

## Improving the Ware House Receipt System in Uganda

### Executive summary

Warehouse Receipt Systems (WRS) have been around Uganda since the early 1990's as seen by public and private sector efforts through various interventions. Most recently in 2015, the government of Uganda has created the Uganda Warehouse Receipt Systems Authority (UWRS) whose major role is to reinstate the public WRS. Despite these interventions, uptake for the WRS remains low due to various demand and supply constraints. More so very little is known why this is so. This brief evaluates efforts towards the WRS and provides information that will be helpful to the UWRS in aligning its activities for a public E-WRS in Uganda.

### Introduction

WRS are mechanisms that allow farmers to access markets and financial services using their commodity as collateral. In the past, the system was majorly motivated by changes in Sub-Saharan markets following their liberalization in the 1990's<sup>1</sup>. Consequently, WRS operations in the public sector have been observed as early as 1995/96 by proposals regarding WRS from the current Ministry of Trade and Industrial Cooperatives (MTIC) that culminated into a WRS project between 2000 and 2008. Private sector efforts towards WRS can be observed as early as 2004 under USAID's rural speed project.

Presently, the need to lower post-harvest losses are also motivating the establishment of the WRS as reinforced by prior studies<sup>2</sup>. More so, it is for this reason that Uganda's second national development acknowledges that limited storage capacity, particularly warehouses in the country impedes effective post-harvest management and structured commodity trade<sup>3</sup>. As such, recent government efforts can be seen by the revival of the WRS through strengthening the regulatory framework- particularly the establishment of an independent regulatory body known as the UWRS.

Despite these efforts, the uptake of WRS in the country remains low and this is due to both supply and demand constraints. On the demand side, farmers' misconceptions about the system remain high. On the supply side, financial institutions are reluctant to finance agricultural-related activities given the uncertainty of external factors such as droughts/floods and the fragmented nature of agriculture that makes investments too risky. Moreover, warehouse opera-

tors are also discouraged due to farmers' inability to meet volumes demanded by the warehouses; as a result, the program becomes costly to operate.

This policy brief draws findings and policy recommendations from a study on the Uganda Warehouse Receipt Systems: improving market competitiveness and service delivery conducted by the Economic Policy Research Centre. The study aims first to critically review the evolution of the WRS, second to review existing policy and regulatory frameworks that facilitate the operation of the system and third to document perceived benefits and challenges of the key private sector actors concerning the WRS.

The study relied on a number of approaches including desk review, KIIs, and FGDs as well as quantitative approaches to compliment the qualitative methods. The Qualitative approach followed the Structure Conduct Performance framework while the quantitative relied on the Agricultural Technology and agribusiness Advisory Services (ATAAS) database by the Uganda Bureau of Statistics (UBOS)

### Evolution of the Warehouse Receipt System

The critical review of the evolution of WRS suggest that while the government was committed to addressing market and financial challenges of the private sector after the privatization of the coffee sector through the establishment of various public WRS pilots, the journey of the public WRS has suffered severe implementation challenges, as seen by lags in the regulatory framework.

**Table 1: Summary of the review of policies on the WRS in Uganda**

Policy	What it says about the WRS	Gaps	Opportunities
National grain trade policy 2015	Objectives and interventions are explicit regarding the WRS, especially those concerning grain	Lacks a detailed intervention plan for the WRS	Has set targets for the WRS; intervention includes women and young people and is aware of smallholder communication challenges
NDP II	Limited storage capacity impedes effective commodity trade. Country is unable to address agricultural price volatility	Does not mention interventions for availing finance through WRS	Sets target of 10 silos and warehouses with a capacity of 20,000 MTs and 5000 MTs, respectively
Vision 2040	Some policy actions are in line with the WRS, especially those on market access, standards, rural financing schemes, market infrastructure, and cooperatives	Does not mention the WRS; it only implied in some policy actions	
National trade policy 2007	Policy actions such as those on standards, value addition, sanitary and phytosanitary issues may relate to the WRS	The use of receipts for finance is not mentioned	Notes that Uganda imports cereals at a cost of USD 106.7m. Full development of the WRS may reduce the import bill on cereals
National Agricultural policy 2013	Acknowledges the role of the WRS in building farmer groups' capacity in marketing. Warehouses and silos required for policy strategies on marketing and quality assurance	Policy actions lack intervention in the WRS	Acknowledges that MAAIF and MTIC should work collaboratively to increase coverage of the WRS
WRS act of 2006 and regulations of 2007	Explicitly prioritizes the WRS authority. Expounds deeply on the WRS governance and the authority's engagement with the private sector		If regulations are strictly followed, errors in implementing the WRS will be minimized

