Policy
Section 1: Summary

The main features for agricultural lending and leasing for the year 2014 are:

a. Lending to agriculture has continued to demonstrate an upward trend, as for the period since 2010. Unlike in 2012 and 2013, when the increase was attributed to substantial lending for marketing, in 2014 the increase has mainly resulted from increases in lending for both production and processing, with lending for marketing following closely. Details are set out in Diagrams 3 and 4.

b. Since 2007, the percentage contribution of total agricultural lending to total bank lending has shown an upward trend. However, in 2014 this contribution reduced to 10 percent, a decrease of 1 percent from 11 percent in 2013.

c. For successive years, 2011, 2012 and 2013 leasing volume by value has continued to decline. In 2014, leasing for the acquisition of agricultural machinery contributed 1 percent of total agricultural lending. Although this is an increase from 0.1 percent in 2013, the change is hardly significant compared to the substantial increase observed in 2011, when there was an increase of over 21 percent in 2011. Even so, leasing in that year contributed only 3 percent of total agricultural lending.

The relevant data regarding the trends are laid out in sections that follow, starting with Diagram 1 and Table 1.
Table 1: Total agricultural lending by regulated FIs and MDIs between 2007 and 2014 in bn of UGX.

<table>
<thead>
<tr>
<th>Total Agricultural Lending (Years)</th>
<th>1st Quarter</th>
<th>2nd Quarter</th>
<th>3rd Quarter</th>
<th>4th Quarter</th>
<th>Annual Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>86</td>
<td>84</td>
<td>108</td>
<td>172</td>
<td>450</td>
</tr>
<tr>
<td>2008</td>
<td>92</td>
<td>73</td>
<td>118</td>
<td>142</td>
<td>425</td>
</tr>
<tr>
<td>2009</td>
<td>69</td>
<td>57</td>
<td>86</td>
<td>79</td>
<td>291</td>
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<tr>
<td>2010</td>
<td>69</td>
<td>72</td>
<td>73</td>
<td>139</td>
<td>353</td>
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<tr>
<td>2011</td>
<td>97</td>
<td>104</td>
<td>191</td>
<td>174</td>
<td>566</td>
</tr>
<tr>
<td>2012</td>
<td>156</td>
<td>139</td>
<td>223</td>
<td>181</td>
<td>699</td>
</tr>
<tr>
<td>2013</td>
<td>189</td>
<td>193</td>
<td>210</td>
<td>245</td>
<td>837</td>
</tr>
<tr>
<td>2014</td>
<td>154</td>
<td>263</td>
<td>228</td>
<td>231</td>
<td>876</td>
</tr>
</tbody>
</table>

Source: Bank of Uganda Supervision Function and individual financial institutions

Table 1 shows that from 2007 to 2009 agricultural lending significantly and continuously declined. Since 2010 the trend has however, remained upward throughout to 2014. In 2011, agricultural lending increased by 60 percent from UGX 353 bn in 2010 to 566 bn in 2011. In 2012, agricultural lending increased further by 23 percent from UGX 566 bn in 2011 to 699 bn in 2012. In 2013, agricultural lending continued to exhibit an upward trend and increased by 19.7 percent from UGX 699 bn in 2012 to 837 bn in 2013. In 2014, agricultural lending increased by only 4.6 percent from UGX 837 bn in 2013 to UGX 876 bn in 2014.
It is important to note that although total lending by financial institutions has continually increased, this has not translated into a similar increase in the overall contribution of agricultural lending to total bank lending. Indeed, as noted in section 1, this marginally declined from 11 percent in 2013 to 10 percent in 2014.

### Section 2: Regulated financial institutions in Uganda by category

Commercial banks still constitute the biggest percentage of the total number of regulated financial institutions in Uganda. The numbers within the Three Tiers are as shown in Table 2.

#### Table 2: Numbers of Regulated Financial Institutions in Uganda

<table>
<thead>
<tr>
<th>Year</th>
<th>Tier 1</th>
<th>Tier 2</th>
<th>Tier 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>14</td>
<td>5</td>
<td>4</td>
<td>23</td>
</tr>
<tr>
<td>2008</td>
<td>20</td>
<td>5</td>
<td>4</td>
<td>29</td>
</tr>
<tr>
<td>2009</td>
<td>21</td>
<td>4</td>
<td>3</td>
<td>28</td>
</tr>
<tr>
<td>2010</td>
<td>22</td>
<td>3</td>
<td>3</td>
<td>28</td>
</tr>
<tr>
<td>2011</td>
<td>23</td>
<td>3</td>
<td>4</td>
<td>30</td>
</tr>
<tr>
<td>2012</td>
<td>24</td>
<td>3</td>
<td>4</td>
<td>31</td>
</tr>
<tr>
<td>2013</td>
<td>26</td>
<td>3</td>
<td>3</td>
<td>32</td>
</tr>
<tr>
<td>2014</td>
<td>25</td>
<td>4</td>
<td>4</td>
<td>33</td>
</tr>
</tbody>
</table>

**Source:** Bank of Uganda Supervision Function and individual financial institutions

Note: Tier 1: Commercial Banks; Tier 2: Credit Institutions; Tier 3: Microfinance Deposit-taking Institutions.

The total number of regulated financial institutions increased from 32 in 2013 to 33 in 2014. The Bank of Uganda granted a Tier 2 license to Top Finance Bank Limited in September 2014 bringing the number of credit institutions to 4 in 2014 from 3 in 2013. In addition, BOU issued a Tier 3 license to Entrepreneurs Financial Centre, EFC Uganda Limited in November 2014 leading to an increase in the number of MDIs from 3 in 2013 to 4 in 2014.

However, in July 2014, Bank of Uganda decided to revoke the license of one commercial bank, Global Trust Bank (U) Limited (GTBL) as a financial institution reducing the number of commercial banks to 25 in 2014 from 26 in 2013. This bank was active in the first two quarters of 2014. “…DFCU took over all deposit liabilities of GTBL and acquired selected liquid assets and performing loans of GTBL that were required to cover the depositor liabilities”.

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Section 3: Agricultural Lending by Category of Financial Institution

As shown in Diagram 2, commercial banks remain the biggest contributors to agricultural lending, accounting for 93 percent of the total amount lent to the agricultural sector in 2014 (as in the preceding years, since 2007). They are followed by Tier 3 MDIs (4 percent) and Tier 2 credit institutions (3 percent), in that order.

