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

Second Quarterly Report (March -May 2005)

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1.0 Introduction

In October 2004, the United Nations Office for Project Services (UNOPS) sub-contracted the Natural Resources Institute (NRI) to provide technical advisory services in establishing “Commodity Trade Finance Systems based on Inventory Collateralisation and Warehouse Receipts” under projects funded by the Common Fund for Commodities (CFC). 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 participating countries are Uganda, Tanzania and Zimbabwe.

The objectives of the projects, as set out in the Appraisal Reports prepared in 1997, and which remain largely unchanged, 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.

1.2 Focus of Second Quarter Activities and structure of report

The second quarterly report covers the period from March to May 2005. During the first quarter of implementation of the project, the main activities undertaken were inception visits to the participating countries, during which the role of various parties in the implementation and management of the projects was agreed. Workplan and budgets were prepared by NRI and approved UNOPS, after consultation with CFC and the international commodity bodies (ICAC and ICO). Other activities, which were budget neutral, as far as budgets for the various country components was concerned, were also undertaken within the remit of the sub-contract between NRI and UNOPS. The First Quarterly Report covered these activities.

During the second quarter, the focus has been on activities that will ensure that by June 2005, the basic elements of warehouse receipts systems are in place for piloting trade finance based on inventory collateralization at agreed locations. That is, the priority was on activities under Components I and IV. However, to the extent that they were required to support the trade finance system, efforts were also made to implement the Components II and III activities contained in the approved Workplans.

This report is structured as follows: the next section provides an update progress made in carrying out the planned activities for the quarter. The update is presented in a

tabular matrix as follows: Table 1: Tanzania; Table 2: Uganda and Table 3: Zimbabwe. In Section 3, we assess the progress made, implementation challenges and prospects for achieving the set targets for the June 2005 pilot season. Forward plans for the participating countries are summarised in Section 4 and our conclusions and recommendations are in Section 5.

2.0 Introduction

Tables 1 - 3 below report on the status of project activities planned for the quarter (March-May 2005) for each of the participating countries. The activities are reported on the basis of the four components outlined in the Project Appraisal Reports (1997). Activities planned for the quarter are listed in one column, including those brought forward (i.e. deferred) from the preceding quarter; and the progress made outlined in the next column. The final column (“Remarks/Reasons”) provides additional information or details relating to reported status of the activity.

Table 1: Status of planned activities for Second quarter (March-May 2005) for Tanzania

Country	Planned and Deferred Activities	Activity Progress	Remarks/Reasons
Component I: Promotion of a privately run Warehouse Receipt System	1.1.1 Formalise and publish minimum warehouse standards and warehouse regulations for operators for coffee and cotton sectors (March 2005)	<ul style="list-style-type: none"> - Review and adoption of warehouse standards has been completed. Preparation of warehouse regulations is yet to be completed. - The publication of standards and regulations has been deferred to the next quarter. 	<ul style="list-style-type: none"> - The generic adopted warehouse standards submitted as Annex 1 to March 2005 Report.
	1.1.2 Place draft bill before Parliament (May 2005).	<ul style="list-style-type: none"> - The Warehouse Receipt Act, 2005 was passed on 20 April 2005; after holding two seminars for parliamentarians and organising one public hearing on the Bill. 	<ul style="list-style-type: none"> - The Minister for Cooperatives and Marketing, senior officials of the MCM and the LMU personnel, especially the NPC, played key roles in successfully lobbying parliament to pass the Act.
	1.1.3 Advise Government on setting up regulatory body (May 2005)	<ul style="list-style-type: none"> - Initial discussions have been held with the Permanent Secretary of the MCM and the LMU on advisory inputs 	

