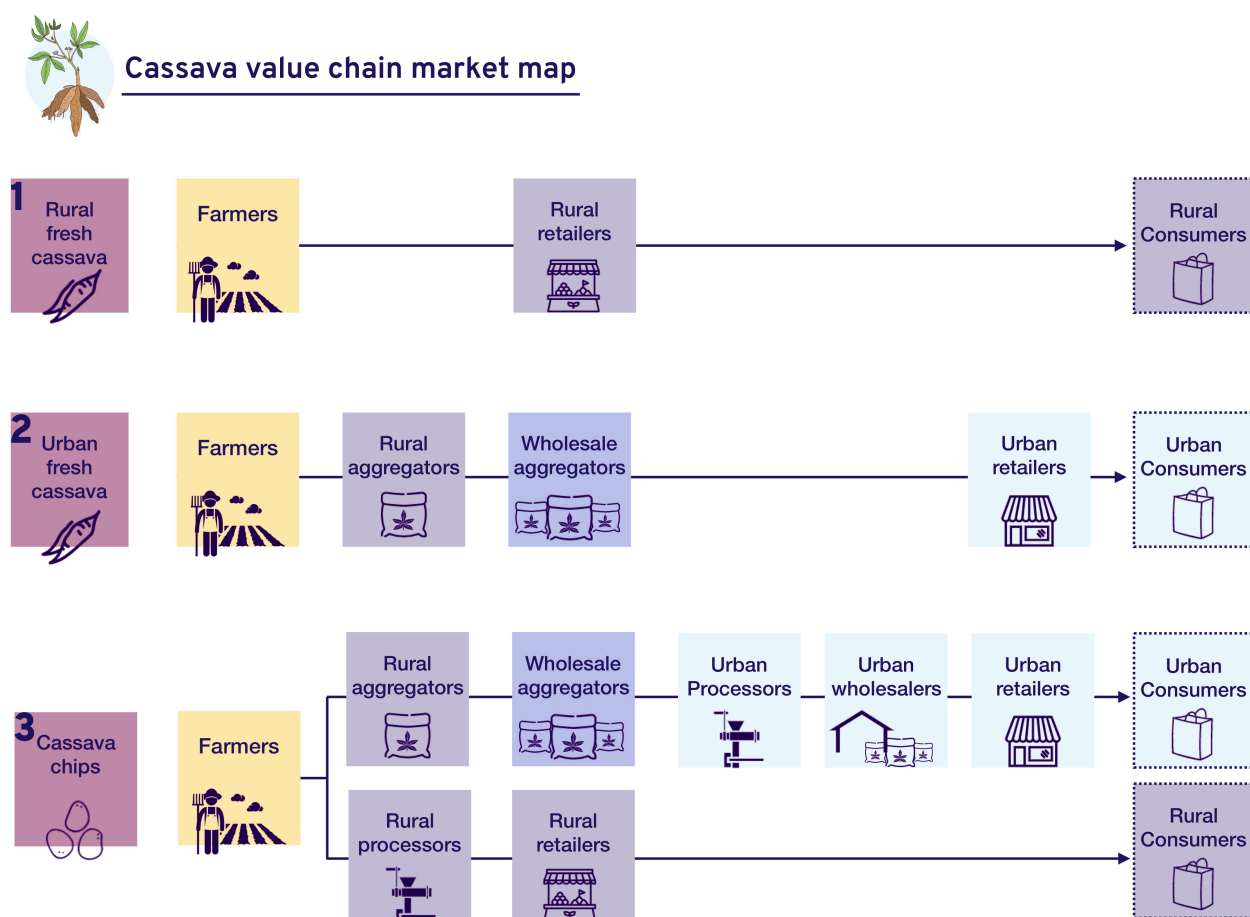


Figure 2: Cassava Value Chain Market Map.

The first channel is marked by high levels of informality in transactions and information flow. The village retailers purchase one to five bags of fresh cassava from the village farmers for onward sale to the rural consumers. The refugees and their host communities sell this fresh cassava to meet immediate income needs; consequently they get significantly lower prices. A major constraint for refugees to scale their business is the availability of land that can facilitate cassava production, increase productivity and consequently their income.

