



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

PROJECT COMPLETION REPORT

By

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1.0 Executive Summary

1.1 Project summary

1. Title: Coffee and Cotton Markets Development and Trade Promotion in Eastern and Southern Africa
2. Location: Uganda, Tanzania and Zimbabwe
3. Project Executing Agency (PEA): United Nations Office for Project Services (UNOPS).
4. Implementing agency: Consortium led by Natural Resources Institute and including DCDM Advisory Services and Belmont Management Consultants
5. Starting date: October 2004 (as per subcontract between UNOPS and NRI-led consortium).
6. Completion date: June, 2006 (as per subcontract between UNOPS and NRI-led consortium, which was extended to 30th September 2006).
7. Period covered by this report: October 2004 to September, 2006.

1.2 Summary of project achievements

The report shows that within 18 months of the take over by the NRI consortium in the provision of technical advisory services for project implementation, substantial progress was made in setting up sustainable WRS for coffee and cotton in Tanzania and Uganda. The achievements, summarised below and which were acknowledged during reviews by a CFC consultant in 2006, have substantially improved the prospects of mainstreaming of receipt-based commodity trade and finance in Uganda and Tanzania. In Uganda, the Uganda Commodity Exchange (UCE) is already building on the project achievements as it develops a modern agricultural trading system centred around the WRS. The strong commitment of the Government of Tanzania to support the Warehouse Receipts Board, also stems partly from the perceived long-term role of the WRS in improving agricultural sector development.

As a consequence of the sharing of the experiences and lessons from the project by staff of the consortium and the LMUs there is growing interest in the promotion of WRS as part of efforts to improve agricultural marketing and finance. For instance, a meeting of African Ministers of Trade in Arusha in November 2005 strongly endorsed

the development of WRS¹. Hence, the project can be said to have contributed to the goal of CFC in using the pilots to encourage governments to invest in the development of institutions that improve agricultural commodity marketing but also benefit smallholder farmers who dominate the farm sector in developing countries.

The achievements include the following:

- a) Promulgation of enabling Warehouse legislations in Uganda and Tanzania Act in February 2006 (with subsequent Presidential assent in June 2006) and April 2005 (and receiving Presidential assent in June 2005) respectively. The legislations principally recognise warehouse receipts as document of title, thereby securing the interests of lenders and other third-parties to whom the receipts are transferred. It also provides a framework for regulating the issuing of warehouse receipts, in particular in designating regulatory agencies. This will minimise the risk of fraud in the issuing of receipts and consequently engender confidence in the system.
- b) Developing a unique market information system that does not only assure timely dissemination of reliable information but is also sustainable in the long-term for the coffee sector in Uganda and for both crops in Tanzania. The model is later to be replicated in the cotton sector in Uganda.
- c) To support information dissemination, websites of commodity boards have been upgraded (except in the case of the Cotton Development Organisation in Uganda).
- d) The WRS has been successfully piloted in both the coffee and cotton sectors, using collateral managers, in Uganda as reported below:
 - Three Coffee pilots were undertaken in Mbarara (West), Mbale (East) and Muhame (Central). Though the volumes deposited were below 50 tonnes in each case, the pilots demonstrated that well-organised primary cooperatives societies and other farmer groups could use the system to bulk their crop and market for incremental income of about 30% of the market price for unprocessed coffee (parchment or kiboko).
 - Two Cotton pilots have been undertaken, both at the same location and involving Nyakatonzi Cooperative Union as the ginner/warehouse operator. Participating farmers earned up to 40% more than they would if they sold seed cotton because they are paid for the lint equivalent by their Union. They also benefited from the sale of the cotton seed, which they would have foregone if they sold seed cotton.
- e) The WRS pilots have been most successful in the Coffee sector in Tanzania, which annually attracts inventory-backed financing equivalent to about US\$10 million from three banks: CRDB Bank, Kilimanjaro Cooperative Bank and Exim Bank.

¹ The Arusha Declaration and Plan of Action on African Commodities by AU Conference of Ministers of Trade on Commodities; 21-23 November 2005, Arusha, United Republic of Tanzania.

