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GLOBALISATION AND FISH UTILISATION AND MARKETING STUDY

WINDSOR LAKE VICTORIA HOTEL, ENTEBBE: 21ST FEBRUARY 2003

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ANNEX 3: Global Commodity Chains and the Development of Poor Fisherfolk in Uganda

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In this paper I would like to outline the objectives and methodology of the research project and say something about recent trends in international and development economics which may colour the research work we are undertaking. First I would like to briefly outline the status of Uganda's fishery.

Part 1. Background

The Ugandan fishery, heavily influenced by the emergence of global markets, is extremely dynamic. In recent years a major export trade, principally in Nile perch fillets from Lake Victoria, has expanded markedly. The growth of this factory-based processing industry has had a marked impact on the pre-existing artisanal fishery, which has become increasingly dependent on supplying the export market instead of its traditional local small-scale markets. The industrial fishery developed as a response to the liberalisation of the management of the Ugandan economy and the consequent opening up of the export markets in North America and Europe. The emergence of the export industry has resulted in the creation of a dual structure in the fisheries sector, with the Nile perch catching and processing chain operating to European standards, whilst the artisanal sub-sector still utilises traditional methods. This dual structure is a potential source of disadvantage to the artisanal fishery which has command over fewer financial assets than the export fishery.

The industrial export fishery has experienced significant problems, notably in relation to its need to meet the food quality/safety requirements of importing countries, with the result that markets have been periodically closed to the sector. The adverse impact of periodic denial of access to export markets (estimated cost of 1998 closure: \$30m/yr) is not confined to large commercial organisations in the industrial sector. It can be surmised that closure of export markets will have a detrimental impact on poor wage earners in the small-scale sector supplying local and regional markets. During the most recent ban, closure of the EU market resulted in a substantial drop in fish prices obtained by fishermen.

This period of rapid change in Uganda is not complete. A major growth in exports is anticipated (with, for example, USAID supporting the development of new products) and it is expected that this will have an even greater impact on the small-scale fishery processing and marketing system.

While the broad structure of the export sector's product and cash/income flow through the marketing chain is well known, less is known about the marketing chain in the small-scale sector. In particular, the income data are largely unknown and the aggregate quantities and values at successive stages in the chain are little known.

The diversion of more product to the export market will undoubtedly have an impact on the small scale fish processing and marketing sector, which has traditionally offered livelihood options to poor people, particularly women. However, the nature of the impact and whether it has been to the overall detriment or benefit of poor people remain unclear. On the one hand, decrease in supply of whole fish to the traditional fish processing sector might be expected to have a negative effect on poor people. On the other hand, increased supply of by-products e.g. trimmings, rejects, heads and frames from establishments processing fish for export, may offer increased natural capital and so present more opportunities for poor people seeking alternative livelihood strategies. If policy makers are to take informed decisions on actions to mitigate adverse effects of globalisation on poor, local stakeholders, a clear, preferably quantitative, understanding of supply chains and the opportunities and constraints that currently constitute the livelihoods of poor fisherfolk in Uganda is required.

The process of economic liberalisation in developing countries, and the associated globalisation of factor and product markets, is a controversial one. On the one hand economists in the neo-classical mainstream are broadly supportive of the process seeing it as the most effective way of bringing about economic growth. The removal of controls and the weakening of traditional methods offers opportunities for economic development which are not available to economies which shut themselves off from outside influences. On the other hand anti-poverty campaigners often have serious reservations about the process feeling that the poor are unnecessarily exposed to new powerful actors in the market whose influence they are not able to counter. Nevertheless, the perceived importance to the economy of the development of the export fishery makes any discussion of its the merits and demerits pointless - there is no prospect of the industry being reined in by the authorities.

Part 2. The Project

The project is designed to examine the *Impacts of Globalisation on Fish Utilisation and Marketing Systems in Uganda*. The topic was determined by the Post-Harvest Fisheries Research Programme on the advice of a team working in Uganda in 2001 . The PHFRP's goal, as given by DFID, is to benefit poor people by the application of new knowledge to the utilisation for human consumption of fish. The purpose of the project is to develop and promote strategies and management systems to improve post-harvest utilisation of fish and its impact on the lives of poor processors, traders and consumers. The project is, to quote

from the title of the 2000 White Paper (UK Government, 2000), concerned with "making globalisation work for the poor". The project formally started in March 2002 and is do to finish in August 2003.