Diagram 2: Agricultural lending by Category of Financial Institution

Source: Bank of Uganda Supervision Function and individual financial institutions

Section 4: Lending in agricultural value chains

Diagram 3: Agricultural lending by activity

Source: Bank of Uganda Supervision Function and individual financial institutions

The data in Diagram 3 and Table 3 indicate the following:

- Overall lending to the sector increased slightly, as noted in the summary.

b. In 2014, production finance constituted the biggest percentage of total agricultural lending (34 percent); however, the volume of credit for production loans declined by 16 percent as compared to 2013. Medium
term lending for production further increased in 2014 by 70 percent. Both short and long term lending for production instead declined in 2014 as compared to 2013.

c. Though processing finance contributed 32 percent of total agricultural lending following marketing finance and production finance, the volume of credit for agricultural processing significantly increased by over 140 percent in 2014. This follows a continued decline since 2012 (by 2 percent) and a further decline by 10 percent in 2013, having significantly increased in 2008 and steadily increased from 2009 to 2011. Whereas medium term financing for processing further declined in 2013, there was a considerable increase of 270 percent in 2014. The trend for short term and long term financing for processing remained upward in 2014 with a significant increase of over 80 percent for short term and 191 percent for long term.

One bank reported significant increases in loans for sugar and cocoa processing (over UGX 100 bn), with cocoa and coffee export finance also rising in 2014.

d. Though marketing finance constituted the biggest percentage of total agricultural lending in 2013 (44 percent), in 2014 it only contributed 33 percent, a further decline by 20 percent compared to a decline by 14 percent in 2013. The increase in agricultural lending in 2014 was therefore attributed to a balanced contribution of lending for production, marketing and processing.

e. Leases for agricultural machinery increased in 2014 contributing 1 percent of total agricultural lending from less than 1 percent in 2013 compared to a steadily reducing contribution of leases to agricultural lending from 4 percent in 2010 to 3 percent in 2011 and 2 percent in 2012.
**Section 5: Agricultural lending by repayment period**

Diagram 4 illustrates that short term lending contributed 65 percent of total lending in 2013 but declined to 43 percent in 2014. Even so short term lending constituted the biggest percentage of total lending compared to medium term and long term.

**Diagram 4: Agricultural lending by repayment period**

![Diagram showing agricultural lending by repayment period](image)

**Source:** Bank of Uganda Supervision Function and individual financial institutions

Medium term lending followed with an increased contribution of 37 percent of total lending in 2014 compared to 23 percent in 2013. Long term lending contributed the least (18 percent) as in the previous years since 2007. As earlier stated, leases contributed just 1 percent of total new advances in 2014.
1.2 AGRICULTURAL CREDIT FACILITY (ACF) - UPDATE

Section 1: Performance of the Scheme

The performance of the Agricultural Credit Facility (ACF) has steadily improved since it was established in 2009. The disbursements have increased to UGX 179.02 billion in June 2015, from UGX 150.2 bn in June 2014 and UGX 118.5 bn in June 2013. Funds amounting to UGX 12.57 bn have also been earmarked for a number of projects pending disbursement. To date a total of 303 projects across the country have benefitted under the scheme.

Section 2: Accessing the Fund

Procedure

All ACF loan applications are channelled through the Participating Financial Institutions (PFIs) that are fully responsible for the appraisal of the loan requests, in line with their credit policy, to ensure that only eligible projects are financed. The PFIs then disburse their own funds to the eligible projects and request for reimbursement of the 50 percent GoU contribution from Bank of Uganda (BoU).

Implementation

The ACF is accessible to all farmers and agro-processors in Uganda with bankable projects, provided that the intended activity is eligible and within the ACF framework. BoU, as the Fund administrator, does not deal directly with the ACF beneficiaries, but rather relies on the PFIs to select the eligible projects for financing. The scheme is currently being implemented by 17 Financial Institutions that include DFCU Bank, Stanbic Bank, Centenary Bank, Barclays Bank, Bank of Baroda, Orient Bank, Standard Chartered Bank, Diamond Trust Bank, Kenya Commercial Bank, Uganda Development Bank, Crane Bank, Mercantile Credit Bank, Housing Finance Bank, Opportunity Bank, Post Bank, Tropical Bank and Bank of Africa. Other financial institutions are eligible to come on board, but have not yet done so.

1Authors: Rosette Bamwine (rbamwine@bou.or.ug) and Winnie Muliisa (wmuliisa@bou.or.ug) Bank of Uganda. Articles on the ACF were published in earlier editions of the Yearbook, namely those for 2011 and 2012. Hence the present article does not describe the scheme in detail. Rather it focuses on experience with the ACF since the last update, in 2012.
There is a notable increase in the volume of loan applications received at BoU for financing under the ACF, which is evidence for the need for agricultural financing in the agricultural sector. The total (cumulative) loan applications increased to 405 in 2015, up from 345 in June 2014, as shown in the figure below.

**Figure 1: Loans applications received as at BoU since inception (2010-12)**

The scheme is funded by both the PFIs and GoU. As at 30th June 2015, the GoU remittance to the ACF Escrow account totalled UGX 119.07 bn to cover disbursements since inception and commitments made, as well as the applications in the pipeline, currently amounting to UGX 18.07 bn. The PFIs in turn made a commitment to match the GoU contribution in equal proportion in accordance with the MoU.

**Section 3: Investments Financed**

A wide range of activities have been financed under the ACF, with funding going to key investment areas such as: agro-processing machinery, tractors, farm equipment, irrigation equipment, green house facilities, farm expansion and modernization, poultry brooders and related activities, piggery and storage facilities, among others. The bulk of funds have been lent to projects engaged in agro-processing.
Figure 2 shows the percentages of the areas funded under the scheme as at 30 June 2015. As is evident, agro-processing accounts for 58.30 percent of the funds allocation, which is consistent with one of the scheme’s key objectives, namely, value addition. This is followed by farm expansion in the sense of enterprise structures (16.46%), tractors and farm equipment (13.82%), storage facilities (6.05%), irrigation and greenhouses (2.71%) and finally, ‘other agricultural machinery’ (2.67%).

