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**COFFEE AND COTTON MARKET DEVELOPMENT AND TRADE
PROMOTION IN EASTERN AND SOUTHERN AFRICA**

Monthly Report – September 2005

By

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1.0 Background to WRS Project

This report is submitted in fulfilment of contract between the United Nations Office for Project Services (UNOPS) and the Natural Resources Institute (NRI) for the provision of technical advisory services in establishing “Commodity Trade Finance Systems based on Inventory Collateralisation and Warehouse Receipts” in Uganda, Tanzania and Zimbabwe. The projects, funded by Common Fund for Commodities (CFC) are: Coffee Market Development and Trade Promotion in Eastern and Southern Africa (CFC/ICO/03FA) and Improvement of Cotton Marketing and Trade Systems in Eastern and Southern Africa (CFC/ICA/12FA).

1.2 Report Structure

The report is structured as follows: Section 2 provides an update on progress made in implementation of the project in the participating countries given in tables 1, 2, and 3 for Tanzania, Uganda and Zimbabwe respectively. An assessment of the progress made during the month as well as the challenges faced and prospects are discussed in Section 3. Section 4 outlines forward plans for October and Section 5 consists of conclusions and recommendations.

2.0 Summary of Activities by Country

Table 1: Tanzania Deferred and planned Activities for September

Country	Planned and Deferred Activities	Activity Progress	Remarks/Reasons
Tanzania			
Component I: Promotion of a privately run Warehouse Receipt System	1.1.1 Preparation of warehouse rules and regulations as well as an operational manual for the WRS	<ul style="list-style-type: none"> - The outline of the rules and regulations for the WRS has been prepared. The team involved, which included MCM officials visited Ugandan to gain more understanding of the operations and challenges of the WRS (see Annex 1). 	<ul style="list-style-type: none"> - The rules are intended to help enforce the recently enacted Warehouse Receipt Act (No. 10 of 2005). The outline covers the design of a standard warehouse receipt, insurance/bonding and indemnity guidelines as well as procedures for monitoring and supervision.
Component II: Development of a basic Marketing Information System (MIS) for Cotton and Coffee	1.2.1 Design web and upgrade websites for information dissemination	<ul style="list-style-type: none"> - The LMU begun work on the design of a website, which will be accessible to all stakeholders and will improve dissemination of information on the project. 	<ul style="list-style-type: none"> - The website development will be incorporated in the MIS for the project.

<p>Component III: Development and Testing of a Quality Assurance and Certification System</p>	<p>1.3.1 Carry out sensitisation for target groups.</p> <p>1.3.2 Follow- up arrangements for new ginning stands for Moshi ginnery.</p> <p>1.3.3 Coffee quality monitoring</p>	<ul style="list-style-type: none"> - Groups in Western Cotton Growing area visited by LMU to promote the WRS. - The four gin stands imported from India have arrived in Tanzania on 27th September 2005. - Reports from the participating curing factories indicated that the proportion of top grades (AA, A and B) from the participating primary societies is higher than for deliveries from other traders. 	<ul style="list-style-type: none"> - The gin stands are expected to be installed in October 2005 - This may reflect the positive impact of quality-related interventions under the project.
<p>Component IV: Development of a system of Commodity Trade and financing based on Inventory Collateralisation using WRS Financing.</p>	<p>1.4.1 Print standard warehouse receipts</p> <p>1.4.2 Memorandum of Understanding for key stakeholders</p>	<ul style="list-style-type: none"> - Formalities for printing standard warehouse receipts have been concluded by the LMU in consultation with other stakeholders. - The draft has been prepared and discussed with Government officials, commercial banks, warehouse operators and other key stakeholders. 	

Table 2: Uganda Deferred and planned Activities for September

Uganda			
<p>Component I: Promotion of a privately run Warehouse Receipt System</p>	<p>2.1.1 Continue to lobby for promulgation of warehouse legislation</p> <p>2.1.2 Select locations for pilot WRS for cotton</p>	<ul style="list-style-type: none"> - A team of eight: parliamentarians, staff from the Ministry of Justice and the LMU visited Tanzania to study their Tanzanian WRS model. The visit followed a workshop for parliamentarians on the draft warehouse legislation. - The LMU and CDO representative visited one of the pre-selected locations for the cotton WRS pilot to assess interest in the system and the model which is appropriate for the sector. 	<ul style="list-style-type: none"> - The visit improved the understanding of the MPs and officials drafting the law. Meetings are planned for October 05 with the Ministry of Justice to discuss any amendments to the Bill following the visit. - A meeting to discuss the visit team's report with CDO officials is planned for October 2005.

<p>Component II: Development of a basic Marketing Information System (MIS) for Cotton and Coffee</p>	<p>2.2.1 Development of MIS for coffee and cotton</p>	<ul style="list-style-type: none"> - A revised Action Plan (See Annex 2) for setting up the MIS for coffee was prepared, following consultations between the NRI consortium and stakeholders, including UCDA. Implementation of the agreed system has been initiated. 	
<p>Component III: Development and Testing of a Quality Assurance and Certification System</p>	<p>2.3.1 Agree training programme targeting: producers and traders in cotton pilot locations as well as CDO personnel, exporters, selected warehouse personnel and CM.</p> <p>2.3.2 Training in coffee sector</p>	<ul style="list-style-type: none"> - During the visit to one of the pre-selected cotton producing areas, the training needs of producers was assessed. - Training in coffee quality as well as sensitisation about the WRS pilot was initiated for groups in Eastern Uganda which are to participate in the next pilot. 	<ul style="list-style-type: none"> - The training programme will depend on the outcome of discussions with CDO on the type of WRS model to be implemented. The discussions are planned for October 2005. - The training included the use of visual aids such as video of the experience of other depositors from the pilot in the West, of the auction at UCE as well as leaflets and weekly press briefings.

