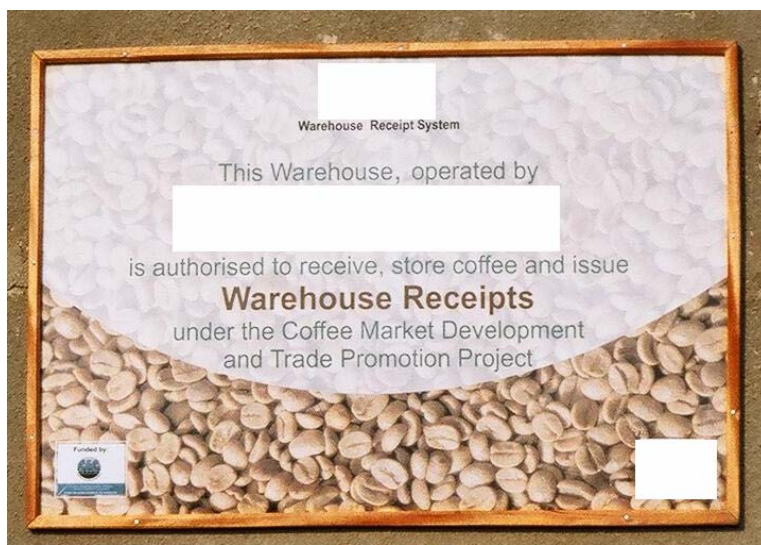


COFFEE AND COTTON MARKET DEVELOPMENT AND TRADE PROMOTION IN EASTERN AND SOUTHERN AFRICA

MANUAL FOR WAREHOUSE OVERSIGHT AND INSPECTION



Common Fund for Commodities



Natural Resources Institute, University of Greenwich



United Nations Office for Project Services

October 2006

TABLE OF CONTENTS

Acknowledgement	2
1. Introduction and background	3
1.1. Why warehouse oversight is important.....	3
1.2. What are the oversight systems in Tanzania and Uganda.....	3
1.2.1 Legal framework (laws, regulations and standards)	3
1.2.2 Enforcement agencies	4
1.3. Issues covered by warehouse laws and regulations	4
1.4. Warehouse inspections.....	6
1.4.1 Types of warehouse inspections	6
2. First Instance Inspections – for issuing/renewing a licence	7
2.1 Financial position of applicant.....	7
2.2 Due diligence of applicant	8
2.3 Due diligence of directors and staff	9
2.4 Assessing suitability of the warehouse	9
2.5 Assessing suitability of equipment	10
2.6 Assessing insurance and performance bonds.....	10
2.7 Licensing procedure.....	11
3. Routine Inspections	12
3.1 Inspecting the warehouse and surroundings	12
3.2 Examining equipment and weighing/grading procedures.....	13
3.3 Carrying out stock count.....	14
3.4 Reviewing Warehouse Management Practices	14
3.5 Verifying compliance licensing, insurance and bonding requirements	14
4. Appeal and Arbitration Inspections	15
5. Inspections and reporting procedures	16
5.1 Notice of on-site inspection visits.....	16
5.2 Rotation of inspectors	16
5.3 The inspection report	16
Appendix 1: Rating the warehouse operator and the facility (a guide)	17
Appendix 3 – Minimum Requirements for Warehouse Operators	21
Appendix IV: Minimum Requirements for Flat Bed Warehouses	23

Acknowledgement

This Manual was prepared by Gideon E. Onumah based on material produced by Martin Hamusiya, then Chief Warehouse Examiner, Zambia Agricultural Commodity Agency, Zambia for training various stakeholders in Tanzania on Warehouse Inspection. Ms. Ruth Butterworth (NRI) and Chris Baine (DCDM) made valuable inputs in the preparation of the Manual.

The authors would like to thank all those who have contributed to the production of this manual in one way or another. In particular, thanks are due to the following stakeholders in Tanzania: personnel of the Local Management Unit of the Warehouse Receipts System Project (especially Ms Elizabeth Kimambo, the Coordinator), officials of the Tanzania Coffee Board and the Tanzania Cotton Board, officials of the Ministry of Cooperatives and Marketing (MCM), and the Management and key personnel of CRDB Bank and Kilimanjaro Cooperative Bank.

Stakeholders in Uganda, to whom we wish to express our appreciation for support in producing this Manual the Local Management Unit of the Warehouse Receipts System Project led by Commissioner Fred Mwesigye (of the Ministry of Tourism, Trade and Industry), Management and officials of the Uganda Coffee Development Authority (UCDA), Cotton Development Organisation (CDO) and Uganda Commodity Exchange as well as the management and staff of COTECNA (collateral managers).

The authors are also grateful to other stakeholders such as rural/primary cooperative societies, cooperative unions, designated coffee curing factories and ginners, which participated in the WRS pilots in Tanzania and Uganda and who provided valuable inputs and feedback in the course of developing, implementing and monitoring the pilots. We also wish to express our appreciation for the opportunity to produce the Manual through the project funded by the CFC and executed by UNOPS. The authors, however, take full responsibility for any errors and omissions.

1. Introduction and background

1.1. Why warehouse oversight is important

Warehouse receipts systems (WRS) involve the issuing of warehouse receipts (WR) by licensed or certified warehouse operators to named depositors (who may be a farmer, farmer-group, processor or trader) as evidence that the depositor has deposited a specified commodity, of stated quantity and quality, at a specified location. The holder of the receipt may pledge it to a lender (with the stored commodity being the collateral for a loan) or transfer it to a buyer (by way of a sale)¹. The warehouse operators or collateral managers do not own the stocks under their control but have legal custody and guarantee delivery against the receipt. They are required and should be able to make good any value lost through theft, fire or other catastrophes.