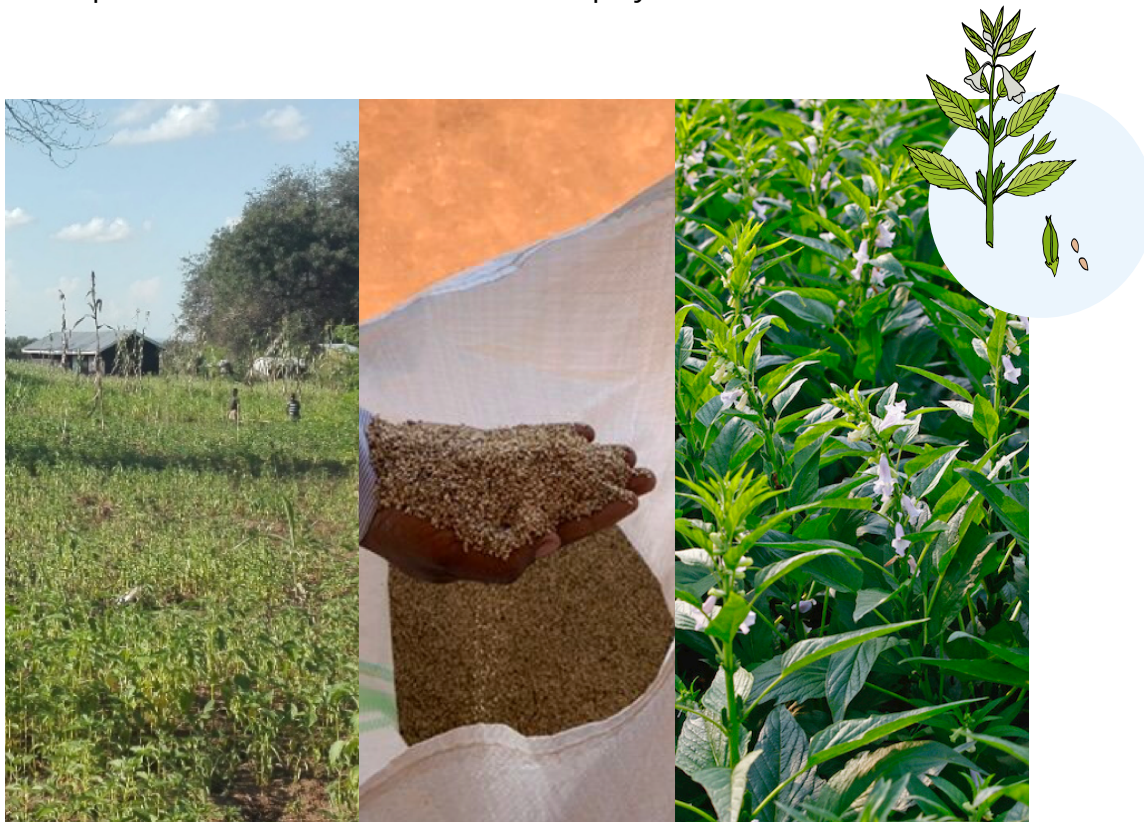
The second channel has as its destination consumers in urban areas, such as Kampala. The cassava is produced by Arua's farmers and sold to the community aggregators, who then sell to wholesale aggregators. Arua's village aggregators play the critical role of primary collection, storing between 3–5 metric tonnes which they then sell to wholesalers. There is a high degree of swiftness in this trade, as the cassava must be evacuated quickly before it is affected by post-harvest deterioration. The wholesalers have a range of "contacts" – Arua's village collectors – and only move to aggregate the cassava after ascertaining the availability of economic volumes from a series of collectors. The weak aggregation position of cassava rural aggregators limits their market positions and earning capacity, therefore creating loss of income for refugee and host community farmers as well as traders.

All the actors in the value chain are actively engaged in the third, cassava chips, channel. Given the short shelf life of fresh cassava, the refugees and host community farmers transform it into cassava chips, which they then sell to rural aggregators. The major difference relates to the longevity of the trade: there is no pressure to sell off the product since the risk of perishability has been dealt with through chipping and drying the cassava. The key addition in this channel is the participation of the processors, who offer their services to the producers, retailers and wholesalers. Nevertheless, the underdeveloped cassava post-harvest handling and processing leads to product deterioration, loss of value, and therefore income losses for refugee and host community farmers.

