

Commissioning. President Milton Obote commissioned Kibimba Rice Scheme constructed with the assistance of the government of the People's Republic of China, near the town of Bugiri, a backwater in eastern Uganda in 1982.

Inside the fight for Uganda's rice sector

Battle. Uganda's rice industry has registered an impressive growth over the last two decades. But fights between senior government officials and a battle for supremacy between two leading firms have undermined the gains, writes Ivan Okuda.

The fights within the rice sector have come to fore after President Museveni called a meeting at State House Entebbe to resolve the crisis.

The April 16 meeting was a culmination of squabbles that have entangled captains of the sector and senior government officials, pitting importers of rice and millers on one hand and domestic producers on the other.

President Museveni hosted, for about two hours, at least 35 members in the sector and political leaders in a bid to bring to an end the matter polarizing the sector.

In attendance were the President's Principal Private Secretary, Ms Molly Kamukama, commissioner for crop production at the Ministry of Agriculture, Animal Husbandry and Fisheries Okasi Opolot, Agriculture minister Vincent Ssemplijja, Planning minister David Bahati, Investment minister Evelyn Anite, and former envoy to China and chairman Rice Council of Uganda Phillip Idro.

Others are former premier Amama Mbabazi's daughter Rachel Kiconco Mbabazi, Kibimba Ltd CEO Venugopal Pookat and representatives from FOS Logistics Limited, including the director Vasmeen Patel.

Stormy meeting

It is reported that tempers flared during the meeting as competing interests became apparent. Sources claim the President closed it with no solution, save seeking more time to get more information before he could arbitrate the dispute.

Each camp retreated and has since been holding several other meetings, and lobbying sympathisers in different government and private sector outfits.

At the heart of the conflict, says the Kibimba Ltd chief, Mr Venugopal, "is a request by importers of rice to government for yet another concession to import in the next six months at least 120,000 metric tonnes of rice at a reduced duty rate of \$150 (Shs540,000) per metric tonne."

"We are not opposed to importation, we are only opposed to how it is being done; smuggling of rice, bringing in white rice and declaring it as brown rice and the rot in the system. If this situation continues like this, we shall have no choice but to close our operations and our workers have got closure notices," says Mr Venugopal.

The dispute is a result of a Cabinet decision to allow an exemption on im-



Tour. President Museveni inspects Kibimba Rice Scheme in 2016. PPU PHOTO

port duty for rice to bring to control food scarcity that had hit the country in 2017.

However, this exemption was restricted to rice.

"Even when Cabinet granted an incentive of zero import duty to fix the food crisis in respect of husked rice as an emergency measure, the cheapest rice was retained at Shs3,500 a kilogramme which was still unaffordable for the Ugandans who were heavily struck by famine," argues Keith Muhakanizi, the Secretary to the Treasury, in a July 31, 2017 letter, addressed to the Finance minister, Mr Matia Kasajja.

Mr Muhakanizi opines further: "Statistics at URA [Uganda Revenue Authority] show that rice was being exported out of the country when we were importing it at a reduced tax and at zero tax. This reinforces our argument that rice is not for the poor and importing it doesn't address food shortage but only profits a few individuals."

Whereas 2017 came with fresh exemptions, the fight began in 2014 when Uganda started to register a hike in imports. New players threw their hats in the ring to get a pie of the lucrative sector. It came haggling over tax exemptions and duty waivers granted to importers, especially in respect of integrity of the process and who benefited, raking in billions of shillings in record time.

History

Uganda's rice industry has grown by leaps and bounds, registering impressive figures in production over the last

FACTS

10,000

Amount of land in acres that Kibimba Rice Scheme sits occupies.

2,000

Number of Ugandans employed at the scheme.

49,000

Installed capacity of Kibimba Rice Scheme in tonnes but it only does 15,000 tonnes.

two decades.

On January 22, 1982, President Milton Obote commissioned Kibimba Rice Scheme constructed with the assistance of the government of the People's Republic of China, near the town of Bugiri, a backwater in eastern Uganda.

Established in 1973 as a government venture to bolster food production, the scheme fell into a tailspin and wasted away, giving way to derelict structures in the 1990s bearing the lasting vestiges of the post-colonial industrial pulse.

Yet the story of Kibimba's demise fitted into the script of the monumental collapse of these industries in a country ripped apart by coups, anarchy and

bloodshed.

Kibimba's potential was rekindled in 1996 when Tilda Limited, a company owned by Indians of Ugandan origin, acquired the property from government and revamped it.

Today, it sits on a sprawling 10,000 acres and employs up to 2,000 Ugandans at peak time.

Over the last two decades, the sector has expanded and now meets 80 per cent of the country's food consumption needs.