		required in operationalising the newly promulgated Warehouse Receipt Act. Further discussions on technical inputs from NRI will be discussed after the Act receives Presidential assent.	
Component II: Development of a basic Marketing Information System (MIS) for Cotton and Coffee	1.2.1	Review information needs of players in coffee and cotton sectors (March 2005)	– Activity completed
	1.2.2	Review websites (TCB/TCLSB) and advise on upgrade (March)	– Activity undertaken in March 2005.
	1.2.3	Review hardware/software needs of commodity bodies to improve data and information collection and processing (March 2005)	– Activity undertaken in March 2005, but recommendations are to be finalised after other related activities have been completed.
	1.2.4	Design web-based data collection system for field staff (March)	– Yet to be completed.
	1.2.5	Upgrade websites and information dissemination (April)	– Yet to be undertaken.
	1.2.6	Install information tracking system for stored commodities at designated warehouses (May 2005)	– It was originally anticipated that the participating collateral managers would provide this. Alternative systems will be evaluated and advice provided.
	1.2.7	Procure (by commodity bodies) of	– Deferred to next quarter
			– MIS Report attached to April 2005 Report as Annex 3 – The IT component of the MIS is yet to be completed as various options are being considered.

	required software and hardware (April 2005)		
	1.2.8 Provide training for HQ staff and field officers (May)	- Deferred to next quarter.	
Component III: Development and Testing of a Quality Assurance and Certification System	1.3.1 Assess quality-related problems in the commodity sectors and identify training needs of key players (March 2005).	- Activity completed.	- Report in Annex 4 of April 2005 Monthly report
	1.3.2 Agree training programme targeting: producers and traders in pilot locations plus personnel of TCB/TCLSB, exporters, selected warehouse personnel and CM (March 2005)	- Activity completed.	- Above report refers.
	1.3.3 Prepare training materials and manuals (April 2005)	- Ongoing, expected to be completed in the next quarter.	
	1.3.4 Carry out training for target group (May 2005)	- Deferred to next quarter	
	1.3.5 Assess grading equipment needs of selected operators and advise on procurement where necessary (March 2005)	- Activity completed. The consultant did not recommend procurement of additional grading equipment. New ginning stands are, however, required at the Moshi ginnery to assure effective cotton pilot.	- Following discussions with the relevant officials on the need to improve ginning capacity at Moshi, TCSLB committed to facilitate transfer of rehabilitated ginning stands to the ginnery. The MCM decided to fund

	<p>1.3.6 Follow-up arrangements for ginning stands for Moshi (May 2005)</p> <p>1.3.7 Procurement of grading equipment for (April 2005)</p> <p>1.3.8 Arrange training in warehouse inspection and stock monitoring for staff of commodity boards and LMU (May 2005)</p>	<ul style="list-style-type: none"> - Ongoing - None recommended - This was at the request of the MCM, following the decision not to involve collateral managers as inspectors. The training has been deferred to July 2005. 	<p>purchase of new ginning stands to be leased to the operator of the Moshi ginnery. These will raise output from below 6 bales to over 20 bales per day.</p>
<p>Component IV: Development of a system of Commodity Trade and financing based on Inventory Collateralisation using WRS and Testing the System through Trade Financing.</p>	<p>1.4.1 Contract Collateral Managers to carry out warehouse inspection and stock monitoring.</p> <p>1.4.2 Identify training needs of bankers (April 2005)</p>	<ul style="list-style-type: none"> - The banks and the LMU did not favour the involvement of collateral managers as inspectors because of the additional cost (even though the CM will not assume significant liability). The alternative option (See 1.3.8) was adopted. - No training required for banks currently financing as their procedures are adequate. 	<ul style="list-style-type: none"> - Inspection and stock monitoring will be performed by the LMU and commodity bodies until the regulatory agency provided for under the WR Act is established (as requested by the MCM). NRI is arranging training for the personnel to be involved. - Will be revisited after pilot when other banks begin to show interest.

	<p>1.4.3 Produce brief on financing structure for banks and discuss with target banks (April 2005).</p> <p>1.4.4 Prepare promotional materials targeting traders, exporters and smallholder groups/cooperatives (March 2005)</p> <p>1.4.5 Sensitisation for producers, field officers and extension officers in the two pilot locations (4 events) (March 2005)</p> <p>1.4.6 Printing of standard warehouse receipts (March 2005)</p> <p>1.4.7 Experience-sharing (hosting delegation from Uganda (May 2005)</p>	<ul style="list-style-type: none"> - Not required currently (for same reasons as in 1.4.2). - Deferred to next quarter. - One event carried out in Kilosa (see March 2005 Report). Other events have been deferred to next quarter. - Initiated but yet to be completed. - Completed successfully in May 2005. 	<ul style="list-style-type: none"> - Sensitisation and promotion has been scaled down to focus on getting functional pilots which can be replicated. - The design of the receipts has been endorsed by the banks, MCM and other stakeholders. Consultations are ongoing on the award of a contract to print the receipts. Contact details for South African printers of security documents has been provided by NRI.
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Table 2: Status of planned activities for Second quarter (March-May 2005) for Uganda