Figure 2: Percentages of areas funded as at 30 June 2015 (disbursed and committed funds)

Section 4: Challenges faced by the Agricultural Credit Facility

The challenges of agricultural lending are well covered in articles in various editions of the Yearbook, as well as in other forms of information sharing. Suffice it to note here that these challenges also affect the ACF in various ways. Most of the farmers in Uganda are subsistence farmers who only qualify for small loans yet the ACF scheme was designed to foster commercialisation and modernisation of the agricultural sector. This aspect presupposes that the kind of farmers the scheme is looking at are mainly medium to large scale farmers.

It should also be noted that the ACF contributes to the modernising of smallholder agriculture directly and indirectly in that investments in better processing facilities expand the market for the produce of smallholders, thus assisting to enhance marketing options as well as boosting farming incomes, over time.

Nonetheless, the scheme has been reviewed to accommodate this category of farmers. It is also important that subsistence farmers are encouraged and assisted to adopt commercial farming techniques, even on a limited scale, in order for them to achieve higher agricultural productivity.
Other key challenges to greater involvement by smallholders in the ACF include:

- Smallholder farmers do not usually have bankable projects attractive to the PFIs,
- Lack of adequate collateral,
- Socio-economic conditions at the farmer level,
- Inadequate rural infrastructure affecting loan monitoring,
- Lack of access to the range of inputs required by farmers,
- Poor record keeping by some farmers,
- Inadequate post-harvest handling equipment,
- Lack of reliable & adequate information on good agricultural practices,
- Lack of appropriate policies for agricultural finance in Uganda.

All these have an impact on the uptake of the ACF loans especially by the SMEs who are the majority in Uganda.
1.3 CURRENT STRENGTHS AND WEAKNESSES WITH WAREHOUSE RECEIPTS

Section 1: The Warehouse Receipt System structure

Warehouse receipts (WR) are documents issued by warehouse operators as evidence that specified commodities of stated quantity and quality have been deposited at particular locations by named depositors. The depositor may be a producer, farmer group, trader, exporter, processor or indeed any individual or body corporate. The warehouse operator holds the stored commodity by way of safe custody, implying s(he) is legally liable to make good any value lost through theft or damage by fire and other catastrophes but has no legal or beneficial interest in it. In case of liquidation, the warehouse operator’s creditors will not be able to seek recourse to the commodities stored since legal title remains with the depositor or bona fide holder of the receipt. The only exception is the warehouse operator’s lien covering outstanding storage costs.

The Warehouse Receipt System legislation of 2006 effectively allows for two constituent parts of the warehouse receipt, one for the commodity held by the depositor (certificate of title - CT) and one for collateral held by a lender accepting the commodity as a pledge for a loan (certificate of pledge - CP). Lenders usually advance funds as a specified percentage of the value of the underlying commodities to allow for the costs of recovery in case of default or value decrease caused by price volatility.

Under the Act, Government mandated the Uganda Commodity Exchange (UCE) to establish the regulatory framework for licensing and overseeing activities of warehouse operators and issuance of negotiable warehouse receipts.

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1 Author: Christian Baine, Uganda Country Director, Collateral Management International Ltd. christian.baine@cmint.co.za
Figure 1 demonstrates how a warehouse receipt would typically be incorporated into a maize trade finance structure. The sequences are also set out in the text below, where the numbers in brackets refer to Fig.1.

Sequence of transactions when the Warehouse Receipt system is used

i. Individual maize producers/traders/farmer groups deposit product into the warehouse (1).

ii. The warehouse, which is licensed, issues a warehouse receipt to confirm that commodities have been received physically and meet specified quality standards.

iii. The Depositor can then use the receipt as a pledge to secure a loan from a bank or lender (2).

- The lender places a lien over the commodity so that it cannot be sold without the proceeds first being used to repay the outstanding loan.

- Lender can only dispose of commodity if the borrower defaults on the loan.

- Loans are a certain percentage of the face value of the receipt to cover selling and other related costs in the case of a forced sale.

- Any changes in the value of the commodity as well as costs of storage, insurance etc. belong to the depositor.

iv. The farmer uses the CT element to sell the commodity to a primary processor/miller or trader (3).

v. Miller pays the farmer by clearing the loan and interest at the Bank, after which the Bank releases the CP (4).

vi. The Warehouse Receipt is presented to the warehouse to secure release of the commodity to the processor (5).
Figure 1: The Warehouse Receipts structure

Source: Bryde and Martin (1999)
### Section 2: Benefits of a Warehouse Receipts System (WRS)

#### Table 1: Benefits of the WRS to maize sector stakeholders in Uganda

<table>
<thead>
<tr>
<th>Potential user</th>
<th>Expectations from the Warehouse Receipt System</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Producers</strong></td>
<td></td>
</tr>
</tbody>
</table>
| Smallholder producers | • Improved marketing through bulking of produce.  
Access to a more formal market.  
Access to better storage  
Access to credit while waiting for prices to increase  
Potential for increased prices through deferral of sale |
| Larger-scale farmers | • Improved marketing and finance will improve the  
profitability of commercial farming. |
| **Traders**     |                                               |
| Village marketing groups and co-operatives | • Access to better markets and inventory finance  
• Improved storage and handling facilities. |
| Village traders/consolidators | • Scaling up through access to finance. |
| Established urban traders and millers | • UNGA Limited, Maganjo Flour Mills etc. will benefit  
from more reliable supplies of a known quality, which  
will in turn enhance planning and their capacity to  
perform against contracts.  
• Reduced need to carry out their own sampling to  
check quality, aflatoxins etc.  
• Significant reduction in administrative and  
management costs: reduced receipts of small  
maize consignments at Mill gates, reduced need for  
upcountry buying centres, and reduced number of  
small payments to be made.  
• Reduced working capital requirements, as the banks  
provide direct finance through the WRS. |
| **Institutional buyers like WFP** | • A WRS would provide incentives for independent  
warehouse managers to lease WFP’s warehouse  
facilities and cleaning/grading equipment and  
improve their output, quality and performance. |
| **Maize Millers** | • Regular supply of quality produce. But this depends  
on their scale of operation and the liquidity  
constraints they face. |
| **Banks**       |                                               |
|                 | • Access to organised commercial small-scale farmers,  
thus increasing customer base and income.  
• Provision of agricultural credit against good, liquid  
collateral  
• Excellent public relations (PR) |
| **Institutional players** | • Government can create strategic reserves at private  
warehouses through buying warehouse receipts  
without having to set up warehouses and incurring  
the administrative costs relating thereto.  
• Private sector associations, Government bodies  
like the army, police, are all interested in better  
quality produce while the donors are interested in  
maximizing the developmental impact of the market  
interventions under WRS and facilitating access to  
finance systems for smallholder farmer groups and  
traders. |
The potential financial benefits of the warehouse receipts system to farmers and producers of maize are illustrated in Box 1. However, the potential benefits can only be realised if there is certainty regarding the quality and quantity of the grains being delivered.