- f) The Cotton WRS is yet to make an effective transition into a mainstream activity but the pilot has been extremely successful in helping one major primary society raise cotton output by its members from just over 130,000 kg of seed cotton to the peak of over 1,100,000 kg of seed cotton over a period of about three years.
- g) The outcome in Zimbabwe has been rather disappointing due mainly to unfavourable macroeconomic and commodity-sector conditions. However, the key building blocks for the WRS have been developed for both coffee and soybean, including the following:
- Credible warehouse operators have been sensitised and have demonstrated interest in offering third-party warehousing services under which inventories can be collateralised.
 - Participation by a locally-based collateral manager, ITS-Socotec, was secured.
 - Standard warehouse receipts with adequate security features were printed and issued.
 - Participation by two major banks – Kingdom Bank (private) and Agribank (state-owned) was secured.
 - Potential depositors, in particular smallholder groups in both coffee and soybean sub-sectors as well as relatively larger-scale soybean producers were sensitised through workshops, project flyers and publication of feature articles.
 - An agreement was reached with the Ministry of Agriculture to integrate the dissemination of market information for coffee and soybean as part of its system.
 - Quality assurance manuals were produced for both coffee and soybean (attached) and training events organised for smallholder groups and other key stakeholders.

2.0 Project Background, objectives and approach

2.1 Introduction and structure of report

This Project Completion Report is submitted under the contract subsisting between the United Nations Office for Project Services (UNOPS) and a consortium led by the Natural Resources Institute (NRI). The consortium, the other two partners of which are DCDM Advisory Services (DCDM) and Belmont Management Consultants (BMC), was sub-contracted by UNOPS in October 2004 to provide technical advisory services in establishing “Commodity Trade Finance Systems based on Inventory Collateralisation and Warehouse Receipts”. The Common Fund for Commodities (CFC) funded the projects under which these systems were to be developed in three participating countries, namely: Uganda, Tanzania and Zimbabwe. The projects 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).

The project Appraisal Reports were prepared in 1997, and implementation began in all three countries in January 2001. After two-and-half years of implementation, a mid-term evaluation of the projects, undertaken in June-August 2003, concluded that although progress had been made in achieving some of the outputs under Components II and III (on setting up market information and quality assurance systems), very little had been achieved in terms of the primary objective of setting up viable and sustainable warehouse receipt systems (WRS). This was partly due to inadequate technical support to the LMUs and other local stakeholders. It was in response to this that CFC/UNOPS decided that the NRI consortium should be sub-contracted as technical advisors.

The report is structured as follows:

In the rest of Section 2 we outline the project objectives and benefits; and the implementation approach adopted (including a description of inception conditions, the approach adopted and project management and coordination arrangements).

In Section 3 the project outcomes are reported by countries and components. An assessment of the project outcomes and prospects is undertaken in Section 4, including a review of the achievements as well as the management and coordination arrangements. Forward plans for consolidating the successes achieved are also set out in Section 4. The main conclusions are highlighted in Section 5.

2.2 Project objectives, benefits and beneficiaries

The objectives of the projects have remained unchanged from the original as outlined in the Project Appraisal Reports. These were to:

- Improve and increase the potential benefits from coffee/cotton production and marketing to countries in the region, within the framework of a liberalised global market;
- Increase export earnings from coffee/cotton production and marketing in the participating countries;
- Improve the income of smallholder coffee/cotton producers and small-scale traders in the coffee/cotton trade, by increasing their share of export prices and limiting their risk exposure;
- Develop and test systems of coffee/cotton financing, marketing and trade that can be replicated in other developing producing countries; and
- Strengthen public and private institutions and improve local human resource capacities to operate effectively in a liberalised market.

Though smallholder producers were the main target beneficiaries, it was anticipated that small-to-medium scale traders as well as exporters of all size would benefit. The main benefits from the project, as stated in the Project Appraisal Reports, were to:

- a) Improve liquidity in the commodity markets by making inventory-backed finance less risky and, therefore, more readily accessible to market players such as producer groups, small-to-medium scale traders and exporters.
- b) Create a more transparent market system by reducing cheating on weights and quality, from which smallholder producers tend to suffer, implying that farmers could be better rewarded.
- c) Promote expansion of third-party warehousing for the targeted as well as other storable commodities.
- d) Increase low-risk, structured financing opportunities for banks, as a means of deepening the financial sector in the participating countries.
- e) Improve the quality of coffee and cotton marketed in the participating countries, thereby allowing producers and the countries as a whole to enjoy quality premiums, which they lost after liberalisation of commodity marketing systems.
- f) Strengthen the bargaining power of smallholder producers and small-scale traders, by ensuring timely dissemination of reliable market information.