The WRS can simultaneously lead to such benefits as easing access to finance, since the stored commodity can be used as collateral for a loan; making it possible for traders and smallholder groups to build up inventories that enable them trade with larger buyers further down the marketing chain; reducing transaction costs as trade by description rather than by physical sampling can occur through the use of standardised grades and measures; and bringing previously excluded farmers into the formal financial system and enabling them access other forms of credit such as production finance through establishing credible track record with banks as borrowers using the WRS.

Depositors, bankers and other stakeholders can only enjoy these benefits if the licensed or certified warehouse operators are able to carry out their obligation of delivering the stored commodity on presentation of the WR by a *bona fide* holder. Non-performance by warehouse operators can lead to losses which can potentially cause default by borrowers (because they are unable to pay) and therefore financial loss to banks. This risk needs to be mitigated by means of effective oversight (or policing) of warehouse operators. The oversight system consists of legal framework (i.e. the laws, regulations and standards) and the institutional arrangements for enforcement.

1.2. What are the oversight systems in Tanzania and Uganda

1.2.1 Legal framework (laws, regulations and standards)

The key legislation in Tanzania is the Warehouse Receipt Act (2005), while in Uganda it is the Warehouse Act (2006). Warehouse Regulations based on these laws are being prepared (under the CFC-funded WRS project in Tanzania and in Uganda under a project funded by the EU but which is building on work undertaken under the CFC-funded project). These laws and regulations constitute the main legal basis for warehouse licensing and oversight and should be consulted by all inspectors. *For guidance on*

¹ As defined by Coulter J and G. Onumah (2002) “The role of warehouse receipt systems in enhanced commodity marketing and rural livelihoods in Africa”, *Food Policy*, 27 (2002) 319-337.

standards relating to physical warehouses, stored commodities and warehouse management in general, it is important to consult the Quality Assurance Manual.

1.2.2 Enforcement agencies

The warehouse licensing and inspection agencies authorized to enforce the laws, regulations and standards are the Warehouse Regulatory Board in Tanzania, which is a public body, and the Uganda Commodity Exchange, which is non-government but to which the Minister of Tourism, Trade and Industry in Uganda has delegated its enforcement authority. The functions of these independent warehouse regulators include the following:

- To set and ensure compliance which maintain standards for sound warehousing – including minimum physical standards to which storage facilities for collateralised stocks should conform;
- To set and enforce uniform standards and procedures in the handling, storage and receipting of agricultural commodities in Tanzania;
- To set licensing requirements and enforce the same to ensure that only credible warehouse operators – with required storage facilities, well-trained personnel, satisfactory financial capacity, appropriate insurance and bonds in place – who are authorised to issue standard warehouse receipts for stored commodities;
- Ensure sustained compliance with the Act, Regulations and industry standards – required to depositors and lenders from loss of value of commodities under storage through intensive and comprehensive on-site and off-site examination procedures and processes; and
- Assure the integrity of transferable and/or negotiable warehouse receipts – thereby making them acceptable as reliable collateral for loans by banks and in commodity trade – by robust enforcement of systems for issuing and cancellation of receipts that minimise risk of fraud.

1.3. Issues covered by warehouse laws and regulations

The laws and regulations define relationships between the key parties in a warehouse receipt system, in particular between the licensed warehouse operator and depositors as well as other *bona fide* parties to whom the receipt can be transferred such as lenders and buyers. They encompass the minimum standards that warehouses and Warehouse Operators have to meet to be certified/licensed to store and handle commodities and to issue warehouse receipts, and are therefore intended to provide some level of comfort for the depositors and other parties about the security of their stocks held by the warehouse operator.

In addition to defining the powers of the independent regulator, the laws and regulations provide detailed requirements for:

- Licensing of warehouses and warehouse operators – clearly setting out, for the independent regulator, the basis for licensing warehouses and operators as well as for suspending, revoking or restoring the license of an operator. Among the requirements are physical standards that warehouses have to meet and the authorised equipment that a licensed warehouse should have.
- Licensing of warehouse personnel – describing the minimum qualifications and basic training the personnel should have in order to effectively discharge their responsibilities in looking after commodities owned by third parties.
- Record keeping requirements – setting out the minimum records required to ensure complete accountability for the operators.
- Warehouse Receipts – detailing basic descriptions of the receipts (example below) as well as instructions on the handling of warehouse receipts and the related rules of custody, control and access.
- Warehouse storage operations – providing detailed instructions on minimum requirements for cleanliness, stacking, fumigation and other housekeeping activities in the warehouses and powers of the independent regulator to intervene where there is a breach, including sanctions which can be applied.