**Box 1: Cost/benefit analysis of grain export trade using UCE/WRS**

We illustrate the potential financial benefits using the hypothetical case of a group of farmers depositing at the licensed warehouse in Jinja, which is about 100 kilometres from Busia, a town on the Kenya border (the export destination). Assuming the grain is at 16% moisture and does not meet the specifications for EAC Grade 3, the marketing options available to the farmer are:

a. **Sell directly at the farm gate for the nominal price of UGX 700 per kilo.** In reality, when discounts for quality and adjustments are factored in, the effective price per kg is likely to be between UGX 595 and UGX 630.

b. **Alternatively, deposit the grain at the licensed warehouse in Jinja, where it will be dried and cleaned to EAC Grade 1 compliant.** This will cost an estimated UGX 95 per kg (for loading up/off, drying, cleaning, bagging, transport to warehouse and processing loss – i.e. weight loss due to drying and cleaning). Additional costs include brokers fee of UGX 5 per kg transport cost estimated at UGX 12.6 per kg to the Busia market where a quality premium is reportedly offered. The total cost of conditioning the grain is UGX 112.6 per kg. In Busia, the depositor is likely to obtain UGX 941 per kg of EAC Grade 1, implying a net income gain per kg of grain sold of UGX 128.40 (18.3%) if it is assumed that there are no price discounts at the farm gate for quality, especially moisture. If there is a 10% to 15% discount, as often occurs, then the net gain is between 31.5% and 39.2% respectively.

c. **If the depositor intends to benefit from intra-seasonal rise in grain prices,** that increase needs to exceed the carrying costs (storage, fumigation and interest payments), which is estimated at UGX 17.50 per kg per month.

**Source:** Based on data collected from warehouse operations at Jinja (Agroways Ltd) and Gulu (WFP licensed stores in Layibi).

**Section 3: Current weaknesses in the Uganda Warehouse Receipt System**

**No visible improvement in MIS**

Most MIS platforms[^2] in Uganda report nominal prices per kilogram without any indication of quality premiums or discounts. As such farmers and other stakeholders base their marketing decisions on nominal market prices, which mask various discounts. This means that some farmers may be losing out by not taking advantage of the formal marketing opportunities emerging from the WRS as we illustrate below in Box 2. Depositors are likely to make better-informed decisions if MIS for grains in Uganda is improved[^3].

[^2]: RATIN and Farm Gain regularly issue daily and weekly market and price summaries

[^3]: For more information on maize quality issues see Drew (2012)
Furthermore, delayed maize sale using inventory credit secured against stocks stored under the WRS can also be profitable, but the margins could be variable as demonstrated below.

**Box 2: Information asymmetry and farmers’ assessment of marketing options**

During a study conducted in 2012 in the Masindi area, farmers reported that the nominal farm gate price per kilogram of maize was UGX 700. During the same period, one buyer was offering UGX 820 per kg for good quality grain at the MASGA warehouse. This was considered unattractive because of the estimated cost of conditioning the grain for depositing at the warehouse. To deposit maize in a licensed warehouse, depositors incur the following costs: transport, cleaning, bagging and processing losses (due to moisture loss and cleaning). This cost is estimated at UGX 180 per kg. Based on the nominal prices, it will appear that farmers will lose out unless they obtain a minimum ex-warehouse price of UGX 880 per kg, which is 7.3% higher than what the major buyer in this case offered.

However, the picture is different if actual “discounts” which are common in the market are factored in. Anecdotes from interviewees during the study suggest that net price discounts are between 20 and 30 percent, particularly at the peak of the harvest when many farmers are desperate to sell and the moisture content of the grain is high. The “discounts” reflect “cheating” on weight (due to “adjusted” scales) and for high moisture and dirt (mainly by means of highly subjective visual quality assessments). Hence, while the nominal farm gate price is UGX 700 per kg, the farmer will in effect be receiving between UGX 560 and UGX 490 per kg.

With this perspective in mind, it is apparent that the breakeven ex-warehouse price when the conditioning costs are added is about UGX 740 per kg. Hence, farmers selling to the buyer, who offered UGX 820, would have made a net gain of between UGX 80 and UGX 150 per kg. However, many of them have difficulty making such a decision due to lack of the required market information.

**Source:** Study conducted by Natural Resources Institute in 2012 for World Food Program and UCE
Based on the above, we can estimate the margin for bank-financed delayed sale in 2012 as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>UGX per kg</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening market price in February</td>
<td>595.00</td>
</tr>
<tr>
<td>Into-warehouse value (including grain conditioning cost)</td>
<td>775.00</td>
</tr>
<tr>
<td>Inventory credit at advance rate of 50%</td>
<td>387.50</td>
</tr>
<tr>
<td>Cost of finance for 5 months (interest rate of 26.5%)</td>
<td>42.79</td>
</tr>
<tr>
<td>Storage/fumigation costs</td>
<td>31.00</td>
</tr>
<tr>
<td>Total in-store value after 5 months</td>
<td>848.79</td>
</tr>
<tr>
<td>Projected July market price (based on average rise)</td>
<td>853.83</td>
</tr>
<tr>
<td>Projected margin</td>
<td>0.59 %</td>
</tr>
<tr>
<td>Actual July market price (based on average rise)</td>
<td>936.47</td>
</tr>
<tr>
<td>Actual margin</td>
<td>10.33 %</td>
</tr>
</tbody>
</table>

It must be noted that these margins do not take into account gains from avoiding “cheating” on weight and quality which occurs in the informal market as a result of lack of transparency, as discussed in the case in Box 2 above. It has to be further noted that the margins can be affected by the size of credit taken and how long sale is delayed (affecting the cost of borrowing). For this reason, banks tend to limit lending to 50 percent of the market value at the time of deposit.

They also limit duration of loans to three months – to minimise downward price risk from the new harvest. It is also apparent that the conditioning cost (a major part of which is the cost of drying and cleaning) represents a far higher cost than the carrying cost (i.e. storage costs plus cost of borrowing). Hence, efficiency gains in transport (from rural areas to the warehouses that ranges between UGX 30 to UGX 100 per kg) as well as cleaning and drying (that ranges between UGX 40 and UGX 80 per kg) will impact significantly on the profitability of using the WRS to delay maize sale in order to benefit from seasonal price increases.