2.3 Implementation approach

2.3.1 Inception conditions and prospects

Two inception visits were undertaken to the participating countries in October 2004 and January 2005 to assess progress made in achieving project objectives prior to the sub-contracting of the NRI consortium; identify activities to be undertaken and related implementation challenges; determine technical support and resources needed; to

formulate plans and strategies for delivery project outputs in consultation with relevant stakeholders; and agree project management arrangements with the local commodity bodies and management units.

The team which visited the participating countries in October 2004 was made up of Sandeep Khapre of DCDM and Gideon Onumah of NRI. Subsequently, the following visited the three countries in January 2005: Sietse van der Werffand and Caleb Dengu of CFC, Fred Claus of UNOPS and G. Onumah. It was concluded from the visits that the following factors were conducive to the successful development of the WRS in Uganda and Tanzania:

- a) Due to the prevailing stable macroeconomic conditions in both countries, including low levels of public sector borrowing from the domestic banking system, the banks had substantial loanable funds. Hence, compared to relatively less stable countries, the cost of borrowing was low – though comparatively high relative more sophisticated and developed financial markets in Europe and America.
- b) A few trusted collateral management companies existed, including ACE, Cotecna and Baltonic (in Tanzania only). These facilitated provision of credit under collateral management agreements (CMA) – issuing non-negotiable receipts – by such banks as Chartered, Stanbic, Allied Bank and Orient Bank in Uganda and CRDB and Exim Bank in Tanzania. There was therefore some level of familiarity with receipt-based financing in the two countries.
- c) Suitable storage facilities were available within the main urban market towns/cities and in some of the major producing areas. Most of the storage facilities were owned by cooperative unions and private companies.
- d) Quality standards existed for both coffee and cotton.
- e) Smallholder groups existed through which farmers could be mobilised to deposit economic lot sizes of commodities and to facilitate training to enable them comply with quality standards.
- f) Government support, which was identified as critical to successful lobbying for the promulgation of supportive warehouse legislation, was evident through the active participation in project implementation by the Ministry of Tourism, Trade and Industry (MTTI) in Uganda and the Ministry of Cooperatives and Marketing (MCM). These Ministries had respectively seconded senior officers as National Project Coordinators (NPC) – part-time in the case of Uganda and full-time in Tanzania.
- g) There were no major agricultural trade policies which could hinder private inter-seasonal stockholding, mainly because none of the selected commodities was significant in terms of household food security.

h) In the specific case of Uganda, there was an initiative to improve the performance of the Uganda Commodity Exchange (UCE), which could improve the prospects for receipt-based trading in and financing of agricultural commodities, the latter through easing liquidation of collateralised stocks.

The implementation challenges and threats to successful promotion of WRS which were identified in Uganda and Tanzania included the following:

- i. The existence of smallholder groups was important for mobilising producers for training (especially in quality assurance) and for depositing under the WRS, but the capacity of the groups was variable, especially in Uganda (and less so in the coffee sector in Tanzania where some primary cooperative societies were familiar with the WRS).
- ii. Even though standards existed for cotton and coffee, no quality premium was paid at the farmgate, thus discouraging producers from adopting practices necessary to ensure the delivery of quality produce.
- iii. The existing WRS was considered too expensive and access requirements under the CMA-backed financing tended to exclude all but the large traders and exporters, some of whom had access to cheaper offshore finance and did not require inventory finance from the local banks (especially multinational trading companies with vertically integrated operations).
- iv. The performance of collateral managers was also variable, sometimes leading to losses which adversely affected the attitude of banks to receipt financing. In addition, there was little competition the collateral management companies as, for instance, ACE dominant in both countries.
- v. The integration of processing and export marketing in the cotton sector limited opportunities for expanding inventory finance beyond ginners to small-scale traders (middlemen) and farmer-marketing groups.
- vi. Delays in promulgating supportive warehouse legislation could discourage receipt-based financing by banks.

The conditions in Zimbabwe differed significantly from those in Uganda and Tanzania. There was considerable familiarity with the WRS in the country – under the defunct Zimbabwe Agricultural Commodity Exchange (ZIMACE), a receipt system for grains was successfully developed. Kingdom Bank and Trust Bank provided financing against coffee stocks under a trust-based system involving the Zimbabwe Coffee Mill (ZCM), which was farmer-owned and handled about 65% of the country's coffee exports. Inventory credit was secured under a CMA involving ITS Socotec, the main collateral manager in the Zimbabwean market.