An example of a warehouse receipt issued by COTECNA in Uganda

COTECNA

WRS PROJECT
COFFEE STOCK POSITION AT KABWOHE - BUSHENYI

RECEIPT DETAILS											DESPATCH DETAILS				Stock Balance in Warehouse	
Date	Name of Depositor	UCDA Market Price	GRN No.	WHR No.	Net Weight	Quality Specifications					Date	Buyer	DN No.	Price Per Kg.		Stock Out
		UGX/Kg.			Kgs.	MC	FM	SC 18	SC 15	SC 12			Ug.Shs	Kgs.		kgs.
18-Jun-06	Kajju Abahamani	1,750	0101	0021	2,046.00	13.60	0.50	9.50	65.00	17.50	4-Jul-06	Kyagalanyi Coffee	054	2,000	2,046.00	-
20-Jun-06	Ruhinda Area Co-op Societ	1,750	0102	0022	4,585.00	13.10	1.00	7.00	64.50	21.00	4-Jul-06	Kyagalanyi Coffee	054	2,000	4,585.00	-
23-Jun-06	Rushoozi Kwelwwo	1,750	0103	0023	2,556.00	13.30	0.50	7.00	59.00	24.00	4-Jul-06	Unex Coffee Buyers	055	2,000	2,556.00	-
3-Jul-06	Ruhinda Area Co-op Societ	1,750	0104	0024	4,793.00	12.80	1.00	14.00	59.00	22.00	4-Jul-06	Kyagalanyi Coffee	054	2,000	4,793.00	-
9-Jul-06	Kagango Coffee Associatio	1,750	0105	0025	2,393.00	13.50	0.50	12.00	55.00	20.00	20-Jul-06	Kyagalanyi CoFR	055	2,000	2,393.00	-
12-Jul-06	Kagango Coffee Associatio	1,750	0106	0026	1,471.00	12.80	1.00	26.00	53.00	10.00	20-Jul-06	Kyagalanyi Coffee	055	2,000	1,471.00	-
13-Jul-06	Kagango Coffee Associatio	1,750	0107	0027	604.00	13.00	1.00	8.00	43.00	36.00	20-Jul-06	Kyagalanyi Coffee	055	2,000	604.00	-
17-Jul-06	Mukinga Turumaye Group	1,750	0108	0028	569.00	13.10	0.10	14.00	52.00	22.00	20-Jul-06	Kyagalanyi Coffee	055	2,000	569.00	-
19-Jul-06	Kitojo Coffee Association	1,750	0109	0029	1,388.00	13.10	1.00	17.00	54.00	18.00	20-Jul-06	Kyagalanyi Coffee	055	2,000	1,388.00	-
19-Jul-06	Kagango Coffee Associatio	1,750	0110	0030	525.00	12.10	1.00	17.00	48.00	18.00	20-Jul-06	Kyagalanyi Coffee	055	2,000	525.00	-
23-Jul-06	Ruhaiira Area Co-op. Enter	1,750	0111	0031	4,411.00	13.60	0.50	8.00	45.00	36.00						4,411.00
28-Jul-06	Kiziba Group	1,750	0112	0032	931.00	13.60	0.50	7.00	50.00	29.00	28-Jul-06	Olam	056	1,850	931.00	-
28-Jul-06	Muzira Growers	1,750	0113	0033	1,001.00	13.40	1.00	9.00	65.00	22.00	28-Jul-06	Olam	057	1,850	1,001.00	-
																-
																-
																-
																-
																-
																-
																-
																-
																-
																-
																-
																-
																-
Total/Av.					27,273.80	12.22	0.70							1,992	22,862.00	4,411.00

GRN: Goods Received Note
WHR: Warehouse Receipt
MC: Moisture Content
FM: Foreign Matter
DN: Delivery Note

COTECNA UGANDA LIMITED
Kampala - Uganda

Source: Uganda WRS

- Some of the basic storage management principles which need to be strictly applied include keeping the warehouse dry, clean, cool and secure. It should be recognised that agricultural commodities, in store, are a community of living organisms consisting of the commodity, insects, bacteria and fungi. While the commodity remains in satisfactory storage conditions, most of these living organisms remain dormant but become active and can lead to quality deterioration if the proper storage management principles are not complied with.

1.4. Warehouse inspections

Every time ownership of a commodity passes from one person to another in a transaction, it is inspected to establish the quantity and quality. This inspection involves weighing, sampling and grading of the lot being offered for sale. The quality often determines the price offered by the buyer and, consequently, the seller's margins. In the absence of further processing, stored commodities do not improve in quality. They are often in the best quality at intake into the warehouse. It is therefore essential that commodities are stored properly to minimise the risk of quality deterioration. The success of any warehouse receipt (or inventory credit) system depends largely on the ability of the warehouse operators to guarantee the quantity and quality of the commodities in their custody. *Oversight arrangements set up must therefore devote considerable time to monitoring quality and quantity maintenance at the licensed warehouses.* This is done through a system of warehouse inspections.

1.4.1 Types of warehouse inspections

These include:

First Instance Inspections – where the warehouse operator, the warehouse, staff and equipment are assessed for suitability for licensing and is conducted prior to issue or renewal of a licence.

Routine Inspections – are the regular off-site review reports and on-site inspection visits undertaken to examine compliance with all laws, regulations and standards.

Appeal Inspection – is conducted when an applicant or licensed operator has disputed the outcome of an earlier (first instance or routine) inspection. Officers senior to the one who conducted the disputed inspection are required to conduct appeal inspections.

Supervised Inspections – are conducted under the supervision of the management board of the regulatory agency or arbitrators or both and are undertaken only when the operator is not satisfied with the results of an appeal inspection. The cost of Appeal and Supervised Inspections borne by the appellants and are often required to be paid in full before the inspection begins. The cost of Supervised Inspections costs may be paid as part of the arbitration costs.

These procedures involved in these inspections are discussed in subsequent sections.

2. First Instance Inspections – for issuing/renewing a licence

Prior to the independent regulator carrying out the First Instance Inspection, the applicant is required to complete and submit prescribed application forms (See Warehouse Regulations for copies) to the Head of the regulatory agency. The forms are designed to enable the applicant to declare as much information as is necessary for the inspector to objectively assess their (applicants') suitability for licensing. The key assessment areas at this stage are as follows:

2.1 Financial position of applicant

The applicant's financial capacity to meet obligations contingent upon their guarantee to hold the assets (inventories) on behalf of third parties needs to be analysed of liquidity, net worth and other measures of financial strength. The assessment will determine whether the applicant can satisfactorily meet such obligations if they arise. To enable the independent regulator to carry out this analysis, the applicant is required to submit the following:

- i. Audited accounts for at least three years prior to the application, including balance sheets and profit and loss accounts. If the latest required audited accounts are ready – for reasons explained to and acceptable to the independent regulator – the applicant may submit latest management accounts prepared up to a date not more than three months prior to the date of application.
- ii. A declaration of all substantial loan agreements and the terms thereof. This disclosure should state the names, contract details and contact persons of the lender-institutions.