<p>Component IV: Development of a system of Commodity Trade and financing based on Inventory Collateralisation using WRS and Testing the System through Trade Financing.</p>	<p>2.4.1 Produce promotional materials for coffee traders, exporters and smallholder groups</p> <p>2.4.2 Print standard warehouse receipts</p> <p>2.4.3 Monitor deposits of coffee</p>	<ul style="list-style-type: none"> - Materials produced in the second quarter of 2005 are being used in sensitisation programmes in Eastern Uganda. - Warehouse Receipts issued under the project by COTECNA (collateral manager) has been standardised but standards receipts for all commodities will be designed and printed when a regulatory agency has been established. - The pilot at Mbarara (Western Uganda) was successfully completed in August 05 with 25 tonnes of coffee (Robusta) deposited and sold through the UCE auction, attracting premium prices. 	<ul style="list-style-type: none"> - Although the volume of coffee deposited was low, it clearly demonstrated to farmers and bankers that the WRS is feasible in the coffee sector and accessible to smallholder farmers.
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Table 3: Zimbabwe Deferred and planned Activities for September

Zimbabwe			
<p>Component I: Promotion of a privately run Warehouse Receipt System</p>	<p>3.1.1 Sensitisation of farmers.</p> <p>3.1.2 Consult MOA and MIIT to place promulgation of WRS Bill on government agenda.</p> <p>3.1.3 Organise workshop for parliamentarians and other stakeholders on warehouse legislation</p>	<ul style="list-style-type: none"> - Activities to sensitise farmers about the coffee WRS pilot and to prepare for the launch in October 2005 continued in the Mutare area. - No progress has been made in relation to the WRS Bill because of Government decision to set up an Agricultural Marketing Authority (AMA) which is to be responsible for all agricultural marketing issues, including the warehouse legislation. The AMA is still in the process of recruiting staff and is yet to begin operations. - Pending. Awaiting beginning of operations by AMA. 	<ul style="list-style-type: none"> - The LMU visited the two main target groups to update them on the WRS pilot.

Component II: Development of a basic Marketing Information System (MIS) for Cotton and Coffee	3.2.1 Follow-up on MIS project by the MOA	<ul style="list-style-type: none"> - No progress has been made on the MIS project by the MOA. 	<ul style="list-style-type: none"> - Alternative approaches may have to be explored if the MOA continues to delay work on the MIS.
Component III: Development and Testing of a Quality Assurance and Certification System	3.3.1 Organise training in quality assurance, particularly for producer groups.	<ul style="list-style-type: none"> - The training in coffee quality was organised for two coffee producer associations by the Coffee Research Institute. 	<ul style="list-style-type: none"> - Training report awaited.
Component IV: Development of a system of Commodity Trade and financing based on Inventory Collateralisation using WRS and Testing the System through Trade Financing.	3.4.1 Launch of the WRS pilot 3.4.2 Produce promotional materials for smallholder farmers and traders 3.4.3 Issue standard warehouse receipts	<ul style="list-style-type: none"> - The LMU continued preparatory work towards the launch of the WRS for coffee. - Promotional activities in target areas have been undertaken. - The Warehouse Receipts were printed in August issued to ZCM Warehouse Operators ready for the coffee intake. 	<ul style="list-style-type: none"> - A meeting was held with key stakeholders to prepare for launch of the WRS (see Annex 3) - Deposits are expected in October 2005.

3.0 Assessment of monthly progress, challenges and prospects

Uganda

The successful coffee WRS pilot in Western Uganda (where 25 tonnes of Robusta coffee was deposited under the WRS by smallholder farmer groups) has provided a platform on which to undertake pilots in other locations. The focus of activities in September 05 has been to undertake further sensitisation in Eastern Uganda, where the system is next to be piloted for Arabica. Preparatory work done include organising farmer training in quality assurance; and providing tarpaulins to help farmers to dry delivered coffee, which fails to meet minimum moisture standards. Negotiations with banks on the provision of inventory finance continued, focusing on addressing perceived risks.

Implementation of the MIS has been prioritised following agreement on the system to be developed (as in MIS Action Plan attached as Annex 1 to the 3rd Quarterly Report). It is intended that the system should be sustainable, relying on available capacity within UCDA and on information collection and dissemination channels which do not impose considerable costs which the Authority can not be support beyond the project. The most crucial intervention will involve dissemination of price information via the mobile phones. Local capacity to provide the required service exists, and one of the leading local private service providers, True Africa has already been approached by the LMU.

Progress continues to be made with regard to the legislation. Following the visit to Tanzania, participating officials of the Ministry of Justice have indicated that some sections of the proposed warehouse legislation will need to be amended. It has been agreed with them that they will draft the relevant amendments for discussion with the LMU and NRI consultants in October 2005.

Tanzania

The contribution of the project to the process of operationalising the Warehouse Receipt Act in Tanzania through helping to develop related regulations, is very crucial. The current trust-based system, involving the curing factories as warehouse operators, has proved low-cost (therefore accessible) and reliable because there haven't been any significant losses. However, the transition to a system that covers other commodities and operators, will require instituting robust licensing and inspection systems, which the regulations being prepared, will help enforce.

The main focus of activities in the cotton sector has been on following up the procurement and installation of new gin stands for the Moshi ginnery. The arrival of the gin stands will considerably speed up ginning of deposited seed cotton, making it possible for the participating farmer group, the Oridoy cooperative society, to repay the loan early and reduce interest payments.

The delay in implementing the MIS under the project has not significantly affected performance of the pilots. However, priority is to be given in the coming months to instituting a sustainable MIS, modelled after the system being piloted in Uganda. The

project website, which is being developed, will help publicise the WRS project in Tanzania.

Zimbabwe

As reported above, most of the foundational work required to pilot the WRS for coffee have been completed in Zimbabwe. However, there are concerns that coffee deposits will be significantly below expectations, due in part to continued decline in production and a disabling macroeconomic environment. In particular, rising interest rates and the sharp fall in the value of the local currency combine to make coffee production and delayed sale of commodities using warehouse receipts unattractive. The situation will be closely monitored in October.