Source: Authors' compilation based on multiple policy documents

## The current policy support of the WRS in Uganda

Table 1 below illustrates a summary of the review of policies on the WRS in Uganda. Overall, the current policy support for the public WRS remains inadequate, as seen by the low prioritization given to it in the policy documents reviewed. WRS is prioritized in Uganda's national plan, NDP II 2015/16- 2019/20, and in policy documents of the national grain trade policy. However, most of these policy frameworks lack an implementation strategy and where available, they are obsolete.

## Current production levels and post-harvesting technologies at the firm level

The results from the quantitative analysis suggest an unbalanced distribution of potential public warehouse facilities. The distribution of these warehouses is not in tandem with the production capacities of regions in Uganda. Current warehouse facilities support the aggregation of cereals, pulses and a few traditional commodities, yet the public WRS is designed for the balkanization of various commodities and are not limited to agricultural commodities (Figure

1). Overall, households engaged in the production of two or more commodities are likely to benefit from the WRS (figure2). There are no significant differences in access to postharvest and marketing information between households in a WRS district and those in a non-WRS district. Overall, collective action is on the rise but are most prominent in non-WRS districts (figure 3 and 4).

Figure 1

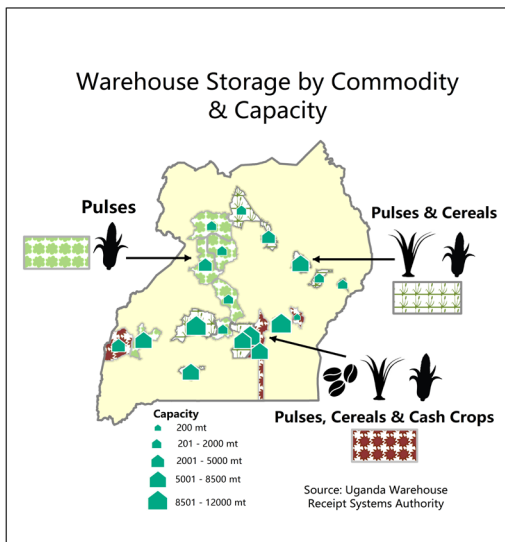


Figure 2

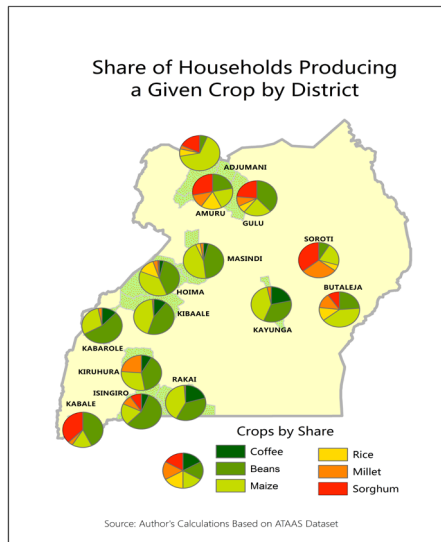


Figure 3

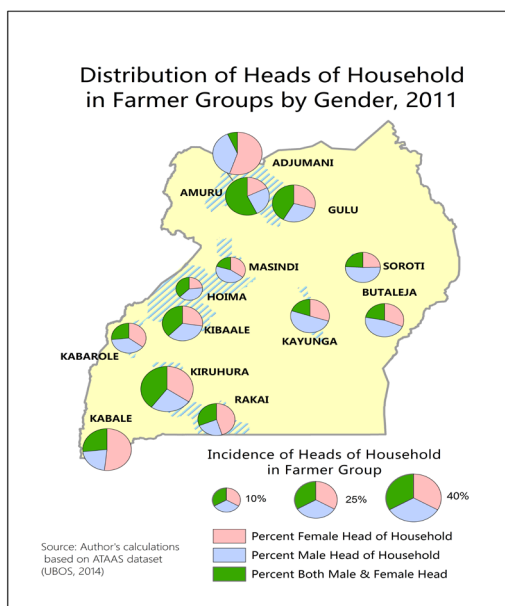
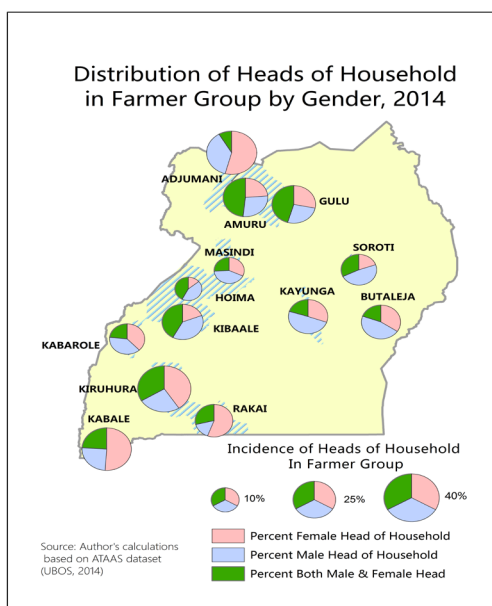