Although refugee and host community farmers and traders engage in all three production and sales channels of the local cassava value chain, they miss out on significant revenue, and therefore the opportunity to increase their income and create sustainable businesses. Refugees and hosts who primarily operate in the first, local, cassava sales channels struggle with high levels of informality, low profit margins and low productivity. Access to business capacity building and finance, as well as to shared land use/land pooling arrangements could help orient this target group towards the more profitable second and third sales channels. Finally, weak overall organizing among cassava farmers and coordination with local trader networks create high transaction costs for all. Improving coordination as well as improving access to storage facilities would facilitate product aggregation and therefore strengthen the target group's market position.

Sesame

Sesame continues to gain interest as a commercial crop, attracting smallholder farmers as a result of being a high-value crop with growing prices. In Uganda, commercial uses for sesame are expanding and include use in oil extraction, confectionery and animal feeds. At present, all sesame exports from Uganda are in the form of raw seed rather than oil and other processed products. The export volumes must be organic, a key feature that is enforced in large parts of the farming community. Given the demand on the global market, local competition has grown at the grassroots level with several traders vying to purchase farmers' outputs. However, as aggregation takes place, the number of actors is reduced, shifting market power to fewer and more dominant players.



Pictures: Sesame crop in Rhino camp.

In addition, sesame is well suited to the climatic conditions of Arua district and Rhino camp, where sesame continues to emerge as a commercial crop of interest attracting smallholder refugee and host community farmers. Though increasing in popularity, volumes to date remain modest, with sesame representing just 1.5 per cent of the total district crop production volume (2017/18 crop year). As a result, sesame holds high potential to increase incomes and create jobs for refugees and hosts in the region. The analysis revealed that sesame marketing in Arua takes three differentiated channels to reach the final consumer, as shown in Figure 3.