Component I: Promotion of a privately run Warehouse Receipt System	2.1.1	Review and advise on warehouse standards and regulations for coffee and cotton (March)	- Completed after consultations with commodity bodies and LMU.	- Annex 4 (April Report)
	2.1.2	Select locations for pilot WRS for coffee (March 2005)	- Completed, BCU (Mbale) to store Arabica coffee, Job Coffee in Mbarara for storing Robusta coffee	- Annex 4 (April Report)
	2.1.3	Publish warehouse standards and regulations and selected locations for pilot WRS (March 2005)	- Deferred until just before pilot launch in June 2005.	
	2.1.4	Submit bill to cabinet with supporting documentation and lobby for approval (March 2005)	- The “Certificate of financial implications” received from the Ministry of Finance in March 2005. The bill was gazetted in April 2005 and is to be placed before parliament.	- Copy of Certificate attached as Annex 4 to March Report. Parliamentary process may be slowed due to debate on political transition.
	2.1.5	Publication of details of selected warehouse operators and CM (April 2005)	- Deferred to June after selection and contractual completion	
Component II: Development of a basic Marketing Information System	2.2.1	Review information needs of players and UCDA/CDO systems (March 2005)	- Activity completed	- Annex 3 (April Report)

(MIS) for Cotton and Coffee	<p>2.2.2 Review website and advise on upgrade (March 2005)</p> <p>2.2.3 Design web-based data collection system for field staff (March 2005)</p> <p>2.2.4 Procure software and hardware required (March 2005)</p> <p>2.2.5 Assess training needs of UCDA/CDO staff (March 2005)</p>	<ul style="list-style-type: none"> - Activity undertaken in March 2005, but recommendations are to be finalised after other related activities have been completed. - Yet to be completed - Deferred until other activities are completed. - Deferred until other activities are completed. 	
Component III: Development and Testing of a Quality Assurance and Certification System	<p>2.3.1 Assess training needs of key sector players in coffee (March 2005).</p> <p>2.3.2 Agree training programme targeting: producers and traders in pilot locations plus staff of UCDA, exporters, selected warehouse operators and CM (March 2005).</p> <p>2.3.3 Assess grading equipment needs of selected operators and advise on procurement where necessary (March 2005).</p> <p>2.3.4 Assess training needs of key sector players in cotton (March 2005)</p>	<ul style="list-style-type: none"> - Activity completed. - Activity completed. - Completed - Completed 	<ul style="list-style-type: none"> - Annex 4 (April Report). - Annex 4 (April Report). - No recommendations made for procurement of additional equipment for the coffee sector (April Report). - Annex 4 (April Report)

	<p>2.3.5 Agree training programme targeting: producers and traders in pilot locations as well as CDO personnel, staff of exporters, selected warehouse personnel and CM (March 2005)</p> <p>2.3.6 Sensitisation of producers and extension officers in the two pilot locations for coffee (May 2005).</p> <p>2.3.7 Training in quality assurance, particularly for producer groups (May 2005)</p>	<p>- Deferred to September</p> <p>- Activity undertaken during 23-27 May 2005</p> <p>- Activity undertaken during 23-27 May 2005</p>	<p>- Cotton activities will be implemented ready for September 2005.</p> <p>- Report attached (Annex 1).</p> <p>- Report attached (Annex 1).</p>
<p>Component IV: Development of a system of Commodity Trade and financing based on Inventory Collateralisation using WRS and Testing the System through Trade Financing.</p>	<p>2.4.1 Select and train 2 operators for coffee pilot (March 2005).</p> <p>2.4.2 Draft terms and conditions for CM participation (March 2005)</p> <p>2.4.3 Finalise contracting of selected CM (May 2005).</p> <p>2.4.4 Produce brief on financing structure for banks and discuss with target banks and central bank (March 2005).</p> <p>2.4.5 Produce promotional materials for</p>	<p>- Activity completed.</p> <p>- Completed activity, drafted by NRI and adopted</p> <p>- Completed (Cotecna selected by local panel).</p> <p>- Completed</p> <p>- Deferred to June 2005.</p>	<p>- See 2.1.2 (above).</p> <p>- Annex 6 (April report).</p> <p>- Annex 7 (April report)</p>