Enforcement of quality standards not sufficiently robust

The Grain Sector in Uganda has adopted the harmonised EAC grain quality standards. Most formal procurement contracts are based on these standards. Initially, only EAC Grade 1 maize was acceptable however this has been extended to EAC Grade 2 as well. Over the period 2008 – 2013 UCE conducted training for licensed warehouse operators and their grain handling personnel on grain quality assurance as well as warehouse management practices to maintain grain quality. A warehouse inspection unit was also established by UCE to undertake off-site monitoring and on-site inspection of the licensed warehouses; a process that included assessing compliance with protocols essential for maintaining the quality of stored commodities.

However, while most of the licensed warehouse operators acknowledge that such
inspection visits are beneficial because they help in identifying and correcting lapses in warehouse management and the receipting process, they are infrequent and there are many reported lapses in warehouse management in the facilities inspected. Though sampling and grading is done at the point of intake, many times no such procedure is followed when grain is being delivered, leaving scope for disputes over the quality of stocks delivered. The warehouse operators do not store samples taken from the receipted stocks, thus making it impossible for inspectors and other parties to subsequently confirm the validity of the grading done by grain handling personnel.

The ineffective quality assurance system has resulted in significant volumes of sub-standard maize being held in the stores of the licensed warehouses. This situation also undermines the confidence of the oﬀ-takers, including WFP, as well as the banks, with the result that some of them undertake independent grading and inspections, at extra cost to grain depositors.

**Low Capacity Utilisation**

Between 2008 and August 2013, a total of about 22,600 tonnes of maize was receipted by the UCE-licensed warehouses (this figure is based on projections from data provided by the Top 3 licensed warehouses, which account for about 90 percent of total deposits). Total deposits of maize stored by the licensed warehouses rose quickly from 1,217 tonnes in 2008 to just under 5,000 tonnes in 2010. By 2012, total deposits had dropped sharply to 3,312 tonnes and the downward trend continued in 2013. Even at the peak, the total deposits held by the licensed warehouses represented only 24.9 percent of total licensed storage capacity. The system-wide low level of capacity utilisation is indicative of the difficulty most of the licensed warehouse operators have in breaking even.

Whereas some progress is being made by the few privately owned operators, those which are run by cooperatives are not doing that well. The private companies actively canvass for grain deposits, not only from smallholder farmers but also from small to medium-scale traders. They also tend to use the WRS to access trade finance in order to scale up their operations. In addition, private operators offer attractive complementary services including facilitating marketing of the stored grains by either brokering sales to major buyers or undertaking proprietary purchases for later sale. Some offer opportunities for value addition by depositors who apply for production loans. These complementary services have proved to be major attractions for depositors.

In contrast, other operators, mainly coops which are struggling, tend to exclusively target groups of smallholder farmers and rely mainly on occasional sensitisation events in canvassing for deposits. They do not provide the ancillary services offered by the more aggressive operators described above.

**Marketing of receipted grains**

It had been anticipated that WFP and other institutional buyers would buy the bulk of the grains stored by the licensed warehouse operators. However, over the period 2008-2013, total WFP procurement of grains deposited in the licensed warehouses was 7,756.8 tonnes, representing only 38 percent of the total deposits. This is way below the level to which WFP committed in 2008, namely 30,000MT.
Several reports from WFP have indicated that limiting procurement factors for receipted grains included: non-compliance of stored grains with the quality standards it uses and grain price movements. Licensed warehouse operators and farmers also added a third factor, WFP’s lengthy procurement process and the fact that they will only procure grain through a tender system at a price at or below the import parity price.

As indicated above, WRS grains do not tend to attract a premium price for quality, i.e. a preferential market. This is reflected in the prices that are offered by local millers as well as by regional traders from Kenya, Rwanda and South Sudan, who all offer the same price for the maize regardless of its quality.

Limited availability of warehouse receipt financing

The often cited motivation of depositors using the WRS is access to inventory finance, which allows them to delay sale of stored commodities in order to benefit from seasonal price increases. Though depositors could obtain such benefits, the primary objective of promoting the WRS is to facilitate structured trade by fostering aggregation and produce quality assurance. Inventory finance, in this context, serves mainly to ease liquidity constraints in the trade. In particular, finance helps smallholder groups to pay advances as they bulk and arrange subsequent sale, after which final payments are made. Evidence from the coffee and cashew subsectors in Tanzania shows that this system has been beneficial to smallholder farmers, even when intra-seasonal prices tend to be rather flat.

Total inventory financing provided by the banks actively involved in providing inventory finance including Stanbic, Housing Finance and Centenary banks between 2008 and 2012 is estimated at about UGX 6.425 billion (or US$2.57 million). The finance provided peaked in 2010 but has declined since then. Bankers cite low and declining volumes – affecting the cost-effectiveness of the business – as one of the factors impacting negatively on the supply of finance.

There is also concern about the robustness of the quality assurance systems under the WRS, stating that it increases the risk of in-store losses and/or difficulty in liquidating the collateralised stocks. Both situations can increase the risk of default, though the banks indicated that they had so far not recorded any loan losses. It appears that their rather low advance rate of between 50 and 60 percent has helped mitigate the risk of loan default.

The other problem the banks cited for lack of growth in inventory financing has been the volatility in inflation rates since 2012. Today the inflation rate is 7.2% up from 4.6% in 2014. While inflationary pressures tend to increase risk aversion among the banks and so reduce the scale of lending, measures by the monetary authorities to control inflation such as raising bank rates, tend to increase the cost of borrowing, thereby squeezing the margins of grain depositors.
Section 4: Key Public Policy Actions required for an effective Warehouse Receipt System

If the WRS is to be effective it must meet the requirements of different stakeholders, some of which conflict. At the same time it must demonstrate a coherent integrity that provides for a robust structure. The essential characteristics include the following:

a. The main constraint that has hampered the development of the WRS is a regulatory mechanism that will ensure the warehouse receipts structure is coherent, that the rules and necessary documentation are comprehensive; that markets and information flows are functioning; that there is some form of policing mechanism, with provision for dispute resolution. UCE, which was mandated to provide this role, has had serious capacity limitations in performing this regulatory function leading to the observed variability in grain quality at the licensed warehouses which has impacted negatively on bankers' perception of the security of the stored grains as well as limited the volume of grain traded by WFP. In 2014 however, Government established the Uganda Warehouse Receipt Systems Authority with a nine member board to take up this role. The board has already started its work and is currently licensing warehouses in collaboration with the Uganda Grain Council.