Northern Uganda, which bore the brunt of a two-decade Lord Resistance Army rebel war, is now host to blossoming farms occupying tens of thousands of acres.

Today, according to figures from Rice Association of Uganda (RAU), 96 per cent of rice is consumed in the country and 4 per cent is imported.

RAU now says the country is targeting 600,000 metric tonnes by this year's Christmas.

About 450,000 farmers get their livelihood from growing the cereal with 50,000 coming from Northern Uganda mainly Nwoya, Amolatar, Amuru and 120,000 from Butaleja, Tororo and Bugiri. The sector's growth has turned into an allure, charming more investors who in an archetypal capitalist setting are keen to bet for the windfall.

Is there a crisis in the rice sector?

Yes and no; depending on the side of allegiance in these supremacy fights.

In a bid to insulate domestic farmers from the vagaries of cut throat competition from business giants in continents such as Asia where agriculture

is heavily subsidised, enabling companies there to harness their maximum potential, the East African Community came up with a Common External Tariff (CET) for imports coming from outside the community.

Importers of rice from outside EAC were to pay \$345 (about Shs1,242,000) per metric tonne of rice.

The policy is in tandem with economic interventions employed by countries such as USA and Japan which at the height of their journey to industrialisation heavily subsidised local industry or even close home, the Asian Tigers (South Korea, Taiwan, Singapore, and Hong Kong), yesterday's under developed countries which protected infant industries home from foreign competition through protectionism.

That was the spirit of the EAC's tariff, with Tanzania and Uganda, which are big on rice production, ultimately smiling to the bank as local farmers reaped big.

So restrictive was the import regime that importers were and are not allowed to bring in white rice (ready to eat, polished rice) as they can only ship in brown (husked rice), process it here hence creating jobs for Ugandans.

Some domestic farmers allege that between 2015 and 2018, importers have, in collusion with government officials, circumvented the system enjoyed fat tax waivers and in the process, the country has lost billions in tax foregone.

However, Mr Phillip Idro, the Rice Council of Uganda chairman, allay fears of the local farmers and cha

CLOSURE NOTICE. Kibimba Ltd is said to have benefited from government subsidies and is only sour-graping as other businesses partake of the same cake, comparing it to a person who throws away the ladder after ascending the greasy pole. The company has already issued closure notice to its workers. When this newspaper visited the farm in Bugiri on Thursday, activity was low as managers and workers said the uncertainty in the sector had cascaded down to the site. However, Investment minister Evelyn Anite in a letter seen by this newspaper to the company laughed off the move as a bluff choreographed to blackmail government.

237,000

Metric tonnes. Amount of rice produced by local farmers per annum.



Entitlement. "I don't want to be involved in industry cat fights because competitors are fighting for margins and making lots of claims. Don't involve URA in cat fights. If one importer captured the market at the expense of others, we are a free market economy and it is about competition. No further comment," MR DICKSONS KATESHUMBWA, URA CUSTOMS BOSS.

lenges them to tighten their seat belts, stand up to the challenge of consumption demands, embrace competition and appreciate the dynamics of a free market economy.

He on the contrary accuses players such as Kibimba of "hiding behind farmers".

"The task as we know it, from the meeting with the president, is to increase production so that in two years' time there is no more importation of rice in Uganda so we have a lot of work to do building capacity of our farmers," he says.

Domestic farmers such as Dr Agnes Atim Apea, the director of Hope Development Initiative Cooperative, who works with and supports rice farmers in northern Uganda and Mr Venugopal say the importers want to arm twist the president and government into allowing them import rice that will wipe out local producers.

Fight between importers, local farmers

A perusal of the documents and strands of correspondences indicates the fight between importers and local farmers has been a long winding cat and mouse games, each appealing to reason and conscience of decision makers in the sector to no avail.

On June 6, 2016 the minister of State for Planning Mr Bahati, wrote to the Director Technical Services and Development, FOL Logistics (U) Ltd, a company that finds itself in a tug of war with Kibimba, who had raised issues on taxation in respect of their investment in rice.

He had requested that URA rules on whether paddy rice and husked (brown) rice is an unprocessed agricultural product whose value addition does not exceed the 5 per cent so as to be entitled to exemption from VAT.

The Value Added Tax Act Cap 349 does not exempt rice but rather zero rates the locally grown and milled rice in Uganda to encourage growing and milling in Uganda.

He also reported threats from other companies to government, to which Bahati replied: "We are also aware that you raised an issue of threats by other companies, I trust government institutions not to be swayed by actions of lobbyists as the institutions' actions are guided by law."