	traders, exporters and smallholder groups (March 2005).		
2.4.6	Printing of standard warehouse receipts (March 2005).	- Design of receipt accepted by bankers; process initiated to contract printer.	
2.4.7	Study tour to Tanzania (May 2005).	- Tour undertaken and very successful.	- Report attached (Annex 2).

Table 3: Status of planned activities for Second quarter (March-May 2005) for Zimbabwe

Component I: Promotion of a privately run Warehouse Receipt System	3.1.1	Compile data and information on warehouses (March 2005).	- Inventory of warehouses deferred to next quarter. Warehouses have been selected for coffee (ZCM and GMB facilities in Mutare) and 2 for soybean (2 GMB facilities).	- Annex 4 (April report)
	3.1.2	Publication of details on selected warehouse operators and CM (April 2005)	- Deferred to next quarter.	- To be completed after CM participation is finalised.
	3.1.3	Review and advise on warehouse standards and regulations for coffee and soybean (March 2005).	- Completed	- Annex 4 (April Report)
	3.1.4	Organise sensitisation events in Harare and Mutare for key stakeholders (May)	- Deferred to June 2005	- Workshops planned for Harare and Mutare for June 7 and 9 respectively.
	3.1.5	Consult MOA and MIIT to place promulgation of WRS Bill on government agenda.	- Deferred to next quarter	- Awaiting opening of new parliament.
Component II: Development of a basic Marketing Information System (MIS) for Cotton and Coffee	3.2.1	Assess marketing information needs of players in coffee and soybean sectors (March 2005).	- Completed.	- Annex 3 (April report)
	3.2.2	Follow-up on MOA's project to improve the MIS (May 2005).	- Ongoing.	

Component III: Development and Testing of a Quality Assurance and Certification System	<p>3.3.1 Assess training needs of key sector players (March 2005).</p> <p>3.3.2 Agree training programme targeting: producers and traders in pilot locations plus personnel of MOA, exporters, selected warehouse personnel and CM (March 2005).</p> <p>3.3.3 Training in quality assurance, particularly for producer groups (May 2005).</p>	<p>- Completed.</p> <p>- Completed.</p> <p>- Deferred to June.</p>	<p>- Annex 4 (April Report)</p> <p>- Annex 4 (April Report)</p>
Component IV: Development of a system of Commodity Trade and financing based on Inventory Collateralisation using WRS and Testing the System through Trade Financing.	<p>3.4.1 Terms and conditions for CM participation (March)</p> <p>3.4.2 Produce brief on financing structure for banks and discuss for banks and reserve bank (March/April 2005).</p> <p>3.4.3 Produce promotional materials for smallholder farmers and traders (March 2005).</p> <p>3.4.4 Identify training needs of bankers (March)</p> <p>3.4.5 Printing of standard warehouse</p>	<p>- Completed and ITS-Socotec invited to participate.</p> <p>- Completed.</p> <p>- Process started but yet to be completed.</p> <p>- Initiated but not completed.</p> <p>Consultations on changes to the design of</p>	<p>- ITS-Socotec responded positively and negotiations with local stakeholders is ongoing.</p> <p>- Annex 8 (April Report)</p>

	receipts (May 2005)	the receipt ongoing. Printers contacted and awaiting finalisation of design.	
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3.0 Assessment of project progress, implementation challenges and prospects

3.1 Tanzania

The passing of the Warehouse Act 2005 by the Parliament of Tanzania in April 2005 was a landmark achievement for which the Minister of Cooperatives and Marketing deserve congratulation. The LMUs in Uganda and Zimbabwe have been spurred to pursue promulgation of warehouse legislation with more vigour. The Act is awaiting Presidential assent but the MCM and the LMU have initiated discussions with NRI on measures to operationalise the Act.