In contrast with the above favourable conditions, the macroeconomic and financial sector conditions prior to inception of project implementation were not conducive to innovative lending systems, including WRS. Inflation was high – over 600% per annum in 2003 but fell to about 130% per annum by the end of December 2004, following specific monetary policy reforms by the Reserve Bank. Exchange rate policy was also reformed allowing exporters to auction 75% of export proceeds through the Reserve Bank at an average rate of Zim\$5,600 to US\$1.00. The remaining 25% had to be surrendered to government at a fixed rate of Zim\$800 to US\$1.00 (which was the official rate of exchange in December 2003).

These developments partially improved the prospects for inventory-backed financing by reducing the cost of borrowing and making export financing more attractive. However, they led to short-term instability in the financial sector, with one of the main banks involved in inventory financing being placed under curatorship. Other implementation challenges and threats to project outcomes included:

- i. Low and declining coffee output, due in part to policy interventions which have created uncertainty, especially in the commercial farming sector.
- ii. Weakness in smallholder groups in the coffee-producing areas, therefore limiting the capacity of the groups to help assemble and deposit economic volumes of the crop and address the problem of quality variability among smallholder producers.
- iii. Lack of effective oversight of the existing inventory finance programmes, could lead to losses through fraud.
- iv. Delay in promulgating the warehouse bill.

2.3.2 Approach adopted

In carrying out the assignment, the consortium adopted a process approach in the design and implementation of the package of interventions required to achieve the project goals. This approach, which was adopted by NRI in successfully piloting a WRS in Zambia, places emphasis on the country and commodity sector context in design and choice of implementation strategy, rather than the imposition of generic blueprints. The approach is inherently flexible, allowing for changes to be accommodated as implementation evolves. It is also premised on strong local leadership, especially by private interests in the development of sustainable systems, with external technical expertise providing guidance to local stakeholders in making strategic decisions.

The workplans and strategies proposed for setting up viable WRS in the participating countries took cognisance of prevailing conditions outlined in Section 2.3.1. The agreed project activities were grouped under the four components set out in the original Appraisal Reports as follows:

- i. Promotion of privately run warehousing systems and the establishment of collateralised warehouse receipt systems, including undertaking inventory of warehousing infrastructure and adopting criteria for selecting warehouses and operators to issue warehouse receipts; as well as getting supportive warehouse legislation promulgated.
- ii. Development of basic market information systems
- iii. Development of quality assurance and certification systems
- iv. Development of a system of commodity trade finance based on inventory collateralisation and a warehouse receipt system.

2.3.2 Project management and implementation arrangements

UNOPS (the PEA) had overall responsibility for project implementation, its specific role including approving Action/Work Plans and budgets, after consultations with CFC and the ICBs. It was also responsible for disbursing funds to the LMUs and accounting for the funds (based on reports submitted by the LMUs). It managed procurement of goods and services for project activities, though it sometimes delegated this function to the local management units (LMU) when necessary and on the basis of clearly defined procurement procedures.

The NRI consortium provided technical advisory services, particularly to the LMUs and other local stakeholders. NRI was specifically to ensure delivery of outputs under Components I and IV, focusing on developing the WRS. In addition and related to this, the Consortium was to assist in completing activities under Components II and III (i.e. set up basic market information and quality assurance systems respectively).

The LMUs, led by the NPCs were the focal point for project activities at the local level. They were responsible for coordinating the preparation and implementation of country workplans and budgets as well as managing local budgets. The commodity boards were responsible for implementation of sector-specific activities (particularly under Components II and III) and implementation of cross-cutting programmes and activities, in accordance with agreed workplans.

CFC, the International Coffee Organisation (ICO) and International Cotton Advisory Council (ICAC) were responsible for monitoring and supervision of project implementation.

3.0 Project outcomes and achievements

As illustrated in Appendix 1, the main outputs required under the sub-contract between the PEA and the NRI consortium have been delivered. The detailed outcomes are reported by country and component below:

3.1 Uganda

3.1.1 Uganda Component I

- a) The most important achievement under Component I was the promulgation of the Warehouse Act in February 2006, with subsequent Presidential assent in June 2006. The Act principally recognises the warehouse receipts as document of title, thereby securing the interests of lenders and other third-parties to whom the receipts are transferred. It also mandates the Minister of Tourism, Trade and Industry to appoint a regulator of the receipts system. The Uganda Commodity Exchange (UCE) has been designated as the regulatory body. The UCE is leading in the preparation of Warehouse Regulations which will allow it to enforce the Act. The project team (LMU/NRI) is providing inputs. Achieving this output involved painstaking lobbying and other activities, including:
- Producing and submitting draft Warehouse Receipt Bill to cabinet, through the Minister, after consultations with Legislative Draftsmen from the Ministry of Justice and other stakeholders;
 - Submitting supporting documentation, including the Certificate of Financial Implications obtained by the project team from the Ministry of Finance;
 - Holding two workshops and consultation meetings with MPs to brief them about the WRS and its potential benefits as well as clarifying issues arising from the draft Bill;
 - Organising two study tours to Tanzania for MPs, the Legislative Draftsmen and other stakeholders as part of the targeted sensitisation and also to garner support behind the draft legislation.
 - Following promulgation of the Act, the LMU printed and circulated copies of the Act.
- b) Other outputs delivered under Component I were adoption of standards for warehouses approved to issue receipts – included in the Quality Assurance Manual; and the selection of warehouses to participate in pilots, the outcomes of which are reported under Component IV.

3.1.2 Uganda Component II

The expected outputs for the coffee sector under this component have been fully delivered as reported below:

- a) Following an assessment of the information needs of key stakeholders in the coffee sector, a MIS model was developed and successfully installed at the UCDA. What is unique about the MIS is that it is clearly sustainable, without any injection of donor funding. This is because the information collection and processing mechanism on which it is built is not over-elaborate and does not impose additional cost for UCDA. The information dissemination system adopted will allow for timely update of market information but is also not financially burdensome to UCDA. It is disseminated by these means:
- UCDA website: there are no additional demands in terms of human and other resources used by UCDA in maintaining the website as was the case prior to the development of the system.
 - Publication by local newspapers and broadcast by local FM radio stations: an arrangement was negotiated under which newspapers publish the market information in “Business news” columns and radio stations broadcast as part of business bulletins, for which reason UCDA is not charged for the dissemination.
 - Mobile phones using SMS messaging: the terms negotiated allows UCDA to share in revenue generated.
- b) MIS training manual produced by NRI (Appendix 2) and used in training key stakeholders.
- c) The UCDA website has been upgraded, using local consultant recruited by UCDA.

Project implementation challenges, which are discussed in Section 4, have delayed replication of a similar system in the cotton sector.

3.1.3 Uganda Component III

- a) Training needs assessment for stakeholders was undertaken, based on which a Quality Assurance Manual was prepared. Following the use of the draft in over 10 training sessions, involving UCDA personnel and the LMU, the manual has been revised (attached – Appendix 3).
- b) Implementation of activities under this component in the cotton sector has been delayed. The sector body – Cotton Development Organisation (CDO) – is particularly keen to procure a new HVI to improve quality assurance capacity but this has been delayed as result of delays in approving budgets.

3.1.4 Uganda Component IV

- a) The WRS has been successfully piloted in both the coffee and cotton sectors, using collateral managers, as reported below:
- Three Coffee pilots were undertaken at Mbarara (West), Mbale (East) and Muhame (Central). Volumes deposited were below 50 tonnes in each case but the pilots demonstrated in particular that well-organised primary cooperatives societies and other farmer groups could use the system to bulk their crop and market for incremental income of about 30% of the market price for unprocessed coffee (parchment or kiboko). This is because of the certified quality, larger volumes as well as the possibility of determining the out-turn, for instance from curing parchment.
 - The WRS has been piloted in the cotton sector for two seasons, both at the same location and involving Nyakatonzi Cooperative Union as the ginner/warehouse operator. The Union virtually toll-gins on behalf of member primary societies who deliver seed cotton to it. However, it is the main buyer of the lint, which it exports. Participating farmers earn up to 40% more than they would if they sold just seed cotton because they are paid for the lint equivalent by their Union. They also benefit from the sale of the cotton seed, which they would have foregone if they were marketing seed cotton. During the 2005/06 pilot, just over 100,000 kg of seed cotton was deposited. The 2006/07 pilot has attracted well over 180,000 kg of seed cotton. The benefits for the Union include assuring increased ginning throughput and reducing its financing requirements as they do not have to pay when seed cotton is delivered.

