

SECRET

CABINET MEMORANDUM CT (2015) 05

THE DRAFT NATIONAL GRAIN TRADE POLICY, 2015

(Cabinet Memorandum by the Minister of Trade, Industry & Cooperatives)

1. INTRODUCTION

The grain sub-sector is an important value chain in the socio-economic transformation of Uganda. It has tremendous potential for creating employment, foreign exchange earnings, and has the capacity to attract profitable foreign investments. Grains have an economic, social and political importance in the country, regionally and internationally. With the fast growing population in Uganda, regionally and internationally, urbanization and advancement in the industrialization process, the demand for grain as food for consumption, ingredients for manufacturing animal feeds and other industrial products is increasing.

Uganda, a country gifted by nature and dubbed the ‘Pearl of Africa’, has favorable climatic conditions that are well-suited for the production of grains and it’s considered to be the food basket of the region capable of creating wealth for the country. Almost every household in Uganda grows grains in addition to other crops or livestock management. Over 2.5 million households derive their income and employment from the grain sub sector. The grain sub-sector occupies a strategic position in ensuring the country’s food security alongside bananas, cassava and sweet potatoes and it provides producers, produce buyers, processors, exporters and transporters with income from business transactions undertaken along the grain sub sector value chain. Grains also provide raw materials for making animal feeds and they are therefore, important crops for both food security and income-generation.

2. OBJECTS OF THE CABINET MEMORANDUM

The objects of this Cabinet Memorandum are:

- 2.1 To present to Cabinet the National Grain Trade Policy of Uganda,
- 2.2 To seek Cabinet approval for the National Grain Trade Policy.

3. BACKGROUND

The proposed National Grain Trade Policy is a subsector policy that is linked to key national policies, plans and strategies such as the National Development Plan, the National Trade Policy and the National Industrial Policy.

The National Development Plan shows that public sector management and administration is characterized by weak policy, legal and regulatory frameworks which lead to limited strategic oversight, duplication and overlapping of roles. As a means of promoting value addition to local products, the National Development Plan advocates for the development and implementation of sector policies and interventions with a view of addressing emerging production storage and processing challenges. The National Development Plan recommends adoption of strategies and interventions to promote development of value added industries especially the agro-industries by enhancing value addition to primary products.

Amongst other strategies that the National Development Plan prescribes is the processing of raw agricultural materials and production of consumer goods and grains, cotton, tea, coffee, cassava, and dairy products are among the prioritized crops for value addition and this should be done in a sustainable manner to promote competitiveness and self-sustenance.

The National Trade Policy was approved in 2007 vide Cabinet Minute 346 (CT 2007) (*Annex I*). The Policy seeks to identify and develop products and services where the country has comparative and competitive advantages and to promote these products/services and market specialization. The Policy also seeks to design and implement appropriate strategies to promote value addition, production of high-value, low-volume products, and niche marketing. The National Trade Policy further seeks to encourage and support establishment of production clusters within the country and across neighbouring countries so as to allow regional specialization and dynamics in production and trade. The policy also prioritizes the development of trade facilitating infrastructure such as storage infrastructure through a Public Private Partnership approach.

The National Industrial Policy was approved in 2008 vide Cabinet Minute 50 (CT 2008) (*Annex II*). As a Framework for Uganda's Transformation, Competitiveness and Prosperity, the Policy aims at promoting agro-processing in grain products, amongst other value chains, and value addition in niche exports. In addition, one of the interventions of this Policy is to undertake establishment of cluster development initiatives and encouraging the use of locally available raw materials in value adding industrial processes to enhance market opportunities for supplying sectors. The industrial policy further proposes deepening and widening the relatively narrow industrial structure and strengthening the sub sector linkages through supporting establishment of model agro processing industries.

The National Agriculture Policy has mainly focused on implementing specific measures to boost production, storage and processing of agricultural products that include grains. The National Agricultural Sector Development Strategy indicates that the proportion of Uganda's agricultural commodities which is processed is less than 5% and therefore recommends collaboration among Public & Private sector stakeholders for increased agro processing and market access in addition to establishing a fund for agro processing hence, this Policy is supportive of the grains sub sector.