4.0 Forward Plans for October

The activities planned for the fourth quarter of 2005 include the following:

Tanzania

- a. Monitoring pilot WRS for cotton at Moshi,
- b. Developing warehouse regulations and other interventions to operationalise the Warehouse Receipts Act;
- c. Printing of standard warehouse receipts;
- d. Development of MIS based an appropriate version of model instituted in the Uganda coffee sector; and
- e. Studying options to help improve financing and marketing opportunities for smallholder farmers using the WRS.

Uganda

- a. Carrying out training in quality assurance and promoting WRS among coffee farmers in Eastern Uganda;
- b. Piloting the coffee WRS and monitoring deposits in Eastern Uganda;
- c. Refining procedures for auctioning deposited coffee through the UCE;
- d. Setting up MIS for coffee, to be replicated for cotton;
- e. Continuing to lobby for promulgation of the warehouse law;
- f. Initiating the launch of the cotton sector WRS; and
- g. Studying options to help improve financing and marketing opportunities for smallholder farmers using the WRS.

Zimbabwe

- a. Monitoring deposits at designated curing factory for pilot WRS for coffee;
- b. Linking coffee MIS to existing system;
- c. Studying options to help improve financing and marketing opportunities for smallholder farmers using the WRS.

5.0 Concluding Remarks and Recommendations

Success in piloting the WRS for coffee in Uganda provide a good chance to build on the interest generated to further promote the system in Eastern Uganda. Supportive warehouse legislation is yet to be passed in Uganda. However, the impact of the delay in passing the law is not likely to be very significant at this stage because attracting depositors and finance from banks depends more on experience demonstrating how robust the system are which have been instituted to minimise the risk of storage losses. In Tanzania, promulgation of the warehouse law and continued success with the coffee and cotton pilots offer an opportunity to mainstream the receipt system. The initial step towards this is the preparation of warehouse regulations and manuals which will guide the regulatory agency, when established, to effectively enforce the law and engender confidence in the system. The Zimbabwe component poses major implementation challenges, most of which are policy-related and beyond the control of the project team.

6.0 Annexes

Annex 1: Report of the Study Tour to Uganda by delegation from Tanzania (July 2005)

Introduction

From the 26th to 29th July 2005, four officers of the Government of the United Republic of Tanzania visited Uganda to study the experiences in putting in place a warehouse receipt system. These officers included Ms. Catherine Joseph, the Director of Policy and Planning, ministry of Cooperatives and Marketing, Ms. Betty Kimambo, the Project Coordinator of the CFC Coffee and Cotton Marketing Project, Ms. Belinda Kyesi, the Legal Officer, Ministry of Cooperatives and Marketing and Dr. Audax Rutabanzibwa, the Principal State Attorney and Head of the Legal Unit of the Ministry of Agriculture and Food Security. The study was prompted by the fact that the Parliament of the United Republic of Tanzania recently enacted a Warehouse Receipt Act (No.... of 2005), which is considered to be one of the main pillars for operationalization of a warehouse receipt system in a country. However, the Act has not yet come into force because regulations and operationalization guidelines are not yet in place. Further, most of the players in the system, namely, farmers, bankers, warehouse operators and owners are not yet acquainted well with the system. They thus, need to be sensitized. The Government of Uganda is also benefiting from the CFC Project that aims at putting in place a warehouse receipt system. Sharing their experience was therefore vital before indulging on the operationalization of the system in Tanzania.

The Study Tour team met a number of Uganda Government officers, CFC Project officers and bankers¹, who were very instrumental in enabling the team to meet its objectives. The tour had an opportunity to meet the Permanent Secretary, Ministry of Industry and Trade, Dr. San G. Nahamya, who emphasized on the need to have collaborative undertakings, not only as far as the warehouse system is concerned, but also in other agricultural areas. He said, this is the most practical way of enforcing the East African Community Accord. The Ps commended on the establishment of Uganda Commodity Exchange (UCE) as a way of stabilizing prices and balancing the trade among the East African countries. He strongly advises on the importance of Market information system which will provide accurate information within East Africa Community. He mentioned of the unrecorded cross-border trade.

The Uganda Warehouse Receipt System (An Overview)

As pointed out above, Uganda like Tanzania started a warehouse receipt system pilot project in 2000. The project is under the Ministry of Industry, Trade and Tourism, the Department of Cooperative Development.

The project started the piloting of the warehouse receipt system on coffee and cotton. It provides training to farmer groups, whereby they collect coffee in warehouses and

¹ Appearing in Schedule

they are given in return what are known as “goods received notes”, which they use as warehouse receipts. Because of perceived risk, banks normally do not accept the goods received notes as collaterals. Normally, they require that collateral managers should be employed to make sure that quality and quantity of the coffee in the warehouses is maintained. Collateral managers are independent quality assurance agents appointed by the banks. At the moment the company known as COTECNA is used as the collateral manager, although depositor of commodity do use power of Attorney witnessed by COTECNA. However, the overall responsibility for standard assurance remains with the Uganda Coffee Development Authority.

Currently, depositor pays Ug Shs 4/kg/week to Collateral manager as collateral fees. As for the coffee pilot sites, collection to the warehouse and sales of coffee is done on weekly basis and hence does not attract borrowing from the bank.

Problems which have been highlighted in the operationalization of the warehouse receipt system in the coffee industry include lack of strong grassroots farmers’ organization. It has been pointed out that farmers find it difficult to trade as individuals. This was due to the fact that trade liberalization in Uganda was implemented fully. As a result cooperative societies and other forms of farmer organizations collapsed. The project is now trying to encourage the establishment of farmer groups/coop. societies.