The off-site (i.e. desk-based) assessment of the applicant's financial position includes examining the following:

- **Liquidity ratios** – these ratios indicate the capacity of the applicant to meet short-term debt obligations from assets of varying liquidity. There are different ratios, depending on which types of assets are taken into account as illustrated below, but in each case the desirable ratio is one that is **greater than 1**, i.e. where the liquid asset exceeds the defined liabilities (implying that proceeds from the liquid assets can offset short-term debt obligations when due). The ratios and the computation are indicated below:
 - Liquidity ratio = (cash + cash equivalent)/short-term debt
 - Current ratio = (cash + cash equivalent + stocks + debtors)/short-term debt
 - Quick ratio (acid test) = (cash + cash equivalent + current assets)/short-term debt

- **Net worth** of a company, which is sometimes also referred to as its **Net Assets**, is usually computed as follows: *Total assets less total liabilities*.

A company's net worth is an important accounting indicator of its credit worthiness. It represents the value of the owners' or shareholders' equity in the company – i.e. book value of the capital invested as well as retained earnings for the duration of its operation. It is important to stress that it is a *book value* and that the market value may be higher or lower if the company is sold as a going concern.

For purposes of assessing applicants to be licensed as warehouse operators, *the net worth should be at least equal to the value of commodity the applicant is to be certified to store*.

The value of commodities is based on the storage capacity (*See below*), multiplied by an average price per tonne of the commodity to be stored. A reasonable price to use will be the average price over the past three years if output over that period is considered average. Adjustments for inflation may also be taken into account in determining the price to use.

- Other ratios include *financial strength/solidity* calculated as follows:

$$\frac{(\text{Current assets} - \text{current liabilities}) + 2 \times (\text{fixed assets} - \text{long-term debt})}{3}$$

Relevant National Accounting Bodies in Tanzania and Uganda may be consulted in determining industry averages that may be applied.

2.2 Due diligence of applicant

This includes the following:

Registration Details

The applicant must submit copies of the certificates of registration and incorporation as well as Articles and Memorandum of Association. The inspectors should verify with the Companies' Registry to confirm the registration and incorporation, and should scrutinize the articles and memorandum to determine whether or not the applicant is mandated by appropriate laws to conduct a warehousing business.

Banking and/or Trade References

These can be obtained from the applicant's bankers and key clients. Care should be taken in using these reports because they may have been compiled for different purposes. Some institutions, especially banks may be reluctant to provide specific details because of the need to ensure client confidentiality and may also include disclaimers statements in their letters of reference. It is often helpful for the inspector to visit officials from whom the reference is obtained. Views of others in industry about the applicant can also be valuable.

2.3 Due diligence of directors and staff

The applicant must provide details of the directors of the company, including their names, addresses as well as details on other or previous directorships held by them. Where the inspectors are not satisfied about the suitability of the directors, they can recommend the inclusion of a trusted professional such as a lawyer, accountant, banker or economist as a non-executive as part of the licensing requirements.

An assessment of the effectiveness of the board of directors can be made by reading some minutes of board meetings. In fact, if board meetings are irregular it may be indicative of an ineffective board.

The curriculum vitae must be provided and reviewed for the following key members of staff including the Chief Executive, the Finance Director and the Director responsible for the warehousing operations as well as the Warehouse Manager and staff responsible for handling commodities – including weighing, sampling, grading and undertaking routine stock management. Refer to the Warehouse Regulations for details on minimum qualifications the recommended training for each of the relevant positions.

2.4 Assessing suitability of the warehouse

Warehouses that the applicant intends to use must be indicated on the application form, with details provided including the address and the specific commodity the applicant intends to store at each location. The applicant should also declare the assessed storage capacity of the warehouse.

The applicant must submitted title deeds of the property to confirm ownership or if the facility is leased, then the lease agreement. *The Inspector may have to verify the title, occupation and lease with relevant parties or agencies.*

The inspectors should visit the proposed warehouses and physically inspect them for suitability to store the declared commodities. Issues to cover during the physical assessment of the warehouses – *see Warehouse Regulations and Quality Assurance Manual Areas for details* – should include the following:

- i. Maintenance of the surroundings – grass and bushes maintained at acceptable low levels to prevent rodent activities or breeding.
- ii. Potential for ponds of water around access roads to the warehouse.
- iii. Arrangements to limit water seepage into the warehouse by delivery tracks, warehouse staff, etc.
- iv. Walls and the floor do not permit water seepage. The floor should be built to at least 1m off the ground.
- v. Whether there are leakages in the roof.

- vi. Opportunities for birds, rodents, etc to enter without limitation.
- vii. Adequate aeration for stored commodities, etc.

Estimating warehouse storage capacity

Computation of the storage capacity of warehouses the applicant intends to use should take account of the fact that it is not all the available space in the warehouse that is used for storage. Provisions must be made for passages between stacks and walls and for machinery such as cranes and weigh scales. Refer to Warehouse Regulations for guidance on optimum volume/weight per commodity stored per square metre of warehouse space.

2.5 Assessing suitability of equipment

The inspectors must be satisfied that the applicant has the minimum operating equipment or access to such equipment from neighbouring facilities. This equipment includes:

- i. Weigh bridge (preferably electronic).
- ii. Grading equipment appropriate for the commodity applied for.
- iii. Bagging units and cleaners (cleaning arrangements) for salvaging spillages.