3.2 Tanzania

3.2.1 Tanzania Component I

- a) As was the case in Uganda, the most important achievement under Component I in Tanzania was the promulgation of the Warehouse Receipts Act in April 2005 and given Presidential assent in June 2005. In addition to recognising warehouse receipts as document of title, the Act provides a framework for the establishment of a Warehouse Regulatory Board. The project team (LMU/NRI) has provided inputs in the preparation of Warehouse Regulations and Government has initiated steps to fund the Board and to recruit its staff. The Board is expected to take over WRS-related activities from the LMU when launched. Lobbying for the promulgation of the Act involved similar activities as was the case in Uganda.
- b) Standards for warehouses approved to issue receipts have been adopted – included in the Quality Assurance Manual (Appendix 4).
- c) Staff of the LMU, the commodity boards, warehouse operators (participating curing factories and ginneries) and lenders were trained in Warehouse Inspection. The training material has been revised to constitute a Warehouse Inspection Manual (Appendix 5). However, the manual would have to be further revised

when the Warehouse Regulations become enforceable after the Minister has issued a legislative instrument to that effect. Staff of the WRB would also benefit from the training in warehouse inspection.

3.2.2 Tanzania Component II

MIS for both coffee and cotton are in place in Tanzania. MIS training manuals have been prepared for both sectors (Appendices 6 and 7) and used for training of key stakeholders, particularly staff of the commodity boards, warehouse operators and selected leaders of producer organisations participating in the WRS.

A website for the LMU has been developed and will be transferred to the Warehouse Regulatory Board, when it is operational.

3.2.3 Tanzania Component III

Training needs assessment for stakeholders was undertaken, based on which a Quality Assurance Manual was produced (Appendix 4).

3.2.4 Tanzania Component IV

The WRS pilots have been most successful in Tanzania. The Coffee WRS now runs as mainstream activities in five important coffee growing locations. Significant financing against coffee inventories is provided by CRDB Bank, Kilimanjaro Cooperative Bank and Exim Bank. They provide, on an annual basis, financing equivalent to about US \$10 million.

The Cotton WRS is yet to make an effective transition into a mainstream activity but the pilot has been extremely successful in helping one major primary society raise cotton output by its members from just over 130,000 kg of seed cotton to the peak of over 1,100,000 kg of seed cotton. This is despite the fact that the use of antiquated ginning stands at the toll-ginning facility run by the Tanzania Cotton Board (TCB) hampered the pilot. Through the interventions made to the Ministry of Cooperatives and Marketing (MCM) by the project team (LMU/NRI consortium), new ginning stands were installed in October 2005. The improvement that resulted allowed the depositors – Oridoy Rural Cooperative Society – to market their lint directly to a UK-based cotton merchant, with the assistance of locally-resident broker. This transaction was facilitated in no small way by the use of the HVI, procured under the project and run by the TCB, in pre-shipment certification of the quality of lint exported from Tanzania.

3.3 Zimbabwe

The key building blocks for the WRS in Zimbabwe have been developed for both coffee and soybean as shown below:

- a. Warehouses and warehouse operators have been sensitised and demonstrated interest in offering third-party warehousing services under which inventories can be collateralised. The selected operators are the Zimbabwe Coffee Mills (ZCM) for coffee and the Grain Marketing Board (GMB), especially their storage facilities in the Mashonaland Province (Central Zimbabwe) for soybean.
- b. Terms and conditions were agreed a locally-based collateral manager, ITS-Socotec, under which it offered stock verification and inspections for deposited coffee and issued warehouse receipts under the soybean pilot.
- c. Standard warehouse receipts with adequate security features were printed and issued to ZCM for the coffee pilot in September 2005 and to GMB for the soybean pilot in April 2006.
- d. Consultations were held with an agreement on participation reached with Kingdom Bank (private) and Agribank (state-owned). Financial manual was produced in consultation with the banks.
- e. Potential depositors, in particular smallholder groups in both coffee and soybean as well as relatively larger-scale soybean producers were sensitised through workshops, project flyers and publication of feature articles.
- f. An agreement was reached with the Ministry of Agriculture to integrate the dissemination of market information for coffee and soybean as part of its system which was being reformed.
- g. Quality assurance manuals were produced for both coffee and soybean (Appendices 8 and 9) and training events organised for smallholder groups and other key stakeholders.

However, the outcome of the WRS pilots were disappointing for the following reasons:

- Continuing decline in coffee production – national output fell below 2,000 tonnes in 2005 due to the effects of drought, uncertainty arising from land reforms and difficulty in accessing inputs. Production was projected to have fallen even further in 2006 to around 600 tonnes.
- Disabling macroeconomic conditions, including exchange controls that discouraged exports. Though the banks indicated a willingness to finance at the Government-controlled interest rate for productive activities (which was about

20% per annum), ZCM was prepared to on-lend only at close to market rates around 350% (making cost of borrowing excessively high).