The National Grain Trade Policy is, therefore, being developed to support implementation of other overarching national policies, plans and strategies as highlighted above.

4. PROBLEM STATEMENT

In spite of Uganda's natural endowment that facilitates the production of good quality grains, there are inadequate storage facilities, obsolete processing technology and poor distribution infrastructure which have resulted into poor quality grains and grains products. In addition, the demand for grains and their byproducts both locally and regionally has been on an increase for the past ten years. There is, therefore, need to increase investment in establishment of standard storage facilities, value addition technologies and distribution infrastructure to process and distribute grains in order to increase the profitability and competitiveness of the grain sub sector and create more employment.

The following strategies need to be adopted in order to increase investment and value addition downstream the grain value chain:

- (i) Mobilize and strengthen the micro, small and medium enterprises who are engaged in production, storage, processing and distribution of grains into clusters for improved quality and productivity.
- (ii) Attract medium and large scale investments to establish grain storage and processing facilities. This builds confidence in the investors that their investment will yield positive returns.
- (iii) Create a linkage between the micro, small and medium enterprises with the larger producers for mutual benefit. The micro, small and medium enterprises supplement production of the larger producers and deliver innovative products while the larger producers provide market, technology and accessories.
- (iv) Adopt the *Triple Helix* approach which is a collaborative approach involving government, private sector and academia for innovation and competitiveness.

The strategies mentioned above will complement other interventions that have already taken place or are on-going.

In Uganda, post-harvest losses range between 26 - 37 percent of the total harvests (UBOS 2013). This is mainly due to use of poor handling methods (at harvesting, inadequate drying facilities, inadequate cleaning and grading), inappropriate storage methods and low storage capacity on farm and at distribution levels in the country. There are very few standardised warehouses for both grains and processed products; and their management is also inefficient to some extent. For the maize grains, we have standardized storage facilities for only 550,000MT out of 3.2 Million MT of total production (MAAIF 2014 Projections). This calls for the Government to provide incentives for private investors to establish grain storage and processing facilities.

In Regard to value addition, agro-processing installed capacity (drying, cleaning, grading, processing) stands at 12 percent only, and 88 percent of grains is transacted as raw grains without value addition. The grain sub sector faces a challenge of acquiring food grade processing machinery and other basic implements that can assist storage facilities operators and processors to ease their operations. Acquisition of machinery and spares requires some

ample finance which is lacking for most value chain players. The challenge of finance can be addressed by appropriate long term financing for grain processing facilities establishment.

Standards for most grains have been developed and harmonized under the EAC standards framework. However, there is little awareness about them and generally not in use. Traders are therefore not making purchases based on grades and standards resulting into no motivation by traders and processors to promote quality grains. There's need for harmonized dissemination of standards for improved product quality and access to potential markets.

Over 75 percent of the grains in Uganda are contaminated by aflatoxins with an average concentration level of $21 \mu\text{g/kg}^1$. This further explains why poultry feeds are more susceptible to aflatoxin contamination since grains are raw materials for making animal and poultry feeds. They render both health and economic risks to human beings and over 4.5 billion people globally are exposed to health hazards caused by aflatoxins. Over 25 percent of the global food supply is contaminated with aflatoxins. Aflatoxins have led to 64 percent reduction in food quality in Africa. It can cause diseases and death for animals. Human consumption of foods contaminated with aflatoxins can lead to Hepatocarsinogen, immune-suppression, liver diseases, liver cancer, and kwashiorkor and stunted growth in children. It is currently estimated that Africa loses \$450 million annually due to trade in products contaminated with aflatoxins.

There is, therefore, a great need to develop practical and cost effective methods of pre- and post-harvest handling systems as well as standardized storage and appropriate transport facilities to prevent grains infestation by aflatoxins to acceptable levels. The greatest profitability and employment opportunities are in the downstream segment of the grain chain. Most of the grain producers in Uganda are largely based in rural areas with limited access to market information about grain markets and prices and this has heavily affected smallholder farmers, storage facilities operators and traders. There's therefore need to establish and strengthen market linkages and market information systems to provide a platform for the interaction of buyers and sellers as well as collective market outlets and individual farmers for improved productivity and investment in quality practices.