Figure 4



### Perceptions of key actors towards WRS

The results from the qualitative analysis reveal that the market structure of the pilot WRS was characterized by many players, including smallholder farmers, commercial farmers, traders, warehouse operators, financial sector, NGOs, development partners and the public sector, each playing a separate role from one another yet linked to each other. Maize categorized into grades of I, II, III was the main commodity transacted in the WRS. Smallholders, traders, warehouse facilities, and the financial sector faced severe challenges that were largely tied to the requirements of the WRS and hence discouraged many from accessing better markets and credit.

The market conduct of the WRS displayed multiple strategies for actors to remain competitive. Maintaining good quality grain involved strategies including capacity building and strengthening of postharvest handling and agronomic practices, using postharvest technologies, collective bulking and marketing, among others. Overall, NGOs and development partners support farmers and traders to ensure the good quality of the grain and that they remain competitive. However, the public sector played a limited/almost non-existent role in supporting farmers and traders in the same areas.

Strategies to control price fluctuations and the market were also numerous. The farmers interviewed preferred to sell at the farm

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gate, although others sold collectively through farmer groups. A few other farmers deposited and were able to benefit from high prices, although they were constrained by high storage fees. Traders had/have unique business priorities, i.e., they preferred/prefer to sell to the warehouse. However, they moved near and far, purchasing maize grain from farmers and middlemen. The private sector, NGOs and development partners supported/support farmers and traders by providing price information and thus enable them to remain competitive in the WRS.

In terms of market performance, the farmers who deposited into the WRS benefited from higher prices, although they claim that the profits were low given the costs and even lower when compared to the product sold at the farm gate. Only one cooperative managed to receive credit through the WRS but was challenged on how to share the credit facility among the group members. Other groups were discouraged from accessing credit due to the high interest rates. Other groups, particularly in Masindi, relied on services from a local SACCO, which was not registered to participate in the WRS.

Gender dynamics suggest severe exploitation of female smallholders. This exploitation stems from the inability of women to make decisions regarding the marketing of maize. They also indicate that there are few female traders, and this is supported by prejudices from male traders and intermediaries.

## Conclusions and Key Policy Recommendations

While results from the evaluation of the pilot WRS imply failed market performance, they however indicate areas where the UWRS can align its activities for the public E-WRS. Moreover, actors perceive that the benefits of the WRS are numerous, including stable and high prices, thereby reducing price exploitation, especially for smallholder farmers. They also perceive that the system will enable access to secure and stable markets using a secure and transferable warehouse receipt.

We draw various policy recommendations from the results. The first is that investment in the public WRS should be in tandem with the current production capabilities of the country. Second, the government, especially MAAIF, should spearhead the promotion of grades and standards. Third, collective action should be supported through capacity strengthening of marketing, finance, and decision-making. Fourth, the actors in the WRS should undertake massive sensitization of the E-WRS, equipping them with computer and ICT skills. Last, the government should create an enabling environment that will allow for the creation of warehouse facilities to store various agricultural and non-agricultural commodities.

*Geospatial figures produced by Daniel Aboagye, in collaboration with AidData*

## Endnotes

- 1 Varangis, P. and D. Larson (1996). “Dealing with commodity price uncertainty “. World Bank Publications.
- 2 Hodges, R.J., Buzby, J.C. and B. Bennett (2011). “Postharvest losses and waste in developed and less developed countries: opportunities to improve resource use”. The Journal of Agricultural Science, Vol. 149, No. S1, 137-155.
- 3 Government of Uganda (Gou). (2015). The National Development Plan 2015/16-2019/20 (Kampala: National Planning Authority)

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