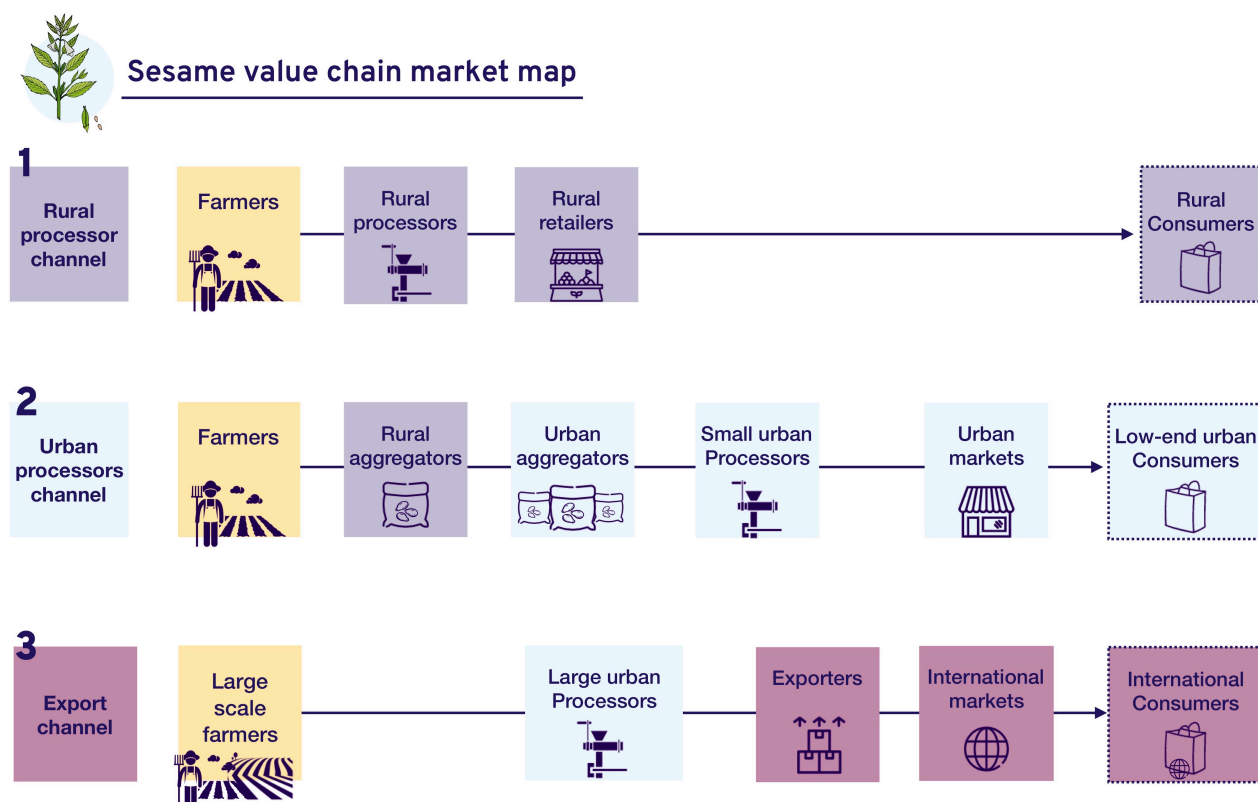


Figure 3: Sesame value chain market map.

As a first sales channel, refugee and host community farmers sell low-value sesame, which typically has been rejected by aggregators, to the rural processors. Arua's village processors extract oil or make paste, distribute it to local retailers, who then sell it to Arua's consumers. The rural processor channel is seasonal and not limited to one crop at any given time. The target group farmers lack the capacity to adopt improved crop varieties in order to produce high-value sesame, which would increase productivity and, in consequence, income. Business skills and capacity building as well as improving access to information and market opportunities could help shift refugees and hosts towards the more profitable urban and export sales channels.

A second sales channel for refugee and host sesame farmers is to rural aggregators, who pass the sesame on to urban aggregators and processing for sesame paste. The paste is sold to low-end urban consumers in selected supermarkets that do not place a premium on food safety conditions. As refugees and hosts are dispersed, they depend on rural aggregators as their key off-takers. Coordination among farmers, which would enable the aggregation and joint storage of larger quantities of sesame for more profitable sale, is absent.

The export channel buys its product from export-certified companies. The target group cannot easily access this channel, since sesame for export must comply with international standards of quality, food hygiene and handling. Seeds for export must be cleaned and fumigated to a high standard before shipment to export markets. However, six export-certified companies operate in Uganda and purchase sesame (aggregated and produced to

international quality standards) from rural farmers. Currently, refugees and host communities are largely unable to seize this growing and profitable market opportunity because of their low productivity and lack of knowledge on production standards for sesame export, limited access to information on export-oriented sales channels, and weak aggregation capacity due to underdeveloped coordination and association among farmers. For exporting companies, the main challenge to reaching export destinations is non-tariff barriers to the European market. This includes certification of compliance to a variety of codes of conduct.

Cattle

Given that many refugees, especially from South Sudan, are traditionally cattlemen and not likely to shift to crop farming, the cattle sector was rated third-most salient during sector selection.

Cattle is considered the most important livestock sub-sector in Uganda because it contributes the single biggest percentage to the total value of livestock production. Although the host community holds more cattle than refugees, owing to their access to land, an increasing number of refugees are beginning to hold cattle, as some of them have been successful in securing access to land for grazing.

The analysis revealed that cattle marketing in Arua takes four differentiated channels to reach the final consumer, as outlined in Figure 4.



Pictures: Livestock cattle in Rhino camp, in Arua District.