The Investment Code Act of Uganda established Uganda Investment Authority which is mandated to promote, facilitate and supervise investments. Despite the presence of this framework, the grain sub sector does not have adequate investment to realize its full potential in storage facilities, value addition, creation of employment and foreign exchange earnings. Although the number of Small and Medium Enterprises producing, processing and distributing grains and their byproducts is rapidly expanding, their capacity cannot meet the local and export demand amidst the challenges they are currently facing.

5. CHALLENGES IN THE GRAIN SUB SECTOR

Grain trade is faced by various challenges from farm level to market level. These challenges include;

a) Inadequate Policy, Regulatory and Institutional Framework

Currently, the existing laws in the grain sub sector are out of date such as the Produce Protection Act of 1913 and there is no policy that comprehensively addresses issues of trade and infrastructure development in this sector. There are various policies and strategies that concern production, agro-processing and marketing such as the National Agricultural Policy, National Industrial Policy, National Trade Policy and NAADS. However, coordination and implementation of these policies and strategies among multiple stakeholders involved in this sector is very weak, resulting in duplication of efforts and wastage of resources.

There is need for a specific enabling policy concerning the grain sub sector for linking production, storage, processing and marketing of grains and this will facilitate development of an institutional framework to support and enable market access along the lines of Warehouse Receipt System and the Commodities Exchange where regulated and organized marketing would take place.

b) Limited Agro-processing and value addition facilities

According to the National Agricultural Sector Development Strategy, the proportion of Uganda's agricultural commodities which is processed is less than 5%. Enhanced production and increased processing of the grains will boost household incomes, job

creation, food security and livelihoods for most rural areas. It will encourage and increase value addition in the food sector, and contribute national GDP.

Products from smallholder farmers are usually sold as raw materials rather than processed products and are mainly dependent on sun drying.

There is lack of the technology to add value at source and drying facilities are limited hence limiting the farmer's profitability.

c) Inadequate collective bulking centres and standard storage facilities

In Uganda, post-harvest losses range between 26 - 40 percent of the total harvests (UBOS 2010). This is mainly due to use of poor handling methods (at harvesting, inadequate drying facilities, inadequate cleaning and grading), inappropriate storage methods and low storage capacity on farm and at distribution levels in the country. There are very few standardised warehouses for both grains and processed products; and their management is also inefficient to some extent. For the maize grains, we have standardized storage facilities for only 550,000MT out of 3.2 Million MT of total production (MAAIF 2014 Projections).

Limited collection and bulking center's has also contributed to farmers' inability to bargain for better prices and improved quality of grains along the grain subsector and this therefore calls for enhanced pre-harvest and post-harvest handling and management of grains.

d) Inadequate infrastructure

Development of the grain subsector has been hampered by poor storage and transport infrastructure like silos and warehouses, road networks, power and irrigation systems. Access to and the cost of power to run grain processing equipment has been a challenge especially in the rural communities that produce grains. Poor rural infrastructure especially feeder roads have affected the grain trading mainly during the rainy seasons. Despite the construction of good highways and main roads, and some feeder roads in the rural areas, there are still many impassable feeder roads during the rainy seasons which limits market accessibility thus increasing the cost of doing business and this directly affects grains trade competitiveness.

There are high costs associated with insufficient electricity supply which ultimately leads to more production costs that causes illegal connections and use of motorised or diesel engines and this directly increases the cost of doing business and affects the quality of value added products.

e) Limited awareness and enforcement of the grain standards

Standards for most grains have been developed and harmonized under the EAC standards framework. However, there is little awareness about them and generally not in use. Traders are therefore not making purchases based on grades and standards resulting into no motivation by traders and processors to promote quality grains.

There is a need to promote the use of standards and grading mechanisms for better quality grain for higher prices and to use outreach tools that reach all sector actors.

f) Limited Crop Financing

The issue of limited access to finance and affordable credit is of major concern. Despite the rising number of commercial banks, it is clear that there is still lack of affordable credit (most banks currently charge between 18- 22 percent on commercial loans). This leaves out many emerging entrepreneurs who require financial support for grain sub-sector development. Due to limited personal savings and lack of access to collateral to access bank loans, many farmers and processors have difficulties in accessing bank loans and therefore rely on loans from family and friends or informal credit sources. This is particularly the case for smallholders including women who do not own fixed assets including land. Targeted incentives should be given to farmers, agribusiness enterprises, private individuals and MSMEs including women and youth.