As procedure requires, the proposal to reduce import duty on paddy rice and brown rice from US\$ 345 per metric tonne to \$250 was presented to the EAC secretariat for consideration.

The EAC Sectoral Council on Trade, Finance and Investments granted Uganda an import duty rate of \$250 for one year effective July 1, 2016.

It is then that local producers of rice stirred ripples of unrest.

A week later, Mr Bahati's boss, the Finance, Planning and Economic Development minister, Mr Matia Kasajja, wrote to Tilda (U) Ltd Director (Venugopal), saying: "The Council also ordered for a comprehensive study to be undertaken by the EAC secretariat to determine the appropriate tariff for rice considering that partner states had raised concern on what they perceived to be very high taxation on rice. Kenya and Rwanda import rice at 35 per cent or \$200 and 45 per cent or \$345 per metric tonne respectively, which rates

UNCERTAINTY

Shaky. As the rope pulling persists, the heart of the country's rice sector remains shaky. When all is said and done, Uganda's rice farmers have to up their game: Kibimba's installed capacity is 49,000 tonnes but it only does 15,000 tonnes, some say a little competition will tickle these entities out of slumber as competitors evict them from the comfort zone.

Ambitious dreams. Actors such as Mr Phillip Idro, the Rice Council of Uganda chairman, say they are now turning their efforts to

fulfilling Mr Museveni's ambitious dream of a self sustaining rice sector capable of reaping from the lucrative exports while feeding Ugandan mouths.

Moderation. But if the country is to protect local infant sector, as was the winds of industrial growth swept across Japan, USA and the Asian Tigers, transparency and equity must guide the moderation of the tax regime; so far, the president remains the final arbiter as his coterie of officials are sharply polarised in these supremacy fights.

are below what Uganda was charging hence creating room for smuggling rice into the Uganda market."

On August 22, 2016, Kibimba Ltd CEO Venugopal wrote to Mr Kasajja, arguing that import of paddy would be a direct disincentive to domestic paddy producers.

"It is with this pragmatism that we raise our concerns on whether concessional tariffs to intermediate products (brown rice) and raw paddy would benefit Uganda. Instead it appears that this policy is more likely to benefit one single company and the countries from which the brown rice is imported, thereby weakening the EAC policy and the benefits that it ensures," he said.

The fight between Kibimba (formerly Tilda) and FOL Logistics has since shifted inside the marbled hallways.

At the time of writing this story, there was a push by millers and importers for 120,000 metric tonnes at a rate of \$150, a development that has sucked in government officials.

Ministers fight

Ministers are also pulling rugs under one another's feet over the issue.

For instance, on October 30, 2017 minister Kasajja wrote to President Museveni in response to a directive following a meeting with FOL Logistics representatives where the president had asked finance officials to craft a memorandum of understanding with the company guaranteeing that import duty of husked rice would be less than \$200 per metric tonne for the next three years.

Mr Kasajja told the president he was not clothed with power to ink this deal as such mandate was resident in the EAC Council of Ministers.

"The rate of \$345 per metric tonne on imports of husked rice is meant to protect the local farmers who currently produce about 237,000 metric tonnes of rice per annum. There are initiatives in Uganda and Tanzania to increase rice production so that the EAC is self sufficient in both consumption and export. Any change in the tax treatment would undermine the objectives of the policy and affect many small holder farmers in Uganda," he wrote, adding:

"If EAC partner states allowed Uganda to impose a lower duty rate on imports, "for this one company (FOL Logistics), it would have serious implications on Uganda's grown rice in

the region; above all, government will forego revenue estimated at Shs30.259 billion if import duty is fixed at \$200 per metric ton assuming that the imports of the company remain at the average of 56,400 metric tons annually."

"Your Excellency, we wish to point out that as a policy it is unfair and inequitable to grant one company a preferential rate in an agreement at the exclusion of all other companies in similar business. It contravenes the principle of equity and fairness. At the same time, it may lead to serious distortions in the market such as unfair competi-

tion and wiping out local players in the sector," Mr Kasajja concluded.

He also argued that the earlier incentives had no real benefit to Uganda and out competed local rice farmers.

In March 2017, owing to food insecurity in the country, government approved import duty tax waiver for unprocessed rice to bring down food prices. As such, according to the finance minister, 63, 297 metric tonnes of rice were imported under the waiver between April 1 and September 10, 2017 and the revenue already foregone by government was Shs78.866 billion. Of this, FOL Logistics imported 38,208 metric tonnes (60 per cent) and revenue foregone was Shs47.6 billion.

In October 2015, he told the President, government granted FOL Logistics Uganda Limited a duty waiver from \$345 to \$250 per metric tonnes on imports of husked rice.

