



**USAID**  
FROM THE AMERICAN PEOPLE

**UGANDA**

## NOTE FROM THE FIELD

# Warehouse Receipts Turn Corn Into Collateral

**USAID-funded program gives farmers access to bank loans, higher crop prices**



Ricky Mugabi, USAID/Rural SPEED

Sam Arapsatya inspects maize that he stored in a warehouse under a USAID Rural SPEED program that allowed him to get his first-ever bank loan based on the grain's value. When the price was right, he sold the maize to the World Food Program and paid the bank back.

*"This [warehouse receipts] system rescues us," says Sam Arapsatya, a commercial farmer in eastern Uganda's corn belt. "With it, I was able to get a loan using my grain as security. With the money, I bought more seeds and fertilizer. Now I can develop my farm."*

Like other small-scale commercial farmers around Kapchorwa in eastern Uganda's corn belt, Sam Arapsatya found it impossible to get ahead financially. Although his 20 acres of rented land had good yields, Arapsatya struggled to support his large extended family and keep the farm running from one harvest to the next.

With bills piled up during the growing season, when harvest time arrived, he and his neighbors sold their corn immediately to village traders to get cash for school fees and food, and to pay farm laborers and buy inputs for the next crop. The flood of maize lowered prices, but the farmers had no other choice. They needed money, and because Uganda's financial sector traditionally has viewed farmers as too risky to deal with, especially renters like Arapsatya who have no land for collateral, borrowing from a bank or other financial institution was not an option.

Today, however, Arapsatya is a welcome customer at the local Stanbic Bank branch thanks to USAID's Rural Saving Promotion and Enhancement of Enterprise Development (Rural SPEED) innovative warehouse receipts system which lets him store his crop, use it as collateral for a loan worth 80 percent of the current grain value, and sell later at a higher price when prices increase. The system is helping Ugandan farmers overcome two challenges—the cyclical nature of farm income and lack of access to credit—that kept many of them operating not far above subsistence level.

"This system rescues us," says Arapsatya. "With it, I was able to get a loan using my grain as security. With the money, I bought more seeds and fertilizer. Now I can develop my farm."

Chemonics International's Rural SPEED project, a USAID activity that works to expand rural access to finance, developed the system and implemented it with a consortium of partners. Collaborating with

**June 5, 2006**

This publication was produced for review by the U.S. Agency for International Development. It was prepared by Terri Kristalsky, of Chemonics International.

two other USAID-funded activities, Rural SPEED piloted the program through the 2,100-member Kapchorwa Commercial Farmers Association (KACOFA). Another key partner is Stanbic Bank, which is making the loans with support from USAID's Development Credit Authority Loan Guarantee Program, managed by Rural SPEED. The bank has set aside \$200,000 in loan capital for the pilot.

KACOFA already was working with two other USAID programs in agriculture and competitiveness to increase production levels and improve the post-harvest handling process to ensure the corn sold by the Kapchorwa farmers is consistently of good quality.

Under the program, KACOFA's farmers deliver their harvest to a designated secure warehouse, where it is weighed and kept under proper conditions until the farmer is ready to sell. In the meantime, the farmer gets a certified receipt that can be taken to a local bank and converted into a loan, with the warehoused corn serving as collateral. The loan is paid back when the grain is sold.

"I can instruct KACOFA to sell at a price I am comfortable with and benefit from the highest price," explains Arapsatya.

As part of the KACOFA pilot, USAID Rural SPEED also collaborated with the World Food Program, which agreed to buy high-quality maize from the warehouse at 350 Uganda shillings per kilogram, substantially more than the 120 to 180 Uganda shillings the

farmers got from quick sales to local traders.

"We had challenges of post-harvest handling, like storage, but mostly poor marketing," said Wilson Chemusto, chairman of KACOFA. "We were not exposed to buyers, so we would sell at the first price that came along. We were many farmers with few buyers and we needed money to pay fees, and buy seeds and fertilizer in order to plant in time for the next season." On average, farmers have received 1.2 million Uganda shillings or approximately US \$660 against the future sale of their maize under the receipt system.

The USAID-funded warehouse receipts system has boosted incomes and created new opportunities for the Kapchorwa farmers to invest in the future. The amount of grain they are delivering to the warehouse has dramatically exceeded initial expectations. Although Rural SPEED is subsidizing the warehouse collateral manager for the pilot, KACOFA is on track to produce enough grain to render the subsidy unnecessary in the second year of operation.

In addition, KACOFA is exploring the possibility of expanding the warehouse receipt system to barley and beans. Based on Kapchorwa's success, similar programs already are being developed in other parts of Uganda. As for USAID Rural

SPEED, the success of this pilot has presented an easily replicable model, one that Rural SPEED plans to initiate in several other locations throughout the country.

#### DISCLAIMER

The views expressed in this publication do not necessarily reflect the views of the U.S. Agency for International Development or the U.S. Government.