Mobilising organized cooperatives (including those led by women and/or youth), use of WRS and Microfinance institutions are highly encouraged.

g) Weak market linkages and unreliable market information systems

Production of grain is mainly done by small holder farmers including women and youth. These are largely based in rural areas with limited access to market information about grain markets and prices. The lack of adequate information on

markets (demand, prices, off takers, transport services) militates against smallholder farmers and traders and affects commercialization opportunities. Women, because of the time and mobility related constraints, have even less access to this needed information. Due to lack of a formal trading system that provides a platform for the interaction of buyers and sellers as well as collective market outlets (as producer cooperatives), individual farmers are subjected to few customers and volatile prices that do not motivate improved productivity and investment in quality practices. There is scanty information on local and international market opportunities, modern technology and required quality standards.

h) Potential for high infestation of grains with aflatoxins

Aflatoxins are metabolic products of food spoilage fungi that induce toxic responses when consumed by humans and animals. Maize, groundnuts and sorghum are the most contaminated foods with aflatoxins in Africa but can also occur in other grain crops. Aflatoxins are highly toxic to humans, livestock and poultry. The growth of aflatoxins emanates from the infestation and growth of the fungi mould in grain which is favoured by high temperatures and high humidity as well as poor handling mechanisms. One of the key determinants of aflatoxin accumulation in maize, peanuts and other crops is moisture content.

Strong, consistent and enforced standards result in improved economic benefits in the long term because they support larger and more stable markets for aflatoxin free products which incentivise aflatoxin control technologies and this directly result in a reduced negative health impacts.

There is, therefore, a great need to develop practical and cost effective methods of pre- and post-harvest handling systems as well as standardized storage and appropriate transport facilities to prevent grains infestation by aflatoxins to acceptable levels

i) Inadequate technically skilled human resource

Technically skilled manpower is required for the grain sub sector in order to increase its productivity this through use efficient value addition and storage processes. There

is an acknowledged shortage of technical skills in the milling and grain storage facilities which causes inefficient operations and low productivity at the processing level. There is a need for intensive programmes of training and human resource development for efficient operation and enhanced productivity of machinery. This calls for short and medium term training of artisans and technicians relevant for the sub sector.

j) High level of informal grain trade in the country and the region

Uganda is the largest informal supplier of grains to the region contributing over 70 percent (MAAIF statistical abstract 2013/14). It is recognized that informal grain trade between Uganda and its neighbor's is around five times higher than that of the formal grain trade. This therefore demonstrates the importance of informal trade in the region and the need to formalize it. Grain processors who have invested in quality grain handling have not realised realistic returns on investment due to informal operations. Proper grain handling infrastructure ensures competitiveness in terms of price and quality.

The revitalisation of the Commodity Exchange and the establishment of the Warehouse Receipt System Authority are aimed at enhancing grain quality, improve transparency in commodity trading, enhance commodity pricing, and bring out the advantages of structured financing to the grain sub sector.

6. THE CONSULTATION PROCESS

Development of the Draft National Grain Trade Policy was an iterative process. A multi-sectoral committee comprising technical staff from Ministry of Finance, Planning and Economic Development, Ministry of Agriculture, Animal Industry and Fisheries and led by the Ministry of Trade, Industry and Cooperatives was formed in 2013 to draft the Policy. Other members of the committee were selected from The Uganda Grain Council and key private sector stakeholders. The committee made a field tour in June 2013 to collect data on the sub sector and developed the first draft of the Policy with guidance from the Ministry of Trade, Industry and Co-operatives. Stakeholders were consulted in various workshops e.g. September 2014 and March 2015, where the draft Policy was discussed and comments noted.