b. The warehouse receipts system requires a macro economic structure that is satisfactory for participating banks. It is the banks that will provide the essential financing that will lubricate the system and make it work. We have noted that macroeconomic conditions in the country impact on the volume and cost of finance available to private borrowers, including those using the WRS. Maintenance of a stable macro economy is therefore important for full participation of the sector players.

c. An assurance of quality: this embraces issues relating to storage and handling, and quality standards. Government should actively advocate measures and partnerships with trade and standards authorities that will harmonise and enforce the EAS standards both locally and regionally. To minimize variability in grading results, it is recommended that the standards authorities in the region work towards standardizing grading procedures, protocols and equipment as well as manuals for training grain handling personnel.

d. Development of a commodity trading system should be prioritized as part of efforts to nurture the emerging formal market for quality grains at the domestic and regional levels. Such a system will help reduce transaction costs for major regional and domestic buyers, including the WFP (which would not have to undertake bespoke negotiations with sellers with stocks at different warehouses).

e. Currently, most MIS platforms in Uganda report nominal prices per kilogram without any indication of quality premiums or discounts. A commodity trading platform, when established, should be in a position to generate transparently determined market prices which reflect quality premiums/discounts and become a major source of market information for all market players.
f. Current legislation appears to discriminate against farmers’ organisations other than cooperatives (SACCOS, VSLAs and Area Marketing Enterprises) in undertaking contract-based transactions. This poses challenges when these farmers’ organisations attempt to secure bank credit to facilitate aggregation on behalf of their members. Considering that other forms of farmers’ organisations have emerged since the agricultural sector was liberalised, it is recommended that the existing legislative framework be reviewed and reformed to remove perceived uncertainty regarding the legal authority of such organisations to transact. The option which some have adopted – registering as cooperatives only in name – appears to only cloud issues and is not satisfactory to the banks.

g. Based on the differences in performance of warehouse operators, we propose that private enterprises with clear profit maximising goals should be licensed to run warehouses under the WRS. Where cooperatives and other farmers’ organisations intend to participate, it may be better for them to deposit with independent operators or if they so wish incorporate autonomous subsidiaries to run the warehouses. This will ensure that the rights of depositors are not compromised by the nature of ownership of the warehouse management company. Cooperatives and other farmers’ organisations should then focus on facilitating aggregation by the members, enforcing quality standards at the collection centres and undertaking collective marketing on behalf of members.

h. One of the biggest challenges for the WRS as indicated above is the lack of formal markets for quality grain as well as information on the price and market conditions. In order to encourage deposits as well as cement its commitment to enforcement of quality standards and create a formal market in quality grain, we propose that Government, through the newly established warehouse receipts system authority, encourages public institutions such as the police, army, prisons and schools to procure grain that meets EAS standards and/or warehouse receipts on the commodity trading platform when it is fully established. This not only has benefits in price stabilisation but also food safety by reducing the exposure to aflatoxin and mycotoxins consumed by the population.

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4Editor’s Note: This point may well give rise to the sort of discussion that is essential when policies concerning the marketing of agricultural products are being developed (in itself a continual process).
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1.4 SOME FISCAL ISSUES IN FUNDING PUBLIC SECTOR INVESTMENT IN THE AGRICULTURAL SECTOR

Section 1: Agriculture – a sizeable orphan in Uganda

The agricultural sector remains the main source of livelihoods for majority of Ugandans, despite the dismal growth registered by the sector in the recent past. According to the 2012/2013 Uganda National Household Survey, at least 72 percent of Ugandans are engaged in agriculture—with more females (77 percent) than males (67 percent) employed in the sector (Uganda Bureau of Statistics, 2014a). Furthermore, about 43 percent of Uganda’s working population is engaged in subsistence agricultural production.

On the other hand, during the past five years, the agricultural sector has underperformed both industry and services. In particular, the annual growth of the agricultural sector averaged 2 percent during 2000/1-2013/14 compared to an average of over 8 percent for both the services and industrial sectors (Ministry of Finance Planning and Economic Development, 2014a). In addition, the low agricultural productivity is happening against a backdrop of sustained population growth - which averaged 3.03 percent p.a. during 2002-2014 (Uganda Bureau of Statistics, 2014b). The low productivity of the agricultural sector is partly linked to a large subsistence sector coupled to inadequate investment and financial support to the sector. At the same time, the government of Uganda has attempted to re-introduce taxation of the sector as means of raising revenues to support the sector, as well as support the expansion of other public services.

Due to poor agricultural performance during the past 10 years, the relationship between the agricultural sector and public finances has been defined more through subsidies and tax exemptions, rather than direction taxation. Agricultural tax exemptions have targeted lending to agriculture, support for agro processing, and the increased use of agricultural inputs.

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1 Author: Ibrahim Kasirye, Principal Research Fellow, EPRC (ikasirye@eprcug.org)
For instance, in 2006/7, the GoU exempted from tax interest earned by financial institutions on agricultural loans. In the following year, it made losses and bad debts arising from agricultural lending tax deductible. In 2008/9, support was extended to agro processing with new investments in rural areas becoming income tax exempt. Subsequently, in 2009/10, the GoU introduced an Agricultural Credit Facility of UGX 30 billion at a preferential interest rate of 12 percent per annum. Apart from the above measures, most agricultural inputs were zero-rated for VAT. In 2014/15, in a bid to raise tax revenues and also address tax avoidance, the government eliminated most of VAT exemptions on agricultural inputs and imposed new tax on some agricultural products. Specifically, tax exemptions on interest earned from agricultural loans were terminated and the measure was expected to generate UGX 25 billion. Furthermore, zero-rating on VAT on agricultural supplies was proposed for termination with the measure expected to generate UGX 30 billion.

The direct budget allocation to the agricultural sector in Uganda is relatively low. During 2013/14 and 2015/16, Uganda allocated about 3 percent of the national budget to the sector and this is projected to remain the same during 2016/17 (Ministry of Finance Planning and Economic Development, 2015). With only 3 percent of the national budget devoted to this important sector (where 72% of the population is employed), agriculture remains grossly under-funded in comparison to other sectors of the economy, e.g., the energy sector, which commands more than 10 percent of the national budget. Within the agricultural budget, at least 33 percent is allocated to the public agricultural extension system.