The other problem is marketing. Until recently, there was any organized coffee marketing. This resulted in financiers getting difficulties in realizing finances out loans provided to farmers. Recently, a private business organization has established a Commodity Exchange Market with the support of the Government and the EU. It is expected that the Uganda Commodity Exchange Market will facilitate market information and a vehicle which will facilitate the operationalization of a warehouse receipt system, at least as far as coffee is concerned. Currently, the service at UCE is done free but there is a plan to charge 1.7% of value of the commodity for every trader. The LMU explained to the Tanzania delegates that the first trial sales of coffee through UCE was successful whereby prices that was realised were better than those from other sources. They mentioned of two pilot sites of Mbarara for Robusta coffee and that of Mbale for Arabica coffee.

The warehouse receipt system has not been as successful in cotton. This is mainly due to the fact that at the moment there are no independent cotton ginner. The existing cotton ginner are as well as cotton exporters, who have formed a cartel not to let farmers to establish themselves into groups. Contract farming has in a way contributed to this situation.

Bankers Views

The team also met representatives of two banks, namely the Allied Bank and the Standard Chartered Bank. The Allied bank was the first to establish a warehouse receipt system. It deals with farmers growing coffee and maize. Both banks acknowledge the importance of having collateral managers. Their role is still felt as they assist in tracking the collateralized crops and the debt until it lastly paid by the farmer out of crop sales proceeds.

Both banks acknowledge the importance of warehouse receipts as increasing security and as means of spreading the credit risk. They also expressed the importance of having a Commodity Exchange Market, because through this market banks will when to force the farmers to sell their crops.

Another shortcoming expressed by the banks is lack of a legal framework. Law creates commitment among the responsible parties and reduces the perceived risk. As a result of lack of a legal framework loan is provided to crops intended for export. Further, only 70 -80% of the loan is accepted.

The Allied bank expressed their concern on dealing with small scale farmers. The problem the bank has is lack of bank branches close to farmers whereby monitoring and inspection is difficult, the payment of insurance and collateral fees and recovery of the credit due to price fluctuation is also in questionable. Due to such situation, the bank has to charge high Interest rates cover the costs. However, with assurance of buyer the bank does charge less IR.

The Standard Chartered Bank explained to the delegates that currently the bank hesitate to trade with small scale cotton traders due to past records with cooperative unions. The bank has traded with maize traders whereby about 50m. Ug. shs was given as credit against stocks in the warehouse, however with a guarantee of 70% by VOCA – a US agency. The IR charged is calculated on monthly and is almost the same as for other business.

The bank, however, commended on the establishment of WRS and UCE as the same will create market and competitive price. Also with the system bank can sell the stocks in case of problem with the client.

It was concluded that since the bank is a corporate bank has a window for agricultural development where they regards trading in agricultural commodity is more profitable than on treasury bills business which is not assured.

The Warehouse Receipt Bill

The team also met the lawyer who is participating in the development of a warehouse legal framework in Uganda. Currently, the warehouse receipt legislation is not in place yet. However, efforts to get the Bill passed by the Legislature are well advanced. The Bill is already gazetted in the Government gazette, which is an indication that it is soon to be taken for Parliamentary scrutiny.

In the meantime general laws of contract, Chattels Ordinance, Sales of Goods and creation of floating charged (debentures) are being utilized. Further, contracts between banks and cooperative societies are registered by the Registrar of Cooperatives in order to give them legal protection under the Cooperative Societies Legislation. The problem associated with the use of general laws to operationalize the warehouse receipt system is that most farmers have failed to understand how the system works.

The Uganda Commodity Exchange Market

Uganda Commodity Exchange Market was registered as a company limited by guarantee in 1998. At that time its operations was limited only to grains and could not

function well because it was just as a marketing agent on behalf of the farmers. The market information which was badly needed to facilitate the market was not readily available. In 2004 the Government decided to join the Uganda Commodity Exchange Market with the Warehouse Receipt System. This step helped the UCEM to take off.

The warehouse receipt system now sensitizes cooperatives and farmer groups to trade their crops at the UCEM. This gives them a guarantee that they would sell their crops at competitive prices. Further, through the European Financed project the UCEM has managed to get important commodity exchange market equipments.

The UCEM has not finalized its establishment requirements. For example, it has not yet allowed the operation of brokers and rules of procedure are being prepared. Training is mostly needed. However, it has already managed to conduct the first sale of warehouse receipts of coffee stored in warehouses in Mbarara area, in the Southern Uganda. Farmers are represented at the market through their Cooperative Alliance. With the initial support of both the Government and sustainability mechanisms being built in the UCEM, the team had an optimistic impression of its future success.

General Observations/Lessons Learnt

From the tour the following could be observed, when compared to the Tanzanian position:

- Non-existence of farmer groups well organized at the grassroots may have been a big factor for the Ugandan warehouse receipt, relatively slow development, when compared to Tanzania. This is partially due to almost complete collapse of the Cooperative Society system in Uganda, especially as far as coffee is concerned;
- In both countries it has proved difficult to operationalize a warehouse receipt system in cotton. This proves that to operate efficiently and in the interests of the farmers a warehouse receipt system should be based on independent processing, separate from crop buying or exporting. But when farmers sell to the buyer who owns processing facilities and he is an exporter as well, it may be difficult to remove these middle men. In Uganda for example, the ginners through their association has to be committed during production by providing seeds and pesticides to farmers and they also commit to buy at a competitive price. This means that cotton to be traded through UCE will be difficult as the contract must be signed before harvest. At the moment, only ginners through WRS get credit from the bank. However, there is an effort to sensitize two Primary societies to gin their seed cotton at a fee for the next season.
- Establishment of a Commodity Exchange Market is a necessary requirement, if the warehouse receipt system is to be come sustainable and operate to all crops. The Tanzania warehouse receipt system operated well, because there is a well established system of coffee auctioning, which more or less operates like a Coffee Market Exchange.