Cattle value chain market map

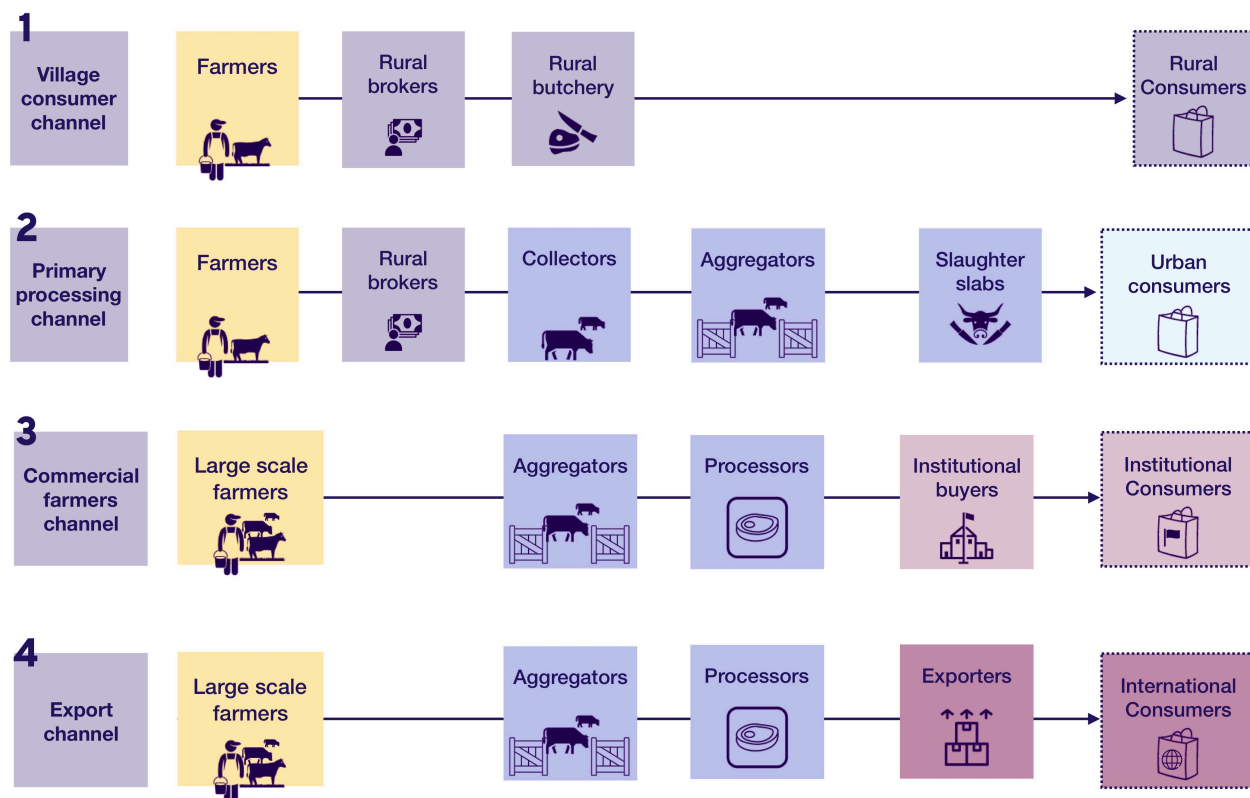


Figure 4: Cattle value chain market map.

The first is the shortest channel from producer to consumer and is served by the refugee and host community farmers who keep between one and five cattle and sell them to Arua's village butcher only when in financial distress. The channel is less concerned with the quality of the beef, as the main attraction is the low price at which the meat is sold. There is no recognized market infrastructure to facilitate this trade, and limited business skills among the value chain actors diminish the possibility of scaling their business.

In the primary processing channel, the final destination of the cattle raised by the target group farmers is the urban consumers. However, owing to the lack of farmer's associations or cooperatives, aggregators play a critical role of aggregation from different farmers and delivery to the cattle market. As they constitute the only link between target group farmers and urban buyers, and are able to purchase and deliver large volumes of cattle, aggregators take the most substantial share of proceeds in the value chain – to the detriment of the incomes of target group farmers.

The third channel is hardly accessed by the target group, and it is where great potential lies. The commercial farmer holds from 21 to 300 cattle and, because of their larger volume, deals directly with aggregators. For aggregators, dealing with commercial farmers means that transaction costs are significantly reduced, since they sell larger volumes. As the customers

are institutions, compliance with standards both national and local are a must along each step of the value chain. Refugees cannot access this channel, since they lack land that can facilitate and scale cattle farming and production. In addition, smallholder cattle farmers in general lack access to quality veterinary services, animal feed and improved cattle breeds.