The following concerns were raised during the various consultative meetings:

- (i) Inability of the local producers, processors and distributors to compete in the EAC and COMESA markets because of their poor quality grains, poor storage and processing technology and equipment and other product accessories

The proposed solutions to the above problem were clustering of the producers, storage facilities operators, processors and distributors for increased investment to cater for standard storage facilities, technology up-gradation for value addition and enforcement of product standards.

- (ii) There were cross cutting issues that included limited information, high costs of doing business, limited research and development and limited capacity to enforce standards.

The proposed solutions to the problem above were provision of a web portal for information sharing, establishment of an implementation mechanism to oversee research and development, awareness creation and enforcement of standards and regulations. In addition, the need for affordable financial packages and incentives; and improvement in general infrastructure were proposed.

- (iii) The final consultative meeting took place in March 2015 in Mukono district, Rider Hotel and present were participants from key Government Ministries, Departments and Agencies (e.g. MTIC, MFPED, MAAIF, Ministry of Local Government, TGCU, UNBS, PSFU), and a cross section of the private sector players involved in the grain sub sector value chain. The consultative meeting adopted the draft National Grain Trade Policy and recommended that the Ministry of Trade, Industry and Cooperatives should forward it to Cabinet Secretariat for approval.

7. THE DRAFT NATIONAL GRAIN TRADE POLICY

The following are the key aspects of the Draft National Grain Trade Policy:

Vision

The vision of the Grain Trade Policy is to have a globally *competitive grain sub sector for food security, income generation and industrialization*

Mission

The Mission of the Policy is to: *ensure consistent quantity and quality supply of grains and grain products to the market to improve incomes of the actors through efficient postharvest handling, value addition, and effective regulation*

Strategic Objectives

The following are the Strategic Objectives that shall be pursued in this regard and these define the principle focus areas of intervention:

1. To improve institutional, policy and regulatory framework that enhances the competitiveness of the sub sector
2. To promote value addition and innovation
3. To promote research, product development and technology transfer
4. To promote development, harmonization and enforcement of standards
5. To Promote farmers and traders bulk handling and marketing of grains through improved storage facilities and enhanced market infrastructure
6. To enhance skilled human capacity development including women and youth
7. To improve access to affordable credit

Policy Targets

1. Increase exports of grain value added products by 25%
2. Effective institutional framework including functional market infrastructure
3. Improved standard grain storage facilities from 5 percent to 40 percent
4. Reduced postharvest losses from 37 percent to 25 percent
5. Increased access to agro processing facilities (cleaning, drying and grading) facilities from 12 percent to 50 percent.

8. POLICY INTERVENTIONS

Government shall collaborate with private sector and development partners in order to achieve the objectives of the National Grain Trade Policy. The following shall be the key policy interventions:

a) Promoting value addition

This intervention will be undertaken through the following policy actions:

- a) Provide incentives to support establishment and revitalization of grains processing facilities
- b) Promote food processing and fortification for enriched products targeting the existing different market segments
- c) Enhance capacity building in value addition, quality control and processing best practices through the grains value chain.

b) Establishing strategic food storage facilities

This intervention will be undertaken through the following policy actions:

- a) Revisit and sensitize farmers, including women and youth on the role and importance of traditional /conventional storage cribs
- b) Promote innovative post-harvest management and processing technologies; and undertake management training for producers, traders, processors, transporters and storage facilities operators. Consider production or post-production labor-saving technology that is appropriate for women, in terms of size and weight, technical requirements and training needs.
- c) Identify and certify additional storage facilities as bulking centers in strategic areas in the country
- d) Establish an inventory system for storage facilities and laboratories
- e) Promote low-cost appropriate cribs which are easy to build, use and maintain for farmers and traders in rural areas including women
- f) Link the value chain actors to financial institutions and other possible sources of credit for construction of standard storage facilities.
- g) Support establishment of standard warehouses and silos for food security reserves through a PPP arrangements
- h) Engage relevant Ministries and other stakeholders to support the construction of transport networks and to distribute power to productive areas

c) Promoting research & product development, technology transfer and innovation

This intervention will be undertaken through the following policy actions:

- a) Provide incentives to support establishment of technology transfer and business development services
- b) Strengthen institutions that provide research and product development services
- c) Promote access to business incubation services, including for women and youth by facilitating establishment of linkages between institutions and the key players along the grain value chain Establish a research and product development fund for researchers and innovators along the grain value chain
- d) Increase access to postharvest handling, trade extension and advisory services through local governments and commercial officers, ensuring that advisory services are delivered fairly to all relevant actors.
- e) Link cooperatives/firms, including those led by women and / or youth, to key institutions such as UIRI, UNBS, UEPB, and academia for research and innovation, standardization, and marketing; among others
- f) Promote forward and backward linkages along the grains value chain

d) Promoting bulk handling and marketing of grains

This intervention will be undertaken through the following policy actions:

- a) Encourage bulk handling and marketing by mobilizing a network of organized farmers/producer groups, associations or cooperatives and processors and including those which have representation or leadership by women and youth.
- b) Promote establishment of firm level collection facilities (cribs), group level storage facilities (warehouses and silos) and revitalize Uganda Commodity Exchange (UCE)
- c) Provide an enabling environment for strengthening the WRS for grading, standardization and quality control of grains
- d) Establish monitoring and evaluation programs in warehouses and other storage facilities as well as processing facilities

- e) Mobilize and train farmer groups, traders, processors and transporters on good bulk grain handling practices using training methods appropriate for all targeted actors.
 - f) Disseminate information regarding grading systems and quality features of grain and in ways which address the time, mobility and literacy constraints facing women farmers.
- e) Improving Access to Crop Financing**
- This intervention will be undertaken through the following policy actions:
- a) Promote and strengthen grain value chain actors for bulking, value addition and marketing of grains
 - b) Promote the available low cost financing options for agribusiness related credit with emphasis on options which de-emphasize ownership of fixed assets as criteria for beneficiaries.
 - c) Encourage the use of commercial and subsidized credit for value chain stakeholders with particular focus on low income women and youth.
 - d) Promote the use of the WRS as a source of credit
 - e) Promote business networking including for women and youth.

9. IMPLEMENTATION ARRANGEMENT

A detailed 5-year Cost Implementation Plan of the National Grain Trade Policy has been developed. The Ministry of Trade, Industry and Cooperatives will lead the implementation of the National Grain Trade Policy. The Ministry of Trade, Industry and Cooperatives will collaborate with other Ministries, Departments and Agencies, Private sector and Development Partners to effectively and efficiently implement this policy. The Ministry of Trade, Industry and Cooperatives will be responsible for publicizing the National Grain Trade Policy through print and electronic media, workshops, trade fairs and its website.

The Ministry of Agriculture Animal Industry and Fisheries will be responsible for grains production to ensure that good quality and sufficient quantity of grains is supplied to the traders and storage facility operators. The Uganda National Bureau of Standards will be responsible for developing, monitoring and enforcing standards related to the grain products.

The Uganda Investment Authority will be responsible for attracting investors. The Ministry of Finance, Planning and Economic Development will be responsible for allocating funds as proposed by the various players. Other MDAs will play their enabling roles to reduce the cost of doing business and enhance the competitiveness of the sector.

Development Partners such as USAID will provide technical support for the implementation of the Policy.

The private sector and its associations will play the roles of production of raw materials and finished products, their storage, distribution and the general firm level management of grains production enterprises.

10. FINANCIAL IMPLICATION

The implementation of the National Grain Trade Policy will cost UGX 2.606 billion spread over five years. The Government will contribute UGX 106 million, a detailed cost implication matrix and a Clearance letter of Financial Implications are attached (*Annex III Annex IV respectively*). The private sector will contribute UGX 2.5 billion mainly for investment in storage and value addition facilities in their respective business enterprises.

11. MONITORING AND EVALUATION

The Ministry of Trade Industry and Co-operatives will be responsible for the monitoring and evaluation of the National Grain Trade Policy implementation. The Ministry will constitute multi-sectoral teams to do the monitoring and evaluation.

12. CONCLUSION

Colleagues, at the next convenient meeting of Cabinet, I will request my colleagues to:

- (i) **Note** the contents of the Draft National Grain Trade Policy, 2015
- (ii) **Approve** the Draft National Grain Trade Policy, 2015
- (iii) **Authorize** publishing and wide dissemination of the National Grain Trade Policy, 2015

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