As reported, the banks and other stakeholders opted out of the use of independent collateral managers to carry out warehouse inspection and stock monitoring at the participating warehouses (coffee curing factories and ginneries). Instead, the option adopted is the involvement of the LMU and commodity bodies to carry out this function. Following a request from the MCM, training will be provided in the next quarter for staff of the LMU and commodity bodies to enable them perform this function.

While prospects for implementing the pilot for coffee, the WRS pilot for cotton faces a major challenge in the form of inefficient ginning stands at the Moshi ginnery which was selected for the pilot. The TCSLB and the MCM have committed to providing rehabilitated and new ginning stands for the ginnery. Success of the pilot depends on this and every effort is being made to follow the authorities to secure the equipment.

Progress has been made in implementing Component III activities. However, implementation of Component II need to be speeded up in the next quarter.

3.2 Uganda

There has been substantial progress has been made in carrying all planned activities and putting in place the basic framework for the WRS for coffee. Tanzania provided a good opportunity for experience-sharing with stakeholders from the coffee sector in Uganda, who participated in a study tour of the country. The practical lessons learnt have contributed significantly to improving the prospects for the coffee pilot scheduled for the next quarter. There is considerable interest from banks (Standard Chartered and Allied Banks), coffee processors/exporters (Job Coffee Ltd. and Bugisu Cooperative Union) and coffee producer organisations whose members are likely to deposit during the pilot. Support from UCDA and the LMU have been key to the successful implementation of planned activities.

The main challenge in Uganda is in getting supportive warehouse legislation enacted due to the political situation in the country. However, this is not likely to affect the prospects for successfully piloting the WRS for coffee.

3.3 Zimbabwe

Progress has also been achieved in Zimbabwe in implementing planned activities for piloting the WRS for coffee and soybean. The forecast for coffee output for the season is, however, a matter of concern. It is expected to be much lower than projected in the workplan, though no firm figures are available. This is likely to affect the viability of the coffee pilot. The situation is being monitored and we plan to scale back activities, especially on the involvement of collateral managers in warehouse inspection and stock monitoring if this is necessary in assuring a cost-effective system. Though the forecast output of soybean is expected to be low as well, it is anticipated that the target throughput (projected in the workplan) will be achieved.

Progress on promulgating warehouse legislation has been slow but is likely to gather momentum with the new Parliament. We are working with the LMU and the Ministries of Agriculture and Industries and International Trade to follow this up.

4.0 Forward plans

The main focus of activities during the next quarter will be on monitoring and improving systems for the WRS pilot during the harvest beginning in June 2005, where necessary. The other planned activities, including those deferred from the last quarter are set out in the Table 4 below.

Table 4: Planned Activities for third quarter (June – August 2005)

Country	Planned Activities (3rd Quarter - June, July, August 2005)
Tanzania	
Component I	a. Advise Government on operationalisation of the warehouse legislation, including establishment of the regulatory authority.
Component II	a. Design web-based data collection system for field staff. b. Upgrade websites and information dissemination. c. Procure (by commodity bodies) of required software and hardware. d. Provide training in use of software for HQ staff and field officers.
Component III	a. Carry out training for target groups. b. Follow-up arrangements for new ginning stands for Moshi. c. Arrange training in warehouse inspection and stock monitoring for staff of commodity boards and LMU.
Component IV	a. Prepare promotional materials targeting traders, exporters and smallholder groups/cooperatives. b. Print standard warehouse receipts. c. Monitor deposits and financing under pilot.
Uganda	
Component I	a. Publish warehouse standards and regulations and selected locations for pilot WRS. b. Continue to lobby for promulgation of warehouse legislation. c. Select locations for pilot WRS for cotton. d. Publish warehouse standards and regulations.
Component II	a. Design web-based data collection system for field staff. b. Upgrade websites and information dissemination. c. Procure (by commodity bodies) of required software and hardware. d. Provide training in use of software for HQ staff and field officers.
Component III	a. Agree training programme targeting: producers and traders in cotton pilot locations as well as CDO personnel, staff of exporters, selected warehouse personnel and CM. b. Prepare training materials and manuals for cotton. c. Evaluate training for coffee sector players and revise materials, if necessary.
Component IV	a. Produce promotional materials for coffee traders, exporters and smallholder groups.