FOL Logistics imported 59,318 metric tons of rice valued at Shs50.482 billion and the estimated revenue foregone arising from this policy measure was Shs20.286 billion.

If the partner states rejected the request by FOL Logistics for a reduced rate, and Uganda decided to proceed with the same, Kasajja cautioned the president: "We would be in breach of EAC rules. Alternatively my ministry would have to pay the same amount in taxes foregone on account of the reduction estimated at Shs30 billion to URA

on behalf of the company."

On July 31, 2017, finance Permanent secretary and secretary to the Treasury Mr Keith Muhakanizi had written a brief to Kasajja, advising: "It is unfair and inequitable to grant one company a preferential tax rate at the exclusion of all others in similar business."

Imposter responds

Ms Elizabeth Rumanyika Kasenene, who spoke for FOL Logistics, said: "We have never received preferential tax treatment from government. We have fully participated in government tax measures targeted at the rice industry in totality."


FOL Logistics also revealed that the accusations of smuggling are flawed.

"It's not surprising that the allegations come from a competitor that has never imported and is not aware of the measures put in place by URA. We are among the top 25 taxpayers in Uganda," Ms Kasenene says.

But Dr Apea asks: "Under what circumstances are those tax waivers given? How does a company wake up one day and say because there is famine give me a duty free so I import rice. Why didn't our government consult Kibimba which has been here with us for all these famines? Or even we farmers in the north? Something is certainly wrong and I invite you to probe who behind these companies and how the get preferential treatment."

FOOD INSECURITY

Tax waiver: In March 2017, owing to food insecurity in the country, government approved import duty tax waiver for unprocessed rice to bring down food prices. As such, according to the finance minister, 63, 297 metric tonnes of rice were imported under the waiver between April 1 and September 10, 2017 and the revenue already foregone by government was Shs78.866 billion. Of this, FOL Logistics imported 38,208 metric tonnes (60 per cent) and revenue foregone was Shs47.6 billion.




FIRST INSURANCE COMPANY LIMITED
Service beyond expectations


Plot 21, Luthuli Avenue, Bugolot
P.O. Box 5245 Kampala, Uganda
Email: fico@fico.co.ug
www.fico.co.ug

STATEMENT OF FINANCIAL POSITION AS AT 31ST DECEMBER 2017			STATEMENT OF COMPREHENSIVE INCOME FOR YEAR ENDED 31 st DECEMBER 2017		
	2017 US\$'000	2016 US\$'000		2017 US\$'000	2016 US\$'000
ASSETS			Gross premiums written	3,836,582	3,794,541
Property and equipment	243,832	119,531	Reinsurance premium ceded	-1,137,248	-1,199,000
Investment property	950,000	950,000	Unearned premium reserve movement	41,536	53,100
Deferred tax asset	241,530	223,806	Net premiums earned	2,657,788	2,648,100
Investment in other companies	190,476	710,500	Investment income	899,618	361
Held to maturity investments	3,634,912	3,359,330	Other income	129,298	225
Receivables - direct insurance	2,459,497	1,177,761	Total income	3,686,704	3,235
Receivables from reinsurers	400,394	2,501,210	Claims expenses	673,697	49
Reinsurance share on contract liabilities	1,128,405	1,275,430	Commission expense	278,554	4
Other receivables	1,039,207	541,986	Other operating expenses	2,038,181	2,000
Cash at hand and bank	293,025	198,532	Total expenses	3,950,432	2,993
TOTAL ASSETS	10,581,278	11,858,086	Profit before tax	636,272	-
EQUITY			Income tax expense	-148,474	-
Share capital	5,123,953	5,123,953	(Loss)/profit for the period	487,798	-
Other reserves	1,661,526	1,857,983	Other comprehensive income		
Accumulated losses	-2,523,740	-2,913,978	Fair value gain	-	-420,024
TOTAL EQUITY	4,261,739	4,067,958	- available for sale investments	-	126,007
LIABILITIES			Deferred tax charge	-	-
Insurance contract liabilities	1,326,478	1,619,519	- available for sale investments	-	-
Unearned premium reserves	1,534,625	1,517,817	Total other comprehensive income	-294,017	-
Payable to reinsurers	1,052,586	905,973	Total comprehensive (loss)/income	193,781	-
Other payables	2,405,850	2,946,819	Ratios:		
TOTAL LIABILITIES	6,319,539	6,990,129	Solvency ratio	598%	
TOTAL EQUITY AND LIABILITIES	10,581,278	11,858,086	Claims ratio	25%	
			Management expenses ratio	78%	

The financial statements were approved by the Board on 22.03.2017 and signed on its



Mr. B. Vyasa Krishna
Executive Director



Mr. Samuel Kibuuka
Director