Outputs

The planned outputs are as follows:

1. Description and analysis of commodity systems (the product and value chains) affecting small-scale producers, processors, traders and consumers and the industrial/Export fishery.
2. A model expressed verbally, diagrammatically and quantitatively of the system as a whole, i.e. including the small-scale chain, the industrial chain and interactions between the two.
3. Description and analysis of livelihoods coping strategies among poor producers and consumers and their vulnerability to systematic shocks, especially changes in the industrial/export sector.
4. A forecast of current trends into the medium term future and assessment of consequential shocks on the small-scale fishery.
5. Widespread consultation on the policy implications of the results and identification of appropriate interventions in response to the views of the poor and Ugandan government anti-poverty policies.
6. Critique of innovative research methodologies and tools developed e.g. system modelling and forecasting methods.

Activities

To attain these outputs the following activities are listed:

1. Data Collection and Modelling
 1. Desk based review of existing information to establish current developmental scenario of the Ugandan fishery.
 2. Description and modelling of fish distribution chains.
 3. Data collection on small-scale fish production, processing, and marketing using the Lake Victoria Frame Survey and other baseline estimates.
 4. Extraction of data on the industrial/export fishery from existing data collection systems.
 5. Collection of qualitative data from poor fish catchers, processors and consumers on their response to change in the fisheries.

All three of our major partners in the project are assisting Mike Dillon Associates in these activities. Contemporary data is being collected by the Fisheries Resources Research Institute. They are surveying a sample of landing beaches using a sampling method in which the strata are reflections of the accessibility of the beaches to demand from factories. The Fisheries Training Institute has collected some community based data on fish catching, processing and

consumption, especially relating to attitudes towards the industry. The Department of Fisheries Resources is in the process of extracting contemporary and historical data from its records. A long run of data will be collected to quantify the model, including temporal changes. Data from the industrial/export fishery will be extracted from records held by the Department of Fishery Resources. The records of the Department of Fisheries Resources and the Districts will be used to establish the historical situation for the artisanal fishery.

2. Policy discussion

1. Prediction and evaluation of future changes and potential impacts.
2. App'opriate intervention strategies discussed with stakeholders and policy makers and preferences identified.

Mike Dillon Associates is fortunate that it has good pre-existing links with DFR and it is important that the findings of the project are fully fed into the policy debate in the Department and Ministry of Agriculture, Animal Industries and Fisheries. With regard to matters of detail the Project and DFR is reviewing the data collection procedures and protocols used by Assistant Fisheries Inspectors. The aim is to incorporate a stronger reference to value data - along with guidelines on the utilisation of the data. The Integrated Lake Management Project has similar aims on data needs and the project hopes to continue to collaborate on this. Mike Dillon Associates has strong historical links with the industrial factory industry in Uganda. Although contact has been made with a number of NGOs working or collecting data within fishing communities (UFFCA, ActionAid, and Save the Children, for example) our links remain relatively weak and the Integrated Lake Management Project has agreed to facilitate this part of our activities. It is undoubtedly fortunate that anti-poverty policies are under review in Uganda at the present. The project has indirect relations with the Programme for the Modernisation of Agriculture Secretariat through the Policy Analysis unit in the MAAIF, and these need to be monitored and strengthened.

The "forecasting" element referred to above is designed to both establish the potential for the export industry in international markets and capture the expectations of poor fisherfolk. The former will begin shortly. Some data have already been collected relating to the latter.

3. Methodology

1. Development and verification of research methods and tools.
Any distinctive aspects of the methods used in the project will be critically examined.

4. Communication and dissemination

A number of communication and dissemination activities are identified in the project but these are subject to re-examination in the light of experience. The focus will be on effective communication, using forms, which may be well tried in the light of experience or new, but appropriate to the Ugandan situation.

Part 3. Global Commodity Chains

There are at least two currently important concepts in development thinking and/or international economics which should inform our research. One is the World Bank's Poverty Reduction Strategy approach and its impact on development policies. Especially appropriate in Uganda since the government was one of the very first to align itself with the new emphasis. The other, which I intend to explore briefly, is the increasing popularity of Global Commodity Chains as a way of structuring thinking about international trade relations.

Background.