	<ul style="list-style-type: none"> b. Print standard warehouse receipts. c. Select warehouse operators for cotton. d. Train personnel at selected warehouses for cotton. e. Prepare promotional materials for cotton ginners and producers.
Zimbabwe	
Component I	<ul style="list-style-type: none"> a. Publish details on selected warehouse operators and CM. b. Organise sensitisation events in Harare and Mutare for key stakeholders. c. Consult MOA and MIIT to place promulgation of WRS Bill on government agenda. d. Organise workshop for parliamentarians and other stakeholders on warehouse legislation.
Component II	<ul style="list-style-type: none"> a. Follow-up on MOA's project to improve the MIS.
Component III	<ul style="list-style-type: none"> a. Organise training in quality assurance, particularly for producer groups.
Component IV	<ul style="list-style-type: none"> a. Produce promotional materials for smallholder farmers and traders. b. Complete process of identifying the training needs of bankers. c. Print and issue standard warehouse receipts.

5.0 Concluding remarks and recommendations

Following the slow beginning in the first quarter, a rather challenging agenda was set for the second quarter. In implementing the planned activities, the focus was on those required to ensure that the basic framework for piloting the WRS in June 2005 were in place for Uganda (coffee), Tanzania (coffee and cotton) and Zimbabwe (coffee and soybean). Most of the planned activities were successfully undertaken and those that were deferred are not expected to have significant impact on the outcome of the pilot. The LMUs and commodity bodies contributed substantially to the success recorded during the quarter, and NRI appreciates these contributions.

During the next quarter (June –August 2005), the focus will be on maintaining the momentum gained, monitoring and fine-tuning the systems put in place for the WRS pilot in the next season and implementing other planned activities. The quarter is seen as very critical will place considerable demands from both the LMUs and NRI. The implementation challenges anticipated have been discussed in Section 3.

ANNEX 1

REPORT ON WRS TRAINING SEMINARS FOR COFFEE FARMER GROUPS, SOCIETIES AND TRADERS CARRIED OUT IN SOUTH WESTERN AND EASTERN COFFEE GROWING REGIONS

I Background

During 23 – 27 May 2005, the Coffee Market Development and Trade Promotion Project, commonly referred to as the Warehouse Receipt System Project organized four (4) Training seminars for stakeholders in the WRS pilot programme in the robusta and arabica growing areas of the South Western and Eastern Regions respectively. The targeted group was from the districts of Mbarara, Ntungamo, Bushenyi, Rukungiri and Kanungu as for robusta coffee and Mbale, Sironko and Kapchorwa as for the arabica coffee. The seminars took place at Rwizi Arch Hotel in Mbarara during 23 – 25 May 2005 for the Robusta growers (120 participants) and on 27 May 2005 at Mt. Elgon Hotel in Mbale for the arabica growers (70 participants).

The objective of the seminars was mainly to prepare the participants, particularly the potential depositors in the WRS pilot programme on the requirements they needed to fulfill in order to effectively participate and benefit from the Warehouse Receipt System programme. Further, it was important that awareness is created into aspects of what the depositor would expect after delivering the coffee at the warehouse and procedures and/or processes the commodity goes through before a warehouse receipt is issued.