Schedule 1

List of the People Visited

	Name	Institution
1.	Dr. San G. Nahamya	PS. – Ministry of Industry and Trade.
2.	Mr. Allex Rwego	Manager - UCE
3.	Mr. Noah Mwesigwa	Legal Consultant
4.	Mr. Mwesigye F.	NPC- WRS
5.	Mr. Apollo Kamugisha	UCDA- WRS- Coffee
6.	Miss. Deborah Kyarasiime	WRS
7.	Mr. Cris Baine	Consultant - NRI
8.	Mr. Hans Muzoora	CDO- WRS
9.	Ms. Blandina Nshakira	Director- Ministry of Tourism, Industry and Trade
10.	Mr. Kigenyi Christopher	Executive Director – Allied Bank
11.	Ms. Jane Aik	Cooperative Relation Officer- Allied Bank
12.	Ms. Mille Nkaja	Standard Chartered Bank
13.	Mr. Herment Mrema	NUCAFE

Annex 2: Uganda



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**ACTION PLAN TO PILOT MARKET INFORMATION
SYSTEM FOR COFFEE SECTOR IN UGANDA**

GIDEON ONUMAH

SEPTEMBER 2005.

1. Introduction

An appropriate market information system (MIS) is one of the essential building blocks in promoting warehouse receipts systems (WRS). This is recognised by the Natural Resources Institute (NRI), which is sub-contracted by the United Nations Office for Project Services (UNOPS) to provide technical advisory services in implementing projects funded by the Common Fund for Commodities (CFC) to establish Commodity Trade Finance Systems based on Inventory Collateralisation and Warehouse Receipts in Uganda, Tanzania and Zimbabwe. This Action Plan sets out an immediate programme to pilot a MIS in support of the WRS for the coffee sector in Uganda. Lessons from this pilot will help develop strategies for similar systems for the cotton sector in Uganda as well as the coffee and cotton sectors in Tanzania.

The Plan is based on recent consultations with stakeholders undertaken in August 2005 by G. Onumah and C. Baine as well as an earlier report by U. Kleih and R. Butterworth (providing an overview of information needs of stakeholders and existing information systems in Uganda, Tanzania and Zimbabwe) and a review by DCDM consultants of the scope for IT interventions to improve the existing information systems. The following are covered in this document:

- a. Identification of the target population to which information is to be disseminated;
- b. Type of information required by each identifiable group of stakeholders; and
- c. The appropriate means of collecting and disseminating the required information.

Consistent with the approved project workplans and defined functions of the implementing organisations, it is intended that this Plan will be adopted and implemented by the Uganda Coffee Development Authority (UCDA).

2. Information needs of key stakeholders

The key stakeholders in the coffee sector are:

- | | |
|-----------------------------|--|
| • Farmer associations | Main target depositors |
| • Medium-scale traders | Depositors and buyers of stored coffee |
| • Exporters | Buyers of stored coffee |
| • Banks | Providing inventory finance |
| • UCDA | Promotional and regulatory functions |
| • Warehouse operator/CM | Storage service providers |
| • Uganda Commodity Exchange | Floor for auctioning stored coffee |
| • Policymakers | Enabling environment |
| • Legislators | Regulatory framework |
| • General public | |

The information needs of these stakeholders are discussed below.

2.1 Farmers' information needs

Farmers need information on the following:

a. Functioning of the warehouse receipt system

Information on the WRS is needed to create awareness of the system, its potential benefits and how farmers can access the system. It is important that the information is provided in an appropriate format, that is easy to understand (i.e. not too long, little technical jargon and appropriate language) and the benefits of a warehouse receipt system are clearly stated. Potential depositors also need information on the cost and conditions, including minimum quality standards, are accepted for receipting at the designated warehouses. When farmers or groups have deposited, they need to be kept informed about the state of their crop.

b. Price information

Farmers need information on international market prices for coffee, and how this translates into indicative local market prices, thus making it possible for them to understand how the indicative prices are obtained and to monitor price trends. The UCDA already provides daily price information from the international exchanges such as London and New York but the information, which is disseminated by emails, appears to reach mainly exporters and policymakers. Other media need to be used to ensure that producers and their organisations are able to access this information.

c. Buyer information

A competitive and transparent system for marketing stored produce is the best means to assure farmers of a fair price. Obviously, sale by auction or through exchange trading would be the most transparent and competitive. Farmer groups who participated in the WRS pilot for coffee in Western Uganda (at Mbarara) sold their crop through an auction conducted at the Uganda Commodity Exchange. They were able to obtain prices, which reflected the quality of the crop and were also well above the UCDA indicative prices. However, in circumstances where such a system is yet to evolve, a database of potential buyers should be maintained to enable depositors "shop around" for competitive offers.

d. Information on financing conditions

Deferred sale to benefit from seasonal price movement is one of the attractions of the WRS. Access to inventory-backed finance facilitates deferred sale. Farmers and traders alike, therefore, need to be informed about banks which are willing to provide inventory credit as well as the terms and conditions under which the facility is provided.

e. Crop husbandry and post-harvest issues

Exporters were interested in the coffee receipted under the Mbarara pilot primarily because of the high quality. Currently, Uganda coffee is discounted on the basis of its variable quality. Hence, it is apparent that the WRS can help improve crop quality and

impact positively on prospects in the sector. To achieve this, quality standards have been set for crop to be receipted under the WRS. To enable farmers meet the set standards, they have to be provided with information on appropriate husbandry and post-harvest management practices.

2.2 Traders' information requirements

In general, traders tend to be better informed about the market than producers, and often exploit their information advantage. However, to promote competitive trade in coffee, it is important that all traders, the medium-scale suppliers (middlemen) as well as exporters have reliable information on the following:

- Functioning of a warehouse receipt system – and especially how it can be used to access trade finance and to procure the crop from farmers as well as market it to other local buyers (including exporters) or even importers. Related to this they need to be informed about the terms and conditions under which the crop is receipted and financing provided by banks.
- International coffee prices and relevant indicative local prices.
- Traders also need information on national crop output in order to determine, in conjunction with international price trends, the likely levels of seasonal price movements within the domestic market.