In order to promote agribusiness, a number of investments are required. First, investments in roads are required in order to reduce very high transport and other transactions costs. Previous research on Uganda shows that infrastructure shortfalls are the reasons for the wide geographical variation in agricultural product prices (Gollin and Rogerson, 2010). Also, studies show the very long distances to inputs markets affect the eventual use of fertilizers in Uganda (Okoboi and Barungi, 2012). In order to reduce the cost of doing business and also better integrate rural producers with markets, the Government of Uganda (GoU) has overtime significantly increased its budgetary allocation to roads. This is based on the fact that without improving effective linkages between agricultural producers and agribusiness enterprises (e.g., input suppliers, processors, and traders), small-scale producers will not be in the position to take advantage of market opportunities. For instance, during 2010/11-2013/14, the share of the national budget allocated to roads and works averaged 14 percent. In the 2015/16, at least 18% of the budget was allocated to roads and this is projected to increase to 22 percent during 2016/17 (Ministry of Finance Planning and Economic Development, 2015). Nonetheless, the pace of agricultural production in Uganda has yet to match the above changes in roads investment and this may be partly linked to other binding constraints.

The reliance on rain fed agriculture is partly to blame for the lackluster performance of the agricultural sector. Although Uganda had an irrigation potential of 567 000 ha in 2010, less than 1% of the cultivated area is equipped for irrigation (Ministry of Water and Environment, 2011). Irrigation in Uganda is dominated by two crops—
rice and sugarcane—which together account for 85 percent of the total area under irrigation. Public investment in irrigation schemes has traditionally been low, although in the recent past, the Government of Uganda has allocated substantial resources to the rehabilitation of public schemes.

The 2010-2015 Development Strategy and Investment Plan (DSIP) for agriculture prioritized Water for Production and targeted to rehabilitate and establish new irrigation schemes across Uganda. Specifically, the plan proposed to rehabilitate 9 irrigation schemes with coverage of 4,583 ha focusing mainly on citrus fruits (MAAIF, 2010). Indeed, since 2010, at least UGX 115 billion (US$ 45 million) were spent on rehabilitating 3 large scale systems: Doho, Mubuku, and Agoro. During 2014-2016, at least UGX 42 billion (US$ 16.8 million) was earmarked for the rehabilitation of the Olweny Irrigation Scheme. The same plan sets an ambitious target to establish 10 schemes with an area of 9,330 ha to focus on rice and cotton, as well as establishing 1,200 farmer site-based pilot irrigation schemes.

Section 2: Taxation performance and impact on the Agricultural Sector

Despite maintaining positive macroeconomic growth rates, Uganda’s tax revenue effort has stagnated during the past 15 years. During 2002/3-2014/15, Uganda’s GDP growth averaged 7 percent per annum, driven by the surge in the services sector—notably telecommunication and financial services (Ministry of Finance Planning and Economic Development, 2015). On the other hand, the country’s tax to gross domestic product (GDP) ratio stagnated; it ranged between 12-13 percent during the same period. Indeed, Uganda compares poorly to its regional neighbours with regard to domestic revenue mobilization. The corresponding tax realization rates for Kenya and Tanzania were 19 and 16 percent of GDP respectively in 2013 (World Bank, 2014). The stagnation in tax revenue effort is partly due to: the large informal sector, which leads to a narrow tax base, inefficiency in tax administration and the prevalence of tax exemptions.

In a bid to spur particular sectors of the economy as well as attract private investment in priority sectors, the GoU has, over time, offered tax exemptions. During the past 15 years, each budget speech appears to expand tax exemptions. Specific to agriculture, tax exemption has been offered through zero-rating of Value Added Tax (VAT) on various inputs and services. For instance in 2002/3, the GoU exempted the supply of cereals grown, milled or produced in Uganda as a means of supporting the establishment of milling capacity in the country. Similarly, the GoU exempted interest income on agricultural loans as a means of making credit more affordable for farmers. On the other hand, overall tax exemptions are very costly. Previous estimates by the Africa Development Bank showed that Uganda was losing about 2 percent of GDP, of potential tax revenues, to exemptions (Africa Development Bank, 2010). Based on the 2013/14 GDP of UGX 60.5 trillion, a 2 percent loss of potential revenue amounts to UGX 1,210 billion - the figure is more than twice the Ministry of Agriculture Budget of UGX 480 billion in 2013/14. As such, it is possible that without tax exemptions, Uganda’s tax revenues could match the regional averages in East Africa and the country would be in position to expand public sector support for agriculture.
Although tax exemptions were considered to be temporary measures - to kick start particular sectors and provide temporary relief to struggling sectors - attempts to reverse such exemptions have caused protests in the recent past. For instance, during 2014/15, the removal of VAT exemptions on agricultural inputs and machinery, announced during the 2014/15 budget speech, sparked uproar from Members of Parliament and civil society organizations (CSOs). The 2014/15 tax changes were geared towards increasing the tax revenue. However, the agricultural tax proposals were reversed within 3 months of the pronouncements.

There is limited evidence to show that the support to the agricultural sector through tax exemptions have reached the intended beneficiaries. For instance, tax exemption on interest income from agricultural loans did not significantly increase agricultural lending. Specifically, although overall access to credit has increased in the country—from UGX 626 billion in 2001 to UGX 8,618 billion by 2013, the share of agricultural loans in total commercial bank lending only increased from 7.1 to 8.4 percent during this period (these rates are measured differently from those reported in article 1.1 on page 5).

Furthermore, there is limited evidence to show that there were any preferential interest rates offered by lenders to agricultural borrowers, as result of tax exemptions. Instead, agricultural producers have been subjected to the same borrowing environment as other enterprises. The only exception was through the Agricultural Credit Facility (ACF) by which government made available UGX 30 billion annually to participating financial institutions at zero interest, on the condition that they on-lend for medium to longer term agricultural investments at a fixed interest rate, initially set at 10 percent per annum, which was later raised to 12 percent . As shown in the Figure 1 below demonstrates that the commercial banking sector in Uganda has been characterized by interest rates nearly double that offered on loans financed through the ACF.