There has been a change in global division of labour in the past half century - and, in the case of the Uganda export fishery, in the last 15 years or so. While, at one time, much of production took place within national borders, now there is a clear division of labour across borders. But the study of Global Commodity Chains differs from the formerly dominant (and of course, continuingly relevant) emphasis on the operations of multi-national corporations (MNC). Under an MNC regime industry is transnational. Products cross a number of international borders but pass through the hands of one or only a few firms. Within GCCs products still cross international borders but are worked on by a number of firms each with a specialist role.

The initial development of the concept was in the context of the international trade of the USA (see Gereffi, ; Bair and Gereffi, 2001) but it has been very productively applied to the Tanzanian fish exporting chain (Gibbon, 1997; Gibbon, 2001).

Some Economic Characteristics of GCCs

- GCCs are one way of studying vertically linkages from primary producers to consumers. Instead of vertical linkage being established by mergers and takeovers (and potentially attracting the attention of the anti-monopoly regulators) it is based on a series of contracts between independent firms. Although the product changes hands in its progress along the chain there are no competitive markets. Patterns of analysis, which rely on neo-classical theory, are not helpful.
- Markets are essentially monopsonistic (or monopolistic) in the short run with broader oligopolistic patterns in the long run. In the short run monopsonistic buyers can largely dictate terms to sellers. In the long runs sellers can search out other potential buyers - or withdraw from the market.
- The sources of economic power in the chain are, therefore, related to system co-ordinator rather than ownership. Nevertheless, power is exercise - to keep out unwelcome entrants and to facilitate the institution of measures which reduce costs and risks but increase speed and reliability

- GCC activities are not a zero-sum game - all or most participants can gain from collaboration.

Aspects of the Study of GCCs

The topics investigated are:

1. The input-output structure of the chain. This is typically a description of the product handled, transformations effected etc.
2. The territory covered is also essentially a factual account, dealing with the countries and 10catLons involved.
3. The institutional framework is typically investigated to identify how local, national and international conditions and policies shape the globalisation process at each stage of the chain. This includes legal requirements.
4. The structure of internal governance of the chain is in many ways the most interesting and has received most attention. Key issues include the nature of chain co-ordination and the type and enforcement of barriers to entry into the chain.

More on Internal Governance

Two key patterns of governance are described in the literature.

(1) **Producer-driven.** Producer-driven GCCs are found in sectors where production is capital- and technology-intensive, e.g. motor vehicles, aircraft, heavy machinery, and computers. Chains are often multi-layered with first tier, second tier and third tier suppliers. They may consist of thousands of firms: parent firms, subsidiaries, sub-contractors, etc. The barriers to entry are provided by the substantial financial capital requirements and accumulated proprietary knowledge. The "drivers" are often multi-national corporations. They, and other members of the chain, derive their profit from the substantial economies of scale available, technical innovation, and organisational innovation (just in time, total quality control). The international character of these chains is reflected in the sub-contracting of firms in developing countries to undertake labour intensive activities.

(2) **Buyer-driven.** The buyers in this case are either branded merchandisers, who gain their power through their promotion and exploitation of brand names, large retailers, who have enormous purchasing power. In the case of branded goods design standards and marketing important. Once again the more labour intensive activities are transferred to developing countries. Garments and footwear are typical examples. The barriers to entry include the costs of market information, product design, advertising and supply systems.

GCCs and development

Although, in principle, the methodology can be applied to any international trading chain, in practice it is applied to trading relations between the developed and the developing worlds. In most cases the dominant firm in a GCC is based in the developed world. So there is clearly a link with development issues here.

Some features of GCCs are potentially anti-development; for example, the high entry barriers to new firms in a GCC may tend to concentrate benefits and increase inequality of income distribution in developing countries. The process is that as the international division of labour increases more and more functions are externalised, but to preferred suppliers. The driving firm(s) in the GCC will identify preferred suppliers. And, since it is important to ensure security of supply, smaller local firms are replaced by larger firms with which there is a reduced likelihood of an interruption in supply.

But there are dynamic features which have the potential to encourage development. Within a GCC functions are typically transferred to developing countries, especially in the case of labour intensive activities to take advantage of low labour costs. Even though a firm may be a small cog on a large GCC wheel, firms are not entirely powerless in a GCC. Local production initiatives and outstandingly greater efficiency can attract drivers and ensure more income for the firm and benefit for its investors, employees and country.

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