2.3 Bankers' information needs

In providing inventory finance, bankers need information on the following, which are expected to be stated in the receipts issued, and can be made available to banks by the warehouse operator or collateral manager:

- Name of depositor and location of stocks;
- Quantity and quality of stocks;
- Terms and conditions under which stocks are stored; and
- Name of warehouse operator and/or collateral manager.

Banks also need price information that allows them to value the stock to be financed as well as monitor the market value of the underlying commodity in order to secure the intrinsic value of the collateral. Warehouse receipts embody ownership of a certain market value, which to the bank is equivalent to the net income after liquidation and is determined by the market value of the day, carry-cost obligations and liquidation costs. Furthermore, bankers need to know about the systems for auctioning stored coffee and about potential buyers.

2.4 Information needs of Warehouse Operators

Provision of warehousing services for commodity receipting often involves investing in improving the physical infrastructure, acquiring equipment for quality assurance and obtaining relevant insurance and bonds. In terms of ensuring compliance with the regulatory framework for the WRS, whether it is statutory or based on private, self-regulating rules, the warehouse operators need information on the functioning of the

WRS as well as the specific certification or licensing requirements for operators authorised to issue the warehouse receipts.

In addition, for business planning purposes, the warehouse operator or collateral manager need to establish the profitability of their investment and, therefore, require information on the following:

- Output forecast, in order to estimate potential throughput;
- Information on potential depositors, to enable them define their market and the specific strategies to adopt in optimising their market share.

2.5 Information needs of UCE

To facilitate trading of the receipted coffee, the Uganda Commodity Exchange (UCE) requires a database of potential buyers as well as a list of participating warehouse operators and data on stocks of receipted coffee (including details of quantity delivered, the quality and depositors). The UCE also has to provide information on trading and payment procedures and systems that assure participants of delivery of and payment for traded stocks.

2.6 Information needs of UCDA and other policymakers

The UCDA requires, for purposes of policy formulation and to inform sector stakeholders, information on crop output, local and international prices, the WRS and participating warehouse operators as well as quality standards to be enforced. Other policymaking organisations, including the MTTI and Bank of Uganda require similar information. The legislators are particularly interested in information on the functioning of the WRS, the benefits (especially to smallholder farmers) and the legislative interventions needed to promote the system.

3. Collection and dissemination of market information

It is proposed to use a multi-media approach to communicate market as well as the management information generated under the WRS to the respective stakeholders. The media to be used include the following:

1. Radio

The rapid growth of FM radio stations, including at the district level, offer a good opportunity to disseminate market information. The FM radio, though expensive, is considered to be the most effective way to disseminate information targeted at smallholder farmers. Currently, UCDA broadcasts 15-minute bulletins covering such issues as crop husbandry and post-harvest issues. Similar programmes as well as radio talk and discussion slots have been and will continue to be used to disseminate information on the WRS. The possibility of including daily broadcast of coffee prices in the news and local announcement programmes by the FM stations is one option which can be explored.

2. Print media.

The use of printed media has played an important role in market information systems. Often, information is disseminated in newspapers, newsletters, and bulletin boards. The UCE is negotiating with two of the major dailies to publish price information bulletins originating from the UCE and/or UCDA in their business columns. This will be similar to the regular reportage on the Uganda Securities Exchange and will be free. Posters written in vernacular languages will also be used to communicate information on the WRS.

3. Mobile phones

Three companies in Uganda have established mobile telephone networks in the country which are currently being used to disseminate price information for various commodities. Most farmers do not have mobile phones but among farmer groups or cooperatives, at least one of the executives has a mobile phone. A process has been initiated to produce a database of mobile phone contact details of the executives of the primary cooperative societies which are likely to deposit coffee under the pilot at Mbale during the September-November 2005 season. Access via the phone costs users Uganda Shillings 120 per SMS displaying coffee prices. UCDA/UCE, which compiles the prices will receive Uganda Shillings 25 out of that amount.

4. Internet and telecentres

The internet, particularly the UCDA website, can be an effective means for disseminating information but it is most suited to traders, processors, exporters, warehouse operators, banks, commodity boards, and government agencies who are most likely to have user knowledge and are located in urban areas where access is not an issue. The number of privately-run internet cafes has been increasing rapidly, offering services such as e-mail and internet access as well as printing services. Telecentres offering similar services are also being promoted by the International Institute of Communication and Development (IICD). It is expected that farmer organisations linked to the telecentres will be able to access information via the internet.

Table 1: Summary of Information Requirements in the Warehouse Receipts System

Type of information required	Source of information	Target users of information	Most suitable means for dissemination
Functioning of WRS	Project Management Unit	<ul style="list-style-type: none"> • Farmer associations • Medium-scale traders • Exporters • Banks • Warehouse operator/Collateral managers • Uganda Commodity Exchange • Policymakers, UCDA, Legislators, General public 	<ul style="list-style-type: none"> • Posters/workshops/Radio • Website/Flyers/Radio/Newspapers • Website/Flyers/Radio/Newspapers • Website/Flyers/Radio/Newspapers • Website/Flyers/Radio/Newspapers • Website/Flyers/Radio/Newspapers • Website/Flyers/Radio/Newspapers
International and local prices	UCDA and UCE	<ul style="list-style-type: none"> • Farmer associations • All others 	<ul style="list-style-type: none"> • Rural radio, mobile phone, Notices at warehouses, extension officers. • UCDA/UCE websites, Radio, mobile phone, newspapers.
Buyer information	UCE	<ul style="list-style-type: none"> • Farmer associations • Medium-scale traders • Exporters • Banks 	<ul style="list-style-type: none"> • Notices at warehouses, extension officers. • All others via emails and UCE website.
Depositors and deposits	Warehouse operator or Collateral manager	<ul style="list-style-type: none"> • UCDA • Medium-scale traders • Exporters • Banks • UCE 	<ul style="list-style-type: none"> • Internet-based transmission of individual details to UCDA and banks • Email and website dissemination of aggregate information.