The inspectors must also make sure of the following, that:

- The equipment is in good working order.
- A duly authorized agent frequently assizes the weighbridges and moisture meters. Moisture meters and small electronic grading scales must be assized at least two times in a year; while bigger equipment like platform scales and weigh bridges are required to be assized once a year. Platform scales should be assized every time they are moved over distances exceeding 20 km with the tray in position.
- Wrong equipment is not being used. For instance, a hanging scale being used to weigh grain bags.

2.6 Assessing insurance and performance bonds

Warehouse Regulations require that the applicant files insurance policies and performance bonds with the regulator. The inspector must:

- Examine in detail the policy documents and check for compliance with the regulations and consistency with the cover note.
- Check that the insurance company used is approved by relevant agency regulating the operations of the insurance industry and that the cover is backed by credible re-insurers.
- Ensure that the Performance bonds, which are guarantees issued by third parties for the satisfactory performance of a specified task, are unconditional and that the independent regulator has the exclusive right of claim for depositor beneficiaries. Banks and Insurance Companies are the recommended sureties.

- Ensure that the guarantee letter (performance bond itself) does not refer to other agreements not availed to the independent regulator for approval.

It is advisable for the independent regulator to discuss the form and wording of the bond with the applicant before it is issued. Most Banks and insurance companies use a standard, internationally-approved format.

2.7 Licensing procedure

The procedures, which are further detailed in the Warehouse Regulations, include the following:

- Applications should be directed to the Head of the regulatory body, who would assign specific inspectors to assess the application.
- The assigned inspectors will carry out due diligence of the applicant's documents and information provided and undertake assessment of the finances, directors and staff of the company as well as warehouse and available equipment. Where specific external expertise is required, for instance in assessing the warehouses, these may be specifically contracted for that purpose.
- After assessment, the assigned inspectors will submit a report with appropriate recommendations to the Head of the regulatory body, who would review and endorse the recommendations before submission to the Board for consideration.
- The Board shall decide one of the following: approve for licensing; approve subject to rectification of minor non-compliance; or decline application.
- Where the Board approves the recommendations made by the Head of the regulatory body, the Head shall communicate the decision to the applicant and advise the applicant to commit legally to being bound by the regulations and subsequent amendments and directives of the enabling legislation.
- Where the decision is approved subject to rectifying identified deficiencies, these shall be communicated to the applicant, who shall also be advised as to the validity period of the approval, within which the specified rectifications have to be effected.
- Where the application is declined, the applicant must in addition to being informed about the decision, be advised about the right to appeal and the procedure and time limit within which the appeal must be lodged.

3. Routine Inspections

Routine inspections are frequent and require stringent examination of the warehouse operation and involve reviewing intake procedures, sampling, grading, stacking or other forms of packing, record keeping and dispatch. It also involves examining arrangements for quality and quantity maintenance and adequacy of insurance cover and physical security.

Pre-inspection planning

During the pre-visit planning it is recommended that the inspector studies copies of all previous inspection reports and related documents as well as all regular reports submitted by the licensed warehouse operators to the regulatory agency. Also to be reviewed are reports on service failures, customer complaints, claim letters and other general information on the operator which are retained by the regulatory agency. Though these visits should often not be pre-announced, it is important that the inspector is thoroughly briefed about the licensed operator before the inspection visit.

3.1 Inspecting the warehouse and surroundings

Before entering the warehouse, the inspector should check the following:

- i. Surroundings – for vegetation control and disposal of waste which can create a favourable habitat for rodents and other pests; whether rodent control structures are sound; and for pools of water around the facility, which can increase the danger of water seepage into it.
- ii. External security systems – whether security fencing is in good working order. For instance, electric fencing systems must be switched on and off in the inspector's presence and imbedded indicators of functioning or other fault detectors should be checked to assure proper functioning of the system.

Guards at the facility must be recording people, trucks and other vessels going into the facility and checking those leaving it. Documentation authorizing entry by people or delivery trucks – including a “day book” – should be checked to ensure they are properly maintained, continually updated and tallied with the Warehouse Supervisor's records of especially movements by trucks. Records of reporting of variances, investigations and discharge mechanisms at the security gate should be reviewed.

- iii. Structural and electrical systems – these should be examined both from outside and inside the warehouse to assess compliance with standards in the Warehouse Regulations and the terms of the operator's insurance policies (for the physical structure as well as the contents).

Upon entering the warehouse, the inspector must review the following:

- i. Stacking system – whether adequate space is left between stacks (at least 2 metres) and between the stacks and the wall (at least 1 metre); whether stacking has been done in a manner that minimises the risk of stack collapse, which could injure warehouse personnel; and whether it allows for easy identification of commodities which are stored “identity-preserved” and also for physical stock count. *See Quality Assurance Manual for further details on this.*
- ii. Cleanliness in the warehouse, including checking whether – the warehouse is swept at least once every two days work; a system of collecting and salvaging spillages is maintained, and especially deployed after every delivery truck; and what system is in place for approval if the spillages are to be disposed off.
- iii. Fire detection and alarm systems are functional and personnel are aware of routines to follow in the event of a fire in the warehouse.
- iv. Ventilation systems – are maintained and free of blockages

3.2 Examining equipment and weighing/grading procedures

The examination should include the following:

- i. Weigh bridge – the inspector must confirm that the assizing certificate of the weigh bridge is valid and that the unit has not undergone repairs other than the routine maintenance that could affect its effectiveness after it was assized. If it has then the inspector must insist on the unit being re-assized.
- ii. Where platform scales are used, the inspector has to confirm that the assizing certificate is valid. Handling methods for the scales should be observed especially as they relate to transportation from one warehouse to another.
- iii. Grading equipment – check for evidence of proper and valid calibration; equipment are clean and in good working order; and staff have been trained to properly handle and use the equipment (the inspector could ask staff to grade a sample for purposes of observing whether they follow the appropriate procedures).
- iv. Documentation e.g. Weighing/Scale tickets which record the weight of commodities at point of receipt and delivery – must be examined and tallied with the warehouse supervisor’s records for each stack and the whole warehouse.
- v. Documentation e.g. Grading certificates – should be cross-referenced to Weighing/Scale tickets and the stack number indicated on both documents. Check for consistency between the recorded grades on these certificates and on duplicate copies of warehouse receipts issued to cover the particular lot.
- vi. Sample library – confirm whether the warehouse supervisor maintain samples and in an appropriate place for re-grading as part of the inspection and in the event of a dispute.