The export channel overlaps the commercial farmer but differentiates in that it only considers beef quality sources adhering to the top standards. There was no evidence that Arua's cattle was moving out of the district for export processing purposes; in fact demand remains unmet by local producers, leaving the district a net importer of cattle from other districts to meet local demand.

What to do about jobs and incomes?

Despite Uganda's progressive approach toward hosting refugees, the high influx of refugees into the country since 2016 has put pressure on the services and systems serving the displaced and local host population alike. In that sense, the AIMS assessment identifies several systemic constraints preventing refugees and hosts from seizing local economic opportunities, as well as three high potential value chains for the target group. The assessment identified the following interventions as key.

► “Push interventions”

These type of interventions focuses in building the capacities of the target group.

Building enterprise groups

Across the three value chains, producers had low incidence of being formally organized with any support into associations or cooperatives. Where they were organized, their performance was significantly enhanced. Improved sectoral coordination could scale if cooperatives come together to share collectively the best practices and to take advantage of scale.

Addressing the lack of financial education in the target community

Both business and individuals/families alike benefit from financial literacy. For businesses, literacy on where and when to borrow and how to use credit responsibly is key. For individuals, financial education and literacy supports savings, which act as a hedge against shocks in time of need. To businesses and individuals, combining business skills with financial literacy and credit is key.

Addressing the lack of business and entrepreneurial skills of target community

Interviews with entrepreneurs and businesses alike found that too often their business decisions were not based on analysis of their operations or sizing up opportunities, nor were they following a strategic plan. Facilitating access to entrepreneurial skills, particularly for the small enterprises and entrepreneurs, is needed. This could be achieved through the ILO's Start and Improve your Business (SIYB) and GET Ahead programmes.

► “Pull interventions”

Pull interventions aim at developing market systems in such a way as to expand and diversify the opportunities available to both the target group and the host community.

Supporting business led extension services

In each of the value chains, it was observed that poor agricultural practices brought loss or damage to the final product. Helping farmers access capacity building on new techniques, and showing how to properly handle post-harvest, could have a long-standing impact, so that refugee and host community farmers can increase the product's value, their productivity and consequently their income.

Enhancing access to market information

Market information was difficult to come by for most smallholders, for example, limited access to current commodities pricing to inform their negotiations, market demand to inform what crops to commit to in the next growing cycle, or any information on better practices. Across the respective value chains, information needs may vary, but clearly the method of scaled dissemination was communicated through broad and regular channels of media. It would be beneficial to increase support for programmes that organize the dissemination of market information through local media channels.

Enhancing product processing capabilities

In each value chain, processing suffers under current practices, lowering the overall profitability of the sectors. This is where forming and supporting cooperatives can meet local and national efforts to raise standards and the willingness of private actors to step in to promote value addition with best practices. Linkages must be built between the producers, research institutions, and sector experts. Investments must be mobilized into adequate infrastructure, processing facilities, among others.

Addressing the broad lack of access to finance in multiple forms

Unanimously, entrepreneurs of small, medium and large businesses identify the lack of accessible and affordable credit as a barrier to growth. As it stands, the informality of smallholder farmers and small businesses limits the access to formal credit. Informal savings groups are an alternative; however, they have limited funds to lend on their deposits. Efforts are needed to facilitate on-lending to informal lending groups and linkages with formal lenders who are sensitive to the needs of small businesses or engage the support of partners.

Formalizing community-initiated land rental mechanisms

Common to the three value chains is the need for land access to produce. Of course, increased efficiencies for the land already available might be the immediate goal, but to scale, refugees and host community members alike must access additional land to farm or graze their livestock. This could be done through formalizing processes to explore feasibility of creating a land leasing brokerage, developing standardized leasing contracts that follow a

formal process, registering agreements so as to protect refugees or other vulnerable smallholders, or establishing a land tribunal with fair representation in order to hear and resolve land disputes.

Improving access to productive inputs

Across the three value chains, poor access to quality and consistent inputs was an issue: poor cassava vines that were not of improved varieties; lack of local sources of sesame seed propagation to replenish crops through improved genetics; and lack of involvement by organizations researching new improved cattle breeds to achieve higher carcass weights. Efforts by stakeholders could mobilize around support to local farmers dedicated to production of improved inputs.



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