

## Key messages:

This implicitly refers to points of emphasis and recommendations that this brief proposes. A budget increase by government to establish and fund warehouses is most desired.

1. The Maize subsector is one of the key agricultural enterprises in Uganda and a leading income earner to 3.6 million Households including those from the Rwenzori region.
2. There is a lot of maize produce in the Rwenzori region with no immediate market yet the existing farmers' storage systems are poor. This means that farmers cannot keep maize grain for long and thus attracting low prices.
3. The post harvest handling methods by farmers in the form of drying, cleaning, sorting is rudimentary affecting the quality of maize grain.
4. The Warehouse receipt system improves the quality of maize grain, by cleaning, drying, sorting, preserving and better storage.
5. Warehouses can easily partner with big buyers and exporters and this can ease the marketing of the maize grain, and financing of maize grain farmers through the use of the warehouse receipt system.
6. The warehouse receipt system will boost Value Chain Development for the Maize subsector, thus an improvement in Quality management and incomes for small holder grain farmers.
7. Government should strategically establish Warehouses in the region, of at least 5,000 metric tons in the grain productive zones which can be leased to the private sector or farmer organizations for easy access to small scale farmers.
8. Government and Civil Society Agencies should establish platforms for information sharing and coordination among grain farmers, buyers, processors and bankers.
9. Government should establish a buffer fund for price fluctuations to proactively protect small holder grain farmers.

## Making the Warehouse receipt system accessible to small holder farmers as a strategy to address storage, financing and marketing problems

A case study of the Maize subsector in the Rwenzori Region



## Background

Agriculture remains the mainstay and most important sector of the Ugandan economy. It contributes up to nearly 20 percent of GDP, accounts for up to 48 percent of exports (UBOS, 2008) and provides a large proportion of raw materials for industry. Food processing alone accounts for 40 percent of total manufacturing. The sector employs over 73 percent of the population aged 10 years and older (UBOS, 2005). Agriculture will be the key determinant in the country's effort to reduce poverty in the immediate years ahead (DSIP, 2010).

## Maize production in Uganda

Maize is widely grown in Uganda covering about 50 districts. The main production agro ecological zones with suitable climatic requirements are; the West (including the Rwenzori region<sup>1</sup>), East, North and Southeast Uganda. The Crop is cultivated by over 3.6 million households on about 1.5 million hectares of land (UBOS, 2006) and is now the third most cultivated crop after banana and beans in terms of area planted.

<sup>1</sup> Kabarole, Kasese, Bundibugyo, Kamwenge, Kyenjojo, Kyegegwa and Ntoroko



## Ware house receipt System

Maize is currently considered a major source of income in the districts of Kapchorwa, Mbale, Iganga, Masindi, Kamwenge, Kasese and Kyenjojo, with about 75% - 95% of the harvests at household, being sold to earn money. In 2008 alone, maize is estimated to have generated over US \$ 18.5 million in export earnings from an estimated 66,700 tones to neighboring countries such as Kenya, Tanzania, Sudan, Rwanda, Burundi, Zambia and the DRC.

## Constraints to production and marketing

In the year 2007, Uganda produced about 1.2 million Metric Tons of Maize (FAO 2009). The country has potential to produce up to 7.5 million Metric Tons utilizing the current area under cultivation. However this is never achieved largely due to various production constraints including low soil fertility, lack of improved maize varieties, erratic rainfall patterns and drought stress during some seasons. Maize production is generally characterized by low yields, which result in high unit cost of production and thus low returns. Regardless of farm sizes, Uganda, maize yields are generally low and range between 1.0 to 1.8Mt/ha.

On the marketing side, factors such as poor market infrastructure (feeder roads,

communication facilities, commodity storage, high transport costs, consistent and competitively priced electricity,) which are a requirement for successful produce marketing are impacting negatively on prices of maize and other grain commodities. All these combined –and coupled with the lack of an integrated marketing system leads to high transaction costs and compressed profit margins. The increased transaction costs are mainly associated with poor post harvest handling and storage which leads to a high degree of grain loss. This is partly caused by lack of organized marketing structures and infrastructures such as bulking and associations. This can be potentially addressed through the ware house receipt system.

## The case for a warehouse receipt system

As mentioned above, and as the Rwenzori Think Tank recently found out, the constraints to competitive grain marketing include among others the poor storage infrastructure, quality and grading of produce and transportation which can significantly be offset with a warehouse receipt system. A warehouse provides a one stop mechanism by which these constraints can be significantly minimized and credit made accessible. But first we take a look at what a warehouse is and how it can achieve the aforementioned.



A typical warehouse

This is a system where people deposit commodities of a specific grade to a licensed warehouse and are issued a document of title known as warehouse receipt. It is in fact a system of licensed warehouses whereby, warehouse keepers hold goods in safekeeping for depositors. The warehouse keeper issues the depositor with a warehouse receipt and guarantees to deliver back the same quality and quantity of goods to the depositor or to a person who has subsequently bought the receipt. Ware houses are regulated by the Uganda commodities exchange, established in 2006 by an act of parliament to license warehouses and ensure their care and maintenance.

Currently there exists four warehouses operational and recognized by the Uganda commodities exchange; namely; Jinja, Masindi, Kasese and Mbarara.

Importance of ware house receipt system in addressing storage and marketing Problems for maize in the Rwenzori region

- Small holders through groups are able to target big buyers such as the World Food Program.
- Through Standardization and grading the quality of product is improved leading to better prices.
- The issued warehouse receipt can be used as collateral to secure a loan rather than use traditional assets such as land titles, etc.
- Through improved quality outside markets can be reached and accessed easily and competitively.
- Shocks and setbacks related to theft , fires can be minimized since the products are insured