II Topics Covered and Resource Personnel

The Seminars covered and addressed the following key Topics:

- a) **The Warehouse Receipt System – Concept and Importance to Users**
(*Mr. Fred Mwesigye – National Project Coordinator and Commissioner for Cooperative Development, MTTI*)
- b) **A detailed description of the WRS Pilot - Definition of Roles and Obligation of Parties**
(*Mr. Chris Baine – NRI / DCDM Consultant*)
- c) **Agricultural Financing for Farmer Groups and Societies**
(*Mr. Godfrey Mundua – Standard Chartered Bank, Credit Department*)
- d) **Collateral Management and Enforcement Quality Standards in a WRS Environment**
(*Topista Nakungu and Patrick Onapa – COTECNA*)
- e) **The Key to Ensuring Good Quality Coffee**
(*Jane Nakandi and Arbertina Kauba – Quality Department, UCDA*)
- f) **Group Dynamics for effective WRS**
(*Mr. Herment Mrema - Farmer Group Specialist, NUCAFE*)
- g) **A practical demonstration on coffee sampling, quality testing, grade classification and issues relevant to issuing the Warehouse Receipt to the depositor**
(*Topista Nakungu – COTECNA*)

e) **Outlining Seminar Objectives, General Coffee Production Issues and Moderation**
(Apollo Kamugisha – Associate Project Coordinator & Senior Development Officer, UCDA)

III Seminar Delivery, Concerns raised by Participants and Possible Solutions

TOPIC DELIVERED	Key Highlights in the Topic Delivery	Common / Important Issued Raised by Participants	Possible Solutions
The Warehouse Receipt System – Concept and Importance to Users	<ul style="list-style-type: none"> - Liberalization caused collapse in marketing; - WRS uses commodity as collateral; - Trade finance accessibility; - WRS enhances quality - WRS improves market information flow and awareness; - WRS smoothens price variability through risk mitigation 	<ul style="list-style-type: none"> •Coffee is produced in rural areas, how will WRS reach the people in communities; • Crucial period for financing is during coffee harvesting time but local Area Enterprises or societies do not have much funds to buy the crop, how will WRS assist; •WRS being a new concept, how will it spread to village level. 	<ol style="list-style-type: none"> 1. There need to be a chain of good warehouses and the stakeholders in WRS must be reliable and trustworthy, backed by legislation; 2. Group marketing will be key and training to acquire basic skills in commodity mobilization and marketing techniques to be provided; 3. Farmers advised to embark on reviving their former Societies and form new farmer Group Association to facilitate commodity bulking; 4. Training and sensitization and dissemination through media to be increased.