Financing terms and conditions	Banks	<ul style="list-style-type: none"> Farmer associations Medium-scale traders Exporters Banks Uganda Commodity Exchange UCDA 	<ul style="list-style-type: none"> Posters/workshops/Radio for general information and letters for individual details. All others: UCDA/UCE websites, radio and newspapers on general terms and conditions; and individual letters.
Crop output (forecast and actual)	UCDA	<ul style="list-style-type: none"> Farmer associations Medium-scale traders/Exporters Banks Warehouse operator/Collateral managers Uganda Commodity Exchange Policymakers, UCDA, Legislators, General public 	<ul style="list-style-type: none"> Rural radio, notices at warehouses and extension officers. All others: UCDA/UCE websites, radio and newspapers.
Crop husbandry and post-harvest issues	UCDA	<ul style="list-style-type: none"> Farmer associations Medium-scale traders Exporters Warehouse operator/Collateral managers 	<ul style="list-style-type: none"> Rural radio, notices at warehouses and extension officers. All others: UCDA/UCE websites, radio and newspapers.
Terms and conditions for participation by warehouse operators/collateral managers	Project management unit	<ul style="list-style-type: none"> Farmer associations Medium-scale traders/Exporters Banks Warehouse operator/Collateral managers Uganda Commodity Exchange Policymakers, UCDA, Legislators, General public 	<ul style="list-style-type: none"> Rural radio, notices at warehouses and extension officers. All others: UCDA/UCE websites, radio and newspapers.

4. Specific activities to be undertaken

4.1 Radio dissemination

Objective: FM radio stations in the main coffee growing areas broadcast daily price bulletins as part of their news or announcement programmes.

Target: Broadcast by FM radio stations with which UCDA has annual contracts to broadcast weekly 15-minute sector programmes.

Priority: Broadcast by FM radio stations in the areas covered under the Mbale pilot.

Activities:

- a. UCDA/LMU to negotiate and sign MOUs with target FM radio stations (D. Kiwanuka and C. Baine);
- b. UCDA to agree format for bulletins with radio stations;
- c. UCDA to commit to providing bulletins to stations on very regular basis, by 15.00hrs EST each day to enable them broadcast in the evening (D. Kiwanuka).
- d. Mainly international and indicative local prices will be disseminated in a format suited to particular localities.
- e. Private sector sponsoring of the UCDA radio programmes should be explored. Potential funders include: banks, warehouse operators/ CM, exporters, and input suppliers. In return, the sponsoring company's name will be mentioned with the broadcasts. For example, a banker in Moshi in Tanzania has expressed interest in such an endeavour.

Date by: By 26th September 2005 - UCDA to begin issuing bulletins and FM radio stations to begin broadcast in Mbale pilot area.

Cost: It is expected that UCDA will be able to negotiate free broadcast by FM radio stations.

4.2 Use of print media

Posters on the WRS that have already been produced are being used to promote the system. The main focus will therefore be on dissemination by the newspapers.

Objective: Major dailies publish daily price bulletins.

Target: At least one of the three major dailies publishes the price bulletins during the September-November 2005 pilot.

Activities:

- a. UCDA/LMU/UCE to negotiate and sign MOUs with publishers of the major dailies (D. Kiwanuka, Alex Rwego and C. Baine);
- b. UCDA/UCE agree format for bulletins with publishers (D. Kiwanuka and Alex Rwego);

- c. UCDA/UCE commit to providing bulletins to publishers on very regular basis, by 15.00hrs EST each day (D. Kiwanuka and Alex Rwego).

Date by: Publication begins by 26th September 2005.

Cost: This is expected to be a free service.

4.3 Disseminating prices via mobile phones

Objective: Coffee prices, which are updated two times a day, are disseminated via the mobile phone network.

Target: Dissemination by at least one of the networks during the September-November 2005 pilot.

Activities:

- a. UCDA/LMU/UCE to negotiate and sign MOUs with SMS Media and/or True Africa (D. Kiwanuka, Alex Rwego and C. Baine);
- b. UCDA/UCE/LMU agree format for bulletins with selected intermediary (D. Kiwanuka, Alex Rwego and Chris Baine);
- c. UCDA/UCE commit to providing bulletins on very regular basis, by 08.30 and 15.00hrs EST each day (D. Kiwanuka and Alex Rwego).

Date by: Dissemination begins by 26th September 2005.

Cost: UCDA/UCE should be *receiving* Ug. Shillings 25 or more for each request.

4.4 Internet and emails

Email dissemination has limited outreach and even those who are able to access it complain it sometimes clogs up their systems. For this reason, we recommend the focus should be on dissemination via the UCDA (and UCE) website(s), with email alerts to subscribers.

Objective: UCDA (and UCE) website(s) become effective media for disseminating information on WRS and market developments.

Target: Website(s) upgraded to include pages covering WRS information and market information beginning during the September-November 2005 pilot.

Activities:

- a. UCDA invites ISPs to tender review, advice and implement recommendations on specific upgrade needed (in terms of hard and soft ware). UCE may do the same (A Rwego and C. Baine);
- b. UCDA contracts selected ISP (D. Kiwanuka);

- c. ISP implements adopted recommendations (D. Kiwanuka).
- d. UCDA/LMU monitor and evaluate implementation by ISP (D. Kiwanuka and C. Baine).

Date by: Recommendations implemented by 15th November 2005.

Cost: Not exceeding approved budget for component.

4.5 Transmission of information on receipted commodities

Objective: Ensure that information on stocks deposited is transmitted to UCDA, UCE (where necessary) and financing banks accurately and on time.

Cotecna, the collateral manager is already doing this and will be required to continue doing so. The LMU will monitor this process to ensure compliance. The ISP contracted by UCDA will be required to help set up a system that automatically updates information sent by email to UCDA by Cotecna. No additional cost is anticipated since the service is included in the fee paid to Cotecna. Follow-up by C. Baine.

4.6 Collation and dissemination of indicative prices

Objective: Ensure timely transmission, collation and dissemination of information from UCDA field officers.