3.3 Carrying out stock count

Prior to the physical stock count, the inspector should confirm whether the Warehouse Supervisor maintains all records of stock movement, physical and non-physical and summarises these in a single report – sometimes called the Daily Position Record (DPR).

The inspector should confirm that the stock levels as recorded in the DPR in the warehouse are consistent with data provided to the regulatory agency, after adjusting for stock movements while the inspector was in transit.

Physical stock counts should be conducted and the findings compared with warehouseman's records and any variances noted and cleared with the warehouse supervisor or his superiors. During physical stock counts, inspectors are advised to climb stacks to ensure that there are no concealed empty spaces, making it difficult to determine any losses.

3.4 Reviewing Warehouse Management Practices

This part of the inspection verifies the effectiveness of storage management practices in force at a warehouse. It involves checking the following:

- i. The intake and issue system at the warehouse, especially where commodities stored are commingled (i.e. whether FIFO, LIFO, etc.).
- ii. Adequacy of the warehouse space (evidence of overstocking etc). This inspection looks at how the warehouseman enforces the principles of good warehouse management including aeration, heat control, residual spraying, fumigation, etc.
- iii. Records evidencing any spraying and/or fumigation, including checking for consistency with instructions, e.g. period of exposure for fumigants and frequency of spraying for residual sprays. Use of fumigants is regulated by state authorities and the inspector must verify the registration for the fumigation company hired and also ensure that the chemicals in use are not prohibited. Where possible, the inspector can be present to observe the starting and ending of fumigation, to assess full compliance with all recommended procedures.
- iv. Reliability of custodial controls regarding keys to the warehouse and security documents, including especially the warehouse receipts.

3.5 Verifying compliance licensing, insurance and bonding requirements

These include the following:

- To assess compliance with financial requirements, the inspector must review the licensed warehouse operator's quarterly management accounts. New loan commitments must be reviewed to determine whether or not they would affect the operator's compliance with conditions for the issuing of the licence.

- The inspector must confirm that the insurance and performance bond taken by the licensed warehouse operator continue to be adequate for the volume of stocks held in the licensed warehouse.
- The inspector must also verify that the directors of the warehousing company continue to be compliant with the conditions agreed at licensing stage. For instance, if an outsider director was recommended and appointed, the inspector must check that the said director continues to be active on the board and that there are no deliberate efforts to frustrate or compromise him/her.

4. Appeal and Arbitration Inspections

Appeal and Arbitration Inspections are conducted under the strict supervision of the board of directors (or a specifically appointed committee of the board) and/or an independent arbitrator. The process followed is very similar to that of a routine inspection, except that the inspector needs to justify and explain every step taken in order to inform the director and/or arbitrator's decisions.

It is recommended that Appeal or Arbitration Inspections are conducted by senior and experienced inspectors.

5. Inspections and reporting procedures

To ensure a robust oversight system, it is important that on-site inspections and off-site reviews of the operations of the licensed warehouse operators comply with clearly defined procedures, including the following:

5.1 Notice of on-site inspection visits

Notice of on-site inspection visits should be given only in the following cases:

- First Instance Inspections to review an application for licensing from a warehouse operator; and
- Follow-ups to routine inspections, to confirm that recommended remedial actions (as directed in previous inspection reports) have been carried out by the licensed warehouse operator.

Routine inspections should usually be unannounced, while it is expected that an aggrieved warehouse operator will initiate Appeal and Arbitration Inspections.

5.2 Rotation of inspectors

For purposes of avoiding any perception of possible collusion between particular inspectors and licensed warehouse operators, inspectors should be rotated, i.e. where Inspector A visits Licensed Operator X, then a subsequent inspection should be undertaken by Inspector B. The rotation should not be so routine as to be predictable.

5.3 The inspection report

After a review of all the areas identified in Sections 2 and 3 (and guided by some of the deficiencies listed in Appendix 2), the inspector should indicate the overall rating of the warehouse operator and the facility – Appendix 1 provides a guide on overall ratings (A to E indicating severity of deficiencies and appropriate remedial actions required). The Warehouse Inspection Report should be completed in triplicate and distributed, as indicated below after the inspecting official and warehouse operator or his/her senior official have signed the completed form:

- The original is placed in the warehouse operator's contract.
- A copy is furnished to the warehouse operator at the time of inspection.
- The third copy is placed in the Inspection Reports file for the information of the Head of the regulatory body.

The Head of the regulatory body should regularly review the Inspection Reports and follow up with inspectors to confirm whether recommended remedial actions have been implemented by the specified warehouse operators.

Appendix 1: Rating the warehouse operator and the facility (a guide)

Upon completion of the inspection process the operations of the warehouse operator and the storage facility should be rated based on the type and severity of discrepancies observed. Ratings may be as follows:

“A” Rating – is assigned when no deficiencies are observed. No further action is necessary.

“B” Rating – is assigned when the observed deficiencies are minor and can be remedied easily by the warehouse operator, who should be requested by the inspector to do so immediately.