- The outcome of the soybean pilot was expected to be better but uptake was very low – only about 600 tonnes of soybean was deposited – partly because of the high levels of uncertainty in the economy and also because the LMU was constrained in its promotional drive by lack of project funds.

4.0 Assessment of project outcomes and prospects

4.1 Overall achievement of objectives and impact

The report in Section 3 shows that very substantial progress has been made in setting up sustainable WRS for coffee and cotton in Tanzania and Uganda. The required enabling legislative framework has been put in place, though in both countries this process is yet to be completed with finalisation of Warehouse Regulations. In support of the WRS, market information systems have been developed which provide reliable and timely information but, also uniquely, have the potential of being sustainable in the long-term with no donor or government support. Quality assurance systems have also been institutionalised that enable producers, traders and other parties to deposit commodities that are storable and marketable. Finally, financial institutions in the two countries are showing growing interest in providing receipt-based structured finance because of growing confidence in the WRS.

WRS central to commodity sector development in project countries

These achievements, which were acknowledged during reviews by a CFC consultant in 2006, have substantially improved the prospects of mainstreaming of receipt-based commodity trade and finance in Uganda and Tanzania. In Uganda, the UCE is already building on the project achievements as it develops a modern agricultural trading system with WRS as its fulcrum. The coverage will go beyond coffee and cotton to include other durable commodities such as maize, but an important lesson from the project, which has been recognised by the UCE, is the potential for smallholder groups to use the WRS to assure access to remunerative markets as well as finance. The commitment of the Government of Tanzania to support the Warehouse Receipts Board, stems partly from the perceived long-term role of the system in improving agricultural sector development.

Even in Zimbabwe, where the outcome was rather disappointing, there are indications that, if the macroeconomic and commodity-sector conditions improve, receipt-based financing and commodity trading would re-emerge and that process would benefit from the foundations laid under the project.

Impact beyond project countries

Consistent with the commitment to disseminate project experiences and lessons, the consortium members and key personnel of the LMUs have made presentations on the project at various forums. This is not only attracting attention to what is happening in the two main countries but is also placing WRS very firmly on the agenda for the development of agricultural marketing and finance in Africa. For instance, at a recent meeting of African Ministers of Trade, it was resolved that all African countries should support the development of WRS. In addition, regional efforts to promote trade and increased agricultural production are placing increasing emphasis on the development of robust WRS as essential planks in the development agenda.

It is therefore evident that the delivery of the project outputs have contributed to the achievement of the intended objectives and even had some impact beyond the participating countries.

4.2 Assessment of project coordination and management

During the review of the projects by the CFC consultant, the high quality technical support provided by the NRI consortium was clearly acknowledged. This helped to substantially enhance the capacity of the LMUs and representatives of the commodity bodies to undertake project activities. Consequently, it can rightly be said that the partnership between the consortium and local stakeholders, led by the LMUs, was absolutely crucial to achieving the outcomes reported in Section 3.

UNOPS performed its supervisory role very effectively, demanding reports and accounting for resources provided in accordance with contractual commitments as well as funding and procurement procedures. This was very well complemented by technical inputs from the CFC project management. Regular consultations between all parties made the management of this multi-layered project possible, by maintaining an atmosphere in which even the most difficult of challenges, including contentions over resource allocation, could be resolved. Though this is not a specific project outcome, it is nonetheless an important lesson worth sharing.

4.3 Forward plans

4.3.1 Basis for proposing forward plans

The forward plans (Appendix 10) are being proposed for Uganda and Tanzania for two main reasons. First, there is the *need to consolidate* the foundations laid, through measures that will assure long-term sustainability of the systems developed and improve the chances of success for any future developments which rest on the WRS foundation. This is necessary because of some important observations with both short and long-term consequences for sustaining the benefits from project. These include:

- Lack of skilled personnel – our concern is in particular about the following:
 - a. Warehouse regulators – to ensure robust enforcement of laws and standards.
 - b. Warehouse personnel – this often undermines the capacity of even most trusted collateral management firms, leading to losses that discourage banks and other third parties from engaging in receipt-based transactions.
 - c. Bankers – staff mobility often means those trained move on with new personnel lacking the experience to properly structure receipt-based lending.
- Weak producer organisations – without well-organised primary-level farmer organisations, it is extremely difficult for smallholders to effectively access the WRS and related financing and marketing opportunities. The capacity of these

organisations in both countries remains highly variable and lessons learnt from the successful primary-level organisations need to be promoted more widely. It is also important that structures that foster more effective primary-level organisations are promoted.