Activities:

- a. ISPs to advice and implement recommendations on setting up web-based system for transmission of information, which also allows for automatic compilation of data provided (D. Kiwanuka and C. Baine);
- b. UCDA/LMU monitor and evaluate implementation by ISP (D. Kiwanuka and C. Baine).

Date by: Recommendations implemented by 15th November 2005.

Cost: Not exceeding approved budget for component.

Annex 3: Minutes of the Meeting to Launch the WRS in Zimbabwe (12 September 2005)

Present were:

<i>Name:</i>	<i>Organization</i>
D. Tawonezvi	Coffee Market Development
D. Muganyura	Zimbabwe Farmers Union
Mr Chikomo	Kingdom Bank
J. Kordonski	Zimbabwe Coffee Mill

Apologies:

V. Mutiro	Ministry of Agriculture
K. Gutu	Agribank

	Action
<p>1. Opening Remarks</p> <p>The Project Manager, Mr Tawonezvi welcomed everyone to the meeting and called the meeting to order. Introductions were made with each individual giving his name and organisation he was representing.</p>	
<p>2. Adoption of the Agenda</p> <p>The agenda was adopted without amendments.</p>	
<p>3. Objectives of the System</p> <p>The Project Manager briefly highlighted the essence of the meeting including the objectives of the warehouse receipts system (WRS). He indicated that the idea was to start implementing the system according to the agreed work plan (as agreed by stakeholders). We have a mandate to implement the system for the benefit of the farmers. It was indicated that the system was going to help farmers access funds from the banks using stored coffee as collateral. Everybody at the meeting was in agreement and well versed with the concept.</p>	
<p>4. The Warehouse Receipts</p> <p>The Project Manager indicated that the Warehouse Receipts had been printed by Fidelity Printers and were ready for use in the WRS. The stakeholders had an opportunity to look at the receipts that were made available to the meeting. The security features on the receipts were explained to the comfort of everybody present.</p> <p>The receipts were finally given to the Zimbabwe Coffee Mill with an issue letter from the Coffee Market Development Project. The receipts given were 100 in total with serial numbers 00001 to 0000100. The receipts have one original and five duplicate copies. The coffee system will however, utilize only two copies. The farmer gets the original and a copy. Zimbabwe Coffee Mill remains with another copy.</p>	

<p>5. The Operational Framework</p> <p>The meeting had the common understanding that the framework involves ZCM, farmers, Kingdom and Agribank. Farmers deposit coffee to ZCM, receipts are issued which can then be lodged with banks for financial advances. The meeting agreed a minimum deposit of 1 tonne to make the system viable. A number of operational issues were also discussed at the meeting and these include:</p> <p>Interest rates: Interest rates in Zimbabwe are currently too high (around 300%) and this might have an effect on the uptake of funds from the banks. Banks should look into the possibility of getting funds from the Reserve Bank at 20%. Mr Dangarembwa of Kingdom Bank indicated in June, at the Coffee Workshop in Mutare, that the bank could apply funds from the RBZ on behalf of the farmers. This avenue should be explored.</p> <p>The meeting also indicated that even at 300% interest, farmers could still benefit from using the WRS, considering that the exchange rates have been moving favourably upwards over the past months. For instance exchange rate moved from 1US\$ to ZS\$ 9000 in July to 17500 in August and had gone up to 26000 in September. The increase is relatively higher than the interest rates; hence it makes sense for farmers to borrow from the banks. If the farmers delay marketing their coffee, they benefit from exchange rate movements. In other words prices in Zimbabwe are increasing in real terms. However, the meeting noticed that farmers have a misperception of these price movements. They do not appreciate the relationships between interest rates, exchange rates and prices. There is therefore need to market the concept to the farmers</p> <p>Value of coffee deposited: Banks have no capacity to estimate the value of stored coffee. ZCM agreed to provide information like what they are currently doing. The value will be based on world market prices. The bank will then finance on a percentage basis. The banks will determine the percentages depending on the perceived risks. The banks should liaise with ZCM to get the final value of coffee.</p> <p>Processing of coffee and issuing of receipts: When farmer delivers coffee, ZCM will process it as usual and give it a grade and class, a process that may take a week or less. The receipt will only be issued after processing, since the value of stored coffee depends on the grade. The receipt will show the quantity for each grade deposited.</p> <p>Administration Charges: ZCM will come up with an administration charge that will be paid by the farmers. The ZCM Accountant to come up with a figure (a flat rate). The fee should be economic.</p> <p>Challenges to the banks: Banks like Kingdom have already an overdraft facility, which can be used by the farmers and suits people without any financing arrangements. The WRS will however reduce various risks on the part of the banks.</p>	<p>Chikomo and Dangarembwa</p> <p>ZFU, LMU and ZCM</p> <p>Kingdom, Agribank</p>
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<p>Communication: The contact person for Kingdom is in Mutare (Mr Chikomo). The Harare office should be updated constantly.</p> <p>Combining WRS with current system: A system financed by Kingdom is already running where farmers are given some advance payment on delivering coffee. There is need to explore how he two can be combined. The Natural Resources Institute should give some technical advise on this.</p> <p>Farmers with credit: Some commercial farmers were issued with credit by Kingdom Bank last season and payments will be made via ZCM on delivery. The coffee belonging to these farmers would not be possible to market under the WRS. There is therefore need to get the exact number of commercial farmers who got credit from Kingdom last season.</p>	<p>NRI, LMU, ZCM</p> <p>LMU</p>
<p>6. Memorandum of Understanding</p> <p>The Project Manager presented some drafts of the MoUs for bankers and ZCM. The stakeholders agreed to go through them and make comments where necessary. Signing will be done later.</p>	
<p>7. The Information System</p> <p>The meeting agreed on the need for timely information for all stakeholders. Communication will be done mainly by email and telephone. ZCM will notify the banks and the Project Office about the receipts issued.</p>	<p>ZCM</p>