“C” Rating – is assigned when major deficiencies are observed, which may require significant time to remedy but which nonetheless do not warrant declaring the warehouse operator ineligible for further business. The operator should be required to provide a written detailed time-bound plan to remedy the identified deficiencies to the regulatory body within 10 – 15 days after the inspection. Until the remedial action is implemented, the operator should be closely monitored by the inspectors for any signs of deterioration in the quality of service.

If upon subsequent follow-up inspection the warehouse operator is found to be still in breach or there is evidence that the operator falsely reported having taken remedial action, the inspector should take this as constituting grounds for immediately declaring the operator as being in a state of ineligibility or the specified storage facility as being in “non-use” for a period deemed appropriate for the violation to be remedied.

“D” Rating – is assigned when the observed deficiencies are considered by the inspector to be sufficiently severe as to warrant declaring the warehouse operator ineligible or the specified facility in non-use status for further business. The inspecting official will immediately place the warehouse operator in a temporary state of ineligibility or disqualify the facility for business pending corrective action. The warehouse operator will be required to provide a written plan for corrective measures to be undertaken. The inspector may re-instate the facility after re-inspecting and confirming with evidence that the stated deficiencies have been corrected, and that specific measures have been instituted by the warehouse operator to prevent recurrence.

“E” Rating – is assigned in cases of repeat violation of a serious deficiency or evidence of false reporting of corrective actions. This will be grounds for continuation of the state of ineligibility or disqualification for a period recommended by the inspectors as sufficient to remedy the identified deficiencies and may subsequently lead to termination of the licence of the warehouse operator if there is no evidence of remedying the deficiencies. Where the inspectors declare that the warehouse operator can not continue to operate, an appropriate notice should be posted at the facilities, in a place and in such form as to be clearly legible to all parties.

Appendix 2: Guide to Severity of Deficiencies (Area Point Rating)

The following constitute deficiencies and constitute the basis of the overall rating of the licensed warehouse operator and his/her facilities. The severity of these deficiencies in each particular case could be rated on points basis – high scores indicating level of severity. The implication is that well-functioning operators will score very low on the suggested scale below:

- 1 – Excellent
- 2 – Acceptable
- 3 – Requires minor remedial actions
- 4 – Not acceptable or not available

1. PRE AND POST STORAGE SERVICES

- A. Unauthorized Equipment in use
- B. Unauthorized packaging used
- C. Stacking not accomplished on time
- D. Improper loading/unloading of van or pallet.
- E. Inventory stickers on finished surface
- F. Unqualified personnel
- G. Origin premises not left in good order
- H. Destination services improperly performed.
- I. Deviations to service order
- J. Delivery service not accomplished on time

2. ADMINISTRATION

- A. Incorrect inventory preparation
- B. No separate weight/scale tickets and grading certificates
- C. Incorrect **warehouse** receipt preparation*
- D. Contract-supporting paperwork not available

3. STORAGE METHODS & OPERATION

- A. Consigned lots not stored within 3 days.*
- B. Improper storage, stacks/pallets
- C. Finished surfaces not protected by pads/wrap
- D. Lots and separated pieces not elevated 2 inches
- E. Lots stored against exterior walls
- F. Loose stack storage over 10 feet*
- G. Segregated items not properly identified
- H. Inadequate protection against mould/mildew
- I. Aisles being used to process goods in/out
- J. Previous discrepancies not corrected*.

4. FIRE PREVENTION AND HOUSEKEEPING

- A. Electric/heating/water systems require repair
- B. Evidence of smoking in **warehouse***
- C. Unauthorized items stored.*
- D. Improper aisle and/or stacking clearance
- E. No fire system **inspections***
- F. No fire extinguisher **inspections***
- G. No extinguishers on **warehouse** equipment*
- H. Trash/debris in storage area
- I. Fire doors inoperable/in need of repair
- J. No fire plan posted
- K. Gas and oil not drained from motorized items.
- L. Hazards noted within 20 feet of **warehouse**.*

M. Flammables/combustibles found in **warehouse**.*

5. WAREHOUSE PRACTICES

A. Inadequate security*

B. Inadequate loading/unloading area

C. Structural deficiencies (doors/floors/roof/walls/windows)*

D. Inadequate protection from sun/dust/heat/cold/moisture

E. Lack of insect/rodent control*

F. Vehicles parked in storage area

G. Commingled storage with undesirable commodities

H. Multiple occupancy.*

I. Weight stored in excess of authorized limit*

* When those items followed by an asterisk are observed, the inspector should consider placing the facility in an ineligible or disqualified status immediately. The facility will not be removed from this status until the deficiencies have been corrected and verified by an on-site inspection.

Appendix 3 – Minimum Requirements for Warehouse Operators

1. Corporate Requirements

- Applicants must be limited liability companies with issued share capital – evidenced by the **Certificate of Registration**
- Dully registered under the Laws of Tanzania with the purpose of conducting an agricultural commodities warehousing business, among others – **Memo and Articles of Association** + any amendments thereof.
- Non – resident companies may apply through a **Tanzanian registered branch or subsidiary**
- The directors and managers are fit and proper persons to conduct the business of agricultural commodity warehousing and the issuance of warehouse receipts – **Bankers’ references.**

2. Access to Warehousing Facilities

- Ownership of a warehouse(s) evidenced by **valid title deeds** for the property in the applicant’s name: or
- **Lease agreements** for a period not less than one calendar year where the facilities are to be rented from third parties.

3. Financial Requirements

- Net Worth^{2,3} – 10% of the value of stocks the warehouse is to be certified to store, subject to a minimum of **US\$ 50,000**. Applicants may draw upon the financial strength of parent companies registered in Zambia or other countries. The parent companies must then provide a guarantee on terms approved by the oversight unit to cover the minimum net worth requirements.
- Financial Statements – **Three years accounts audited** by a firm recognized by the Tanzania Institute of Certified Accountants. In the case of newly registered companies and where, in the opinion of the Chief Examiner, the company’s balance sheet provides a margin of additional security over the minimum net worth requirements, the oversight unit may at its sole discretion dispense with the requirement for three years’ audited accounts.

