Tools Assessment

# Uganda

# Warehouse Receipt System[i]:

## Making progress in finance, market and post-harvest risks management

## Policy Brief

October 2016

## Key message

1. Post-harvest losses, commodity price fluctuations and drought are among the top rated risks facing the agricultural sector in Uganda.
2. The warehousing receipt system (WRS) issues a document that gives a farmer access rights to a well-managed storage facility. It also has an attached collateral scheme that eases farmers' access to financial services.
3. Two forms of WRS exist in Uganda; the unregulated warehouse receipting started in the 1990s, and the regulated warehouse receipting, which was incepted in 2006 with support from the European Union.
4. Effectiveness of the WRS is constrained by risks of double pledging with operators, lack of compliance with the quality standards of the dominant buyer - World Food Programme (WFP) – and the limited reach of the system to rural farmers.
5. The Ugandan Government should support training for warehousing agents, build on procedures for commodity quality standards and reform the regulatory body (Uganda Commodity Exchange) for warehousing.

## Context

Agriculture forms the mainstay of Uganda's economy. It contributed to about 22.5 % of the GDP, 54% of exports and 70% of employment in 2013. The **Risk Assessment Study for Uganda finalised by the Platform for Agricultural Risk Management (PARM) in 2015** noted post-harvest losses, commodity price fluctuations and drought as among the top rated risks facing the agricultural sector. The estimated losses to major grains like maize and cowpea after 90 days of harvest average 59% and 79% respectively (WFP 20141). With the seasonality of production and inadequate storage facilities, farmers are compelled to sell their produce immediately after harvest. When managed professionally, WRS has extensive benefits for farmers to store commodities for months after harvest, secure finance, better market and reliable input supply.

## Types of WRS in Uganda

Warehouse receipt system (WRS) is described as a scheme that entitles a farmer to deposit storable commodities such as grains (e.g., cereals and pulses) in exchange for a document known as warehouse receipt (WR). The receipt is issued by a professional warehouse operator/manager to provide a proof of ownership of stated quantity and quality of commodity. The value on the receipt maybe negotiable depending the legalities set out for WRS operations in a particular country.

In Uganda, the WRS Act 2006 stipulates for the licensing and regulation of warehouses, the operators and receipts. The law also recognizes constructive possession of financiers on security over pledged goods controlled by collateral managers. However, there is limited security for some financiers as the law is only limited to public warehouse operations, even though a lot of private collateral management activities are taken place. This increases risks of double pledging of goods and fraud cases. Two main categories of warehouse receipt systems exist in Uganda: the unregulated private warehouse receipting and the regulated public warehousing system. Differences between these two systems are outlined in **Table 1**.

### Unregulated private WRS

The unregulated private warehouse receipting is the most popular type in Uganda. It was started in 1990s by the Eastern and Southern Africa Development Bank (PTA Bank) and an international inspection company (known as SGS). At the moment, the system is dominated by three major collateral managing companies; ACE, DCL and Coronet. Since the inception of its operation in 2008, Coronet has been working with about 102 groups of borrowers and nine local banks. The system focuses on major crops like cotton, maize, cocoa beans, wheat and rice. It provides farmer cooperatives with easy access to post-harvest services (like quality testing and

1 WFP (2014): Reducing Food Losses in Sub-Saharan Africa (improving Post-Harvest Management and Storage Technologies of Smallholder Farmers.) An "Action Research" evaluation trial from Uganda and Burkina Faso. August 2013 – April 2014.

(i) Policy brief developed by **Balikisu Osman** for the Platform for Agricultural risk Management (PARM). The information is based on "**Study on Appropriate Warehousing and Collateral Management Systems in in Sub-Saharan Africa**" conducted by J. Coulter, Consulting Ltd and Sullivan & Worcester, UK LLP. The subject countries are Burkina Faso, Niger, Senegal, Ghana, Cote d'Ivoire, Madagascar, Cameroon, Mozambique, and Uganda. The full reports were coo-published by the Agence Française de Développement (AFD), Technical Centre for Agricultural and Rural Cooperation (CTA) and International Fund for Agricultural Development (IFAD) / PARM.

value-chain development) and production credit (for inputs, labour). Nine banks are lending for private warehouse activities in Uganda. Interest rates are as high as 23% per annum for local currency and 11% for hard currencies. Loan to value ratio ranges from 60% to 80%. Fraudulent related cases in this system amount to losses of about USD 800,000. Other problems include high cost of services to rural clients and lack of understanding of the transactional risks, on parts of the banks.

Piloted projects on unregulated WRS were initiated in rural areas of Uganda, with support from the Ministry of Trade and the United States Agency for International Development (USAID) in 2004. The projects aimed to enhance access to WRS services for poorer farmers in remote areas. It started with two coffee and cotton seed producer groups in the Kazinga Channel Zone of Uganda and later extended to the Eastern and Western part of the country. Evidence suggests these projects to be successful but suffered competition from fair trade groups that offered 50% premium over the indicative market price.