Second, it is important that the lessons from the project are effectively disseminated for a number of reasons. This will, on the one hand, ensure that the contribution of CFC, the commodity bodies and other stakeholders, in developing the system is not totally forgotten or marginalised as other initiatives build on the foundation laid. Furthermore, it will ensure that current and future initiatives in the participating countries as well as others benefit from the lessons and experiences learnt. Details of the proposed plans are summarised below:

4.3.2 Uganda proposed follow-up activities

- a. Continue to contribute to the establishment of the Warehouse Regulatory Unit in the Uganda Commodity Exchange (UCE) by providing technical advisory inputs to the development of regulations and training for players in especially the coffee and cotton sectors.
- b. Develop strategy document for strengthening the role of producer groups, especially in the cotton and coffee sector, in crop marketing and finance using the WRS and related market instruments.
- c. Organise final project workshop to properly document and share lessons and experiences. UCDA is particularly keen that this is done.
- d. Complete activities, especially under Components II and III for the cotton sector, which have been delayed because of project management difficulties.

4.3.3 Tanzania proposed follow-up activities:

- a. Provide technical support in establishing the Warehouse Regulatory Board, including:
 - Training of WRB staff and directors.
 - Operationalising inspection system.
- b. Help WRB develop and initiate implementation of long-term strategy to expand coverage of WRS to: cashew, maize and other commodities.
- c. Establish long-term institutionalised training in warehouse receipting, collateral management, receipt-based trading and finance. Though it is proposed that this is located in Tanzania, its coverage should be regional. For this purpose, the following need to be pursued:

- a. Agree collaboration programme with local institution.
- b. Raise funding (short and long-term) to implement programme.

The consortium has already initiated steps towards this by consulting two local tertiary institutions as well as exploring potential co-financing from donors.

- d. Final/closing workshop, which will also mark the formal launching of the WRB.

4.3.4 Zimbabwe activities:

We do not propose any follow-up activities for Zimbabwe but recommend closure.

5.0 Conclusion and recommendations

We stated in Section 1 of this report that there was very slow progress from 2000 to 2004 in achieving the main project output of setting up warehouse receipt systems (WRS). However, within a period of 18 months after the NRI consortium took over the provision of technical advisory services towards the end of 2004, there was a significant turnaround. The substantial progress made in developing the WRS as well as supporting market and quality assurance systems in Uganda and Tanzania have considerably improved the prospects for mainstreaming WRS in the financing and marketing of agricultural commodities. It is not only coffee and cotton sectors which have benefited, but there are clear intentions of extending the benefits to other storable commodities.

Hence, within Uganda and Tanzania, the benefits from the project have not been limited to the two targeted sectors only. Through dissemination by the project team (the consortium and LMU personnel), the experiences and lessons from the project are beginning to impact positively on options being considered within the East and Southern Africa Region as well as continent-wide, to improve crop marketing and finance.

Even in Zimbabwe, where disabling conditions in the macro-economy and commodity sectors made achievement of project objectives quite difficult, some progress has been made which can constitute a good foundation to build on when conditions improve.

These achievements are attributable not only to the quality of technical advice provided by the consortium but also to the dedication of the LMUs as well as local stakeholders. Effective monitoring and supervision by UNOPS and CFC was another important factor in achieving these outcomes.

However, the consortium notes that the project successes are somewhat fragile and could be undermined by such problems as lack of skilled professionals, including warehouse regulators, warehouse personnel and banker. Furthermore, lack of strong primary-level producer organisations would limit the benefits of the system smallholder farmers who dominate production of cotton and coffee as well as most other agricultural commodities in the participating countries and the rest of Sub-Saharan Africa.

Supporting initiatives – as outlined in Section 4.3 – to address these problems in the long-term will ensure that the gains from the project are consolidated and taken forward. It will also imply that the investment by CFC in the project would leave long-term benefits in the beneficiary countries, which can also impact on choices by other countries in Africa facing similar crop marketing and financing constraints. Details of the proposed activities and budgets are attached (Appendices 10 and 11).