Where the applicants’ financial year-end is more than 6 months from the application date, unaudited management accounts made up to 2 months of the application date, must be filed in addition to the audited accounts.

² In determining Net Worth, fixed assets (Buildings, Machinery, Equipment) shall be included only up to their insured value. Equity shall not be considered as a liability.

³ Net Worth is determined as an aggregate of all classes of ordinary and preference shares, Share Premiums, Capital Redemption Reserves, disclosed Distributable Reserves (including Policyholder and Member Reserves), fully subordinated liabilities or liabilities repayable at the sole option of the company, specifically excluding any non-distributable reserves and Tax Reserves.

- **Liquidity Requirements** – The applicant must have and continue to maintain throughout the period of their certification a **current/liquidity ratio**⁴ not less than one.
- **Financial Solidity**⁵ – The applicant must have and continue to maintain financial solidity of 10% of the value of stocks the warehouse is to be certified to store

4. Insurance Requirements

- The applicant must obtain insurance cover against **fire and allied risks, burglary** and employee infidelity (**fidelity guarantee**) from an insurance company authorized by the appropriate authorities and approved by the oversight unit on the evidence of its financial strength and the credentials of its re-insurers.
- The insurance policies shall be in the name of the applicant and shall cover the stock and structures.
- The policies shall grant a first **lien**⁶ to the oversight unit on the proceeds of any claims there under.

5. Performance Bond or Undertaking

- Applicants must file with the oversight unit original copies of an unconditional and preferably non-revocable Performance Bond or Undertaking payable to the oversight unit for an amount not less than **10% of the value of stocks** the warehouse is to be certified to store, depending on the financial solidity of the applicant.^{7,8}

6. Deed of Undertaking

- The applicant must sign a Deed of Undertaking to be bound by the oversight unit Regulations, as may be amended from time to time.

⁴ Current/Liquidity Ratio = Total Current Assets divided by Total Current Liabilities

⁵ Financial Solidity = (Current Assets – Current Liabilities) +²/₃(Fixed Assets – Long Term Liabilities)

⁶ The oversight unit shall hold such lien for purposes of meeting obligations to all holders of warehouse receipts in priority to any claims the operator or any other person may have under such policies.

⁷ For the first year, the value of the Performance Bond or Undertaking shall be no greater than US\$ 4 or US\$ 6 per tonne of storage space for which certification is being sought, for third party and own stock, respectively.

⁸ If the applicants' financial solidity score is less than 10% of the value of stocks the warehouse is to be certified to store, they must provide a Performance Bond for the balance over and above the minimum 10% requirement.

Appendix IV: Minimum Requirements for Flat Bed Warehouses

1. Warehouse Site

- Site generally clean and tidy; arrangements provided for disposal/destruction of rubbish
- Roads and hard standings in good repair
- Vegetation under control
- Areas adjacent to warehouse clear of vegetation, refuse, equipment and machinery
- No evidence of rodent activity (burrows, tracks, droppings)
- Drainage and flood water disposal satisfactory

2. Warehouse Structure - External

Walls structurally sound

Roof in good repair

Windows and ventilators in good repair and screened to prevent access by birds and rodents

Doors sound, well fitting and secure. Rodent barriers if provided, in good condition and in place

Rain water guttering and drain pipes secure, functioning and screened against birds and rodents

Eaves and guttering free of birds nesting material

Service duct entries (water, electricity) screened against rodents and birds

3. Warehouse Structure - Internal



Source: Uganda, Kasese

- Walls structurally sound, clean and as smooth as possible
- Roof in good repair
- Windows and ventilators in good repair and screened to prevent access by birds and rodents
- Doors sound, well fitting and secure. Rodent barriers if provided, in good condition and in place
- Internal drainage pipes functional and in good repair
- Ledges on beams and walls clear of debris
- Concrete floors smooth and crack free; holes and gaps in wooden floors repaired or filled; earth floors well compacted to prevent rodents burrowing
- Gaps at wall/floor angle filled to prevent rodent access
- Lighting adequate and functioning

4. Standard of Warehouse Keeping & Hygiene

Handling

- Sack trolleys in use where provided; bags carried and not dragged
- Bags handled properly to avoid weakening, or damage by tearing or splitting; excessive use of bag hooks avoided

Stacking

Good practice stacking commodities



Source: ccmcoffee.com

- Gangways between and around stacks at least 1 meter wide
- Where vehicle entry is permitted, main gang ways wide enough to allow loading and unloading
- Stack boundary lines marked on the floor and stacks built within them
- Stacks built firmly and bonded to prevent collapse; stacks built to reasonable height to facilitate handling and to prevent crashing of commodities in lower layers of the stack
- Dunnage in good condition and disinfected before use; arrangements for disposal or repair of damaged pallets, etc. satisfactory

Commodities

- Individual commodities stacked separately; food segregated from non food stocks
- Damaged stocks or stocks awaiting disposal segregated from main stocks

- Containers in good condition showing no signs of damage by pests (insects, rodents, birds, mould) or physical damage (crushing, spillage, leakage, wetting, staining)
- Stack cards in position and maintained

Pest Control

- Insect and rodent control equipment provided and fully functional
- Pesticides and application equipment kept locked in separate store
- Insecticide spraying and/or stock fumigation regime maintained
- Rodent bait stations in position and regularly replenished with fresh bait

Safety and Hygiene

- Fire extinguishers/buckets in position and maintained ready for use
- Sanitary arrangements for staff provided and adequate
- Cleaning material provided