### Regulated public WRS

Regulated warehousing system on the other hand involves the establishment of government warehouses open to depositors from the general public. But it may be operated by the state or leased to a private collateral manager. The system started in 2006 with technical and financial assistance from the European Union (EU), followed by the enactment of a WRS Act, and appointment of Uganda Commodity Exchange (UCE) as the main regulatory authority. Both individual and cooperative smallholder farmers were the prioritized clients to store commodities in the state or privately licensed warehouses. Warehouses are operated by chief warehouse examiner who trains staff on commodity inspection, compliance and quality checks. Farmers are also connected to an electronic platform – the eWRS – where they receive trainings on post-harvest management.

Between 2008 and 2013, deposits of maize were 22,600 tons at three of the five UCE licensed warehouses, which accounts for about 90% of the total deposits (Onumah and Nakajjo, 20132). This was a small fraction of the quantities required to make the UCE viable after the end of the EU funding in 2010. Besides, the grain quality hardly conformed to the standard of WFP – the dominant buyer.

**Table 1:** Differences between the two WRS in Uganda.

| Unregulated Private | Regulated Public |
|---|---|
| Started in 1990s by international companies | Started in 2006 with assistance from the EU |
| Dominated by three professional collateral management companies; ACE, DCL and Coronet | Regulated by the Uganda Commodity Exchange (UCE) under the WRS Act 2006 |
| Main clients are farmer cooperatives and other groups. | Both cooperatives and individual smallholder farmers |
| Target farmers producing all kinds of crop | Work with grain producers |
| Interest rate is 23% with loan/value ratio at 65-80%. | Interest rate is 23% with loan/value ratio at 50-60%. |

## Usefulness for Agricultural Risk Management

**Avoid post-harvest losses:** The traditional handling of commodities produced after harvest causes pest and disease attacks both on-farm and off-farm. Training systems provided through the Uganda's eWRS regulated by the UCE and Sandbox Technologies enables farmers to learn effective post-harvest handling techniques for all types of weather conditions. Warehouses provide safer year round storage facility for agricultural produce. This reduces the amount of commodity losses during damp weather and drying periods, while improving the quality. In the Iganga area of Eastern Uganda, the improved quality of WRS stock attracted larger traders offering better prices.

**Manage seasonal price risks:** The seasonality of farm production and lack of storage facilities among smallholder farmers in Uganda are factors contributing to fluctuations in inter/intra-annual commodity prices. The system of safer storage in warehouses allows farmers to keep their commodities for months after harvest. In the process, they may sell later when produce are out of season, to benefit higher prices, increase incomes and well-being. In 2006, beneficiary farmers of the USAID supported warehousing for cotton in Eastern Uganda, for instance earned about 22% increase in the market price per kg of seed cotton. The inter-seasonal arbitrage also smoothen price hikes for out of season food commodities, reduce affordability and access constraints on consumers.

**Access financial packages:** Credit and insurance facilities are crucial forms of buffer to smallholder agricultural farmers against anticipated and unanticipated risks. The collateral component of the warehousing ensures that farmers can use receipts to access loans from participating financial institutions. The UCE issued e-receipts for example entitles farmers to transfer their stocks to financiers in exchange for loans or to a buyer in fulfilment of a sales transaction. Also, in the pilot schemes, the USAID provided credit guarantee facility valued at USD 16 million to Stanbic Bank to support warehouse receipt operations. Notwithstanding, the entire system of warehousing also assures farmers of safety against threats of fire, theft and some major catastrophes. The activities of ACE and Coronet in particular operate with mandatory insurance policies on fire and burglary for all commodities under their management.

### Policy Recommendations

**Invest in training programs** aimed at enhancing scaling up of private warehousing systems to more rural clients. The programs should target all forms of financial institutions (formal and informal) that can link up with rural-based clients and exporters to develop and/or extend their supply chains to private collateral managers. Training should focus on the understanding of the various components of the warehouse receipting system, including the transactional risks and potential mitigation measure.

**Refine policy and regulation on warehouse produce quality standards** to ensure conformity to testing procedures and standards of regional market and dominant buyers such as the WFP in the grains market. There should be an appropriate legal enforcement system to regulate the quality of warehouse commodities. Commercial grain drying and storage infrastructural facilities should be installed at vantage locations in the country to enhance large scale processing and better storage/warehousing of produce from smallholder farmers.

**Reform the governance and ownership structure of the UCE**. This should be accompanied with new capital and management for a fresh start. UCE authority should enjoy a high level of autonomy from the government, and have no budgetary dependencies. Leading buyers, banks and warehouse operators should have real stake in the management of the UCE.

**Enact regulation to control the activities of the private warehousing systems**. The regulations should be directed at reducing risk of fraud while making the private-based warehousing viable in operation.

**Seek for well-experienced external partners.** The government should leverage warehousing initiative with potential investors such as the Eastern Africa Grain Council (EAGC) and the AFGRI (South African operator with over 20 years of experience in warehouse management). The terms of reference for partners' operations should be flexible to enable them to pull back at any time when there appear to be conflicts of interest

2 Onumah, G.E. and Nakajjo. (2013). Final Report: Study of the Efficacy of the Warehouse Receipt System in Uganda. Undertaken on behalf of the World Food Programme (WFP) Uganda and Uganda Commodity Exchange (UCE) by the Natural Resources Institute, University of Greenwich.

**PARM Secretariat** **International Fund for Agricultural Development (IFAD)**

Via Paolo di Dono 44 - 00142 Rome (Italy) parm@ifad.org www.p4arm.org @parminfo