Figure 1: Trends in commercial bank lending rates 2010-2015 percent interest charged

![Figure 1: Trends in commercial bank lending rates 2010-2015 percent interest charged](image)


Editor’s Note: See also Article 1.2 in this edition of the Yearbook for more detailed information on the current position of the ACF. Other Yearbook articles on the ACF have been published in the 2010 Yearbook (Article 1.3), which introduced the scheme, with respective updates in the Yearbooks for 2011 and 2012.
Also, the majority of agricultural loans were destined for crop finance (including marketing advances), with less than 25 percent of the loans earmarked for crop production per se. As such, partly due to the credit constraints faced by farmers, a large part of Ugandan agriculture remains largely subsistence. Similarly, the zero-rating of VAT on seeds, fertilizers, and pesticides did not produce noticeable changes in the use of these specific inputs. For instance, the 2013/14 Uganda National Panel Survey (UNPS) report shows that use of both organic and inorganic fertilizer among households stagnated at 5% since 2009/10 (Uganda Bureau of Statistics, 2015). Beyond credit there other constraints e.g. lack of extension services. Secondly, due to challenges of tax administration, unscrupulous middlemen were able to exploit the agricultural tax exemptions to evade taxes. For instance, the VAT exemption on supply of animal feed and poultry encouraged some businesses engaged in other activities to mis-declare their products as feeds. Similarly, the VAT exemption on agricultural machinery was abused by importers, declaring other machinery as agricultural equipment. Overall, the zero-rating of VAT on agricultural products did not benefit farmers because the price paid for agricultural inputs did not significantly reduce despite the import subsidy. Furthermore, the constrained ability by farmers to claim VAT on final products (due to the highly informal nature of most agricultural enterprises) meant that the benefits of the tax exemption to majority farmers were minimal. Finally, some of the incentives were captured by relatively well-to-do households. For instance, the zero-rating of VAT for supply of milk was a subsidy to the final consumers of milk products (typically middle to high income group) and not processors. There is hardly any justification for such a tax subsidy when products consumed by the poor e.g. soap and salt are not VAT exempt.

**Section 3: Beneficiaries**

Taxation of agriculture affects different segments of the population in various ways. Previous research by Ssewanyana and Kasirye (2015) indicated that the termination of VAT zero rating on processed milk would generate revenue in the range of UGX 19-22 billion annually and this tax would be progressive as shown in the Figure 2 below since relatively few households consume pasteurized milk. On the other hand, because maize is consumed by about one in every two households in Uganda, the removal of VAT exemption would generate about UGX 129-148 billion in additional tax revenues but the relatively poor households would bear the burden of tax compared to the case for milk. Indeed, Ssewanyana and Kasirye (2015) note that the removal of VAT exemption on maize flour would affect most households whose head is a female, those in rural areas as well as residents of the eastern and western regions. The food security of the above categories of individuals could be compromised, given that maize is a staple foodstuff.

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3 The overall objective of zero-rating of VAT on agricultural products was to provide a subsidy to the agricultural sector and also support the formalization of agricultural enterprises (through providing an incentive to claim VAT on final products).

4 Estimates by Mbowa et al. (2012) show that about 28 percent of the milk consumed by households in Uganda is pasteurized.
Section 4: Policy Development

There are a number of processes guiding the support to the agricultural sector in Uganda. The first thematic focus is increasing both land and labour productivities through the adoption of agricultural technologies such as improved seeds, fertilizers, and use of pesticides. This focus is guided by substantial evidence of lackluster performance of the agricultural sector in the recent past. For instance, as noted above, whereas growth in the industry and services sector averaged over 8 percent per annum during 2000/1-2013/14, the agricultural sector managed only 2 percent per annum over the same period.

The government has targeted expanding access to inputs such as fertilizers. Most inputs at the moment are imported. Yet many imported inputs are falsely described and labelled, in fact they are fake. The enforcement of standards of imported inputs remains a challenge, due to weak capacity at the border crossings. Also, the effective delivery of fertilizers has been hampered by the delay to adopt the national fertilizer strategy, policy and regulations. In 2012, MAAIF signed a MoU with UNBS to utilise Pre-Export Verification of Conformity (PE-VOC) because of issues because of issues with the quality of imported inputs, but it is not known how effective this policy has been. In the interim, MAAIF needs to recruit a substantial workforce of agricultural inspectors if it is to curb the vice of fake agricultural inputs.

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5 Editor’s Note: See Drew, Clive, “Quality Control in Ugandan Agriculture: Who Controls the Controls?” Article 4.1 in the Ugandan Agricultural Finance Yearbook 2013/14, BoU & MAAIF, Kampala 2014.
Another policy has been value addition of key strategic commodities. According to the Development Strategy and Investment Plan for agriculture in Uganda, the country was divided into 10 agricultural zones and specific products best suited for production in each zone were destined to be prioritized (Ministry of Agriculture Animal Industry and Fisheries, 2010). The 10 selected product from the most highly ranked to the lowest are: maize, coffee, fish, dairy cattle, beans, beef cattle, tea, cassava, poultry and bananas.

The selection of the above strategic commodities was based on data as well as suitability to Uganda’s climatic conditions. Whereas some of the above commodities have been prioritized through specific policies e.g. coffee, other selected commodities are yet to receive similar treatment e.g. tea and beef cattle. Furthermore, whereas some of key products facing severe constraints e.g. fish are identified as prioritized, overall government response to the dwindling fish stocks has been ineffective, due to limited personnel and corruption of enforcers.

Clearly the whole issue of support for strategic commodities cries out for renewed policy attention and additional resources. Finally, attempts to realize taxes from agriculture should be balanced by increased support to the sector. As earlier noted, the GoU made attempts to spur the formalization of agricultural enterprises (through tax incentives for which agricultural enterprises could benefit through formal registration) as well as include agricultural firms into the tax bracket. For instance, some of the removals of VAT exemptions mentioned earlier were geared towards forcing agricultural enterprises to register for VAT (Ministry of Finance, Planning and Economic Development, 2014b). On the other hand, the removal of VAT exemption on maize milling was intended to bring economically viable agricultural enterprises into the tax bracket. Similarly, the removal of VAT on poultry feeds targeted discouraging informality among poultry producers. It is worth noting that proposals targeting the formalization of agricultural enterprises are not based on hard data. Overall, given the relatively very low public funding to the agricultural sector, any attempts to raise tax revenues from the sector should be matched by increased public spending to the sector. In particular, there is need to allocate more funding to the extension service as well as to the input supply chain, if substantial growth in the Ugandan agriculture sector is to be achieved.