<p>A detailed Description of the WRS Pilot (Step by Step Process in effecting the WRS Pilot – Roles and obligation of parties)</p>	<ul style="list-style-type: none"> • Purpose of WRS project is to improve marketing of coffee and other commodities through developing a trade financing system based on the commodity as collateral; • Liberalization brought about quality problems, breakup of farmer group structures, increased marketing chain and blockage of information flow; • With WRS, the farmers retain ownership and decision to sell their commodity; • In WRS, the weight and quality are verified by an independent verifier and the Warehouse Receipt issued is credible; 	<ol style="list-style-type: none"> 1. There is worry that farmer will be intercepted by traders from Kampala and offered prices on the way. Could there be zoning for particular areas? 2. At the warehouse there will be some costs to be paid. What are benefits to farmers by depositing and not selling at farm level? 3. Farmers have difficulties getting market information. How will the WRS make it better? 4. Will the WRS help to have Uganda coffee auctioned? 5. How will the transaction costs at each level of WRS be offset? 6. The WRS brings in a quality challenge because it is determined at the final point. How will the Primary Societies assess quality prior to delivery? 7. Who takes care of security of the coffee in storage? 	<ul style="list-style-type: none"> - It is important that farmers revive their societies and market their coffee as a group; - Storage and collateral management costs and interest charges if any will be borne by the depositor. However, the depositor will benefit from the premium prices received and the possibility of getting funds from banks to purchase more coffee; - The WRS project will set up market information centers at warehouses; - With the Warehouse Receipt, various buyers will be approached to offer a price, which in effect is an auction in disguise; - There is need to extend quality assessment kits to farmer group stores and primary processing level; - The commodities in storage will be fully insured by the warehouse operator.
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<p>Agricultural Financing for Farmer Groups and Societies</p>	<ul style="list-style-type: none"> - Uganda is an Agricultural economy, with 80% of the population being farmers; - Banks are keen to see WRS succeed because the commodity as collateral is better than real estate collateral; - Noted that banks are not involved in rural financing because of location, size of clients, volume ratios, risks of crop failure, commodity price volatility and low ability to service the loan facility; - With WRS, the risks of weather and crop failure are eliminated; - With WRS, funds will be available for coffee depositors as the comfort will be from Collateral Manager; - Standard Chartered Bank, annual prime rate is 18% or 1.5% per month. For example, for a 4 months exposure, interest charge payable will be 6% 	<ul style="list-style-type: none"> •What are the other hidden costs that the depositor if he/she decides to take the receipt to the bank for a loan might fall into? 	<ol style="list-style-type: none"> 1. There are no other hidden costs in the bank; 2. It is common practice for banks to charge a small fee as Arrangement fees and this varies from bank to bank but ordinarily does not exceed 1% of the loan facility.
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<p>Collateral Management, Quality Standards and their Enforcement in a WRS Environment</p>	<ul style="list-style-type: none"> • Role of the Collateral manager is to provide an independent quality standards certification to the commodity deposited; • Quality of the commodity is critical because price is a reflection of quality; • Acceptable coffee moisture content will be 13% and below; • Other quality standards will include colour, out turn, extraneous matter and defectives; • Commodity release is after clear release order instructions from the bank (in case a loan was taken); • Full cover insurance for the warehouse and commodities plus legal control of warehouse through a Lease Agreement are key elements in WRS. 	<ol style="list-style-type: none"> 1. Will the farmers and their groups be adequately trained and equipped so that quality is controlled straight from farm level? 2. Who will take care of collateral management fees in the interim pilot period before volumes are well built up? 	<ul style="list-style-type: none"> - Training farmers and traders within the pilot's area of operation will be part of the activities that will be undertaken by the project; - A small fee to cover for storage and collateral management costs will be levied. This is expected to be offset from the premium price received by the depositor; - Possibility of the WRS project to shoulder the collateral management and storage costs to kick start depositing at warehouse for the interim period to be looked into because it is a serious concern.
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<p>The Key to Ensuring Good Quality Coffee</p>	<ul style="list-style-type: none"> - Quality is the goodness or badness of a commodity; - Good quality coffee must have the following: <ul style="list-style-type: none"> a) Must be dry – 12.5 to 13% MC maximum; b) No foreign matter; c) Fresh smell; d) Must be clean; e) Must have good appearance. - Need to look at coffee as food; - Assuming husbandry was right, critical quality issues are therefore at harvesting and processing level, and these include: <ul style="list-style-type: none"> i) Fermentation process; ii) Mould growth; iii) Dust and contamination; iv) Colour of the bean - Warehouses need to be leakproof, good aeration, cemented floors and strictly for coffee. 	<ul style="list-style-type: none"> • How do you detect bad drying from the quality tests? • How do you know coffee has been well fermented; • Is there any quality effect from old trees? • What quality implication in respect to spraying versus artificial manures? 	<ol style="list-style-type: none"> 1. Earthiness is the biggest quality problem due to drying on bare ground. This can be avoided by drying coffee on cemented floors, raised platforms and tarpaulins; 2. After harvesting, the cherry needs to be dried with 8 hours after harvest to avoid fermentation; 3. For wet processed coffee, fermentation needs not to exceed 24 hours, after which pulped coffee is properly washed using clean water; 4. There is no cup quality difference in coffee from old coffee trees except for screen distribution, which will be at the lower end of the sizes; 5. Framers should endeavour to avoid using artificial chemicals in coffee because organic coffee fetches premium price on the international market.
<p>Group Dynamics for Effective WRS Participation</p>	<ul style="list-style-type: none"> • Basic facts are that farmers do not own their coffee because they do not control the weighing, testing Moisture Content and price offers; • Both quantity and quality of coffee are declining; • Cost of doing business in coffee is high; • Farmers lack adequate collateral; • Farmers therefore need to organize themselves to marshal volume, control quality and retain ownership of their coffee, access production inputs, information and sell when the price is right. 	<ol style="list-style-type: none"> 1. Liberalization killed cooperatives which had a system for input supply. Will WRS provide inputs for production? 2. The problem in coffee marketing now is the middleman. Will WRS help groups to compete better? 3. Some farmers sell coffee while still in shambas, how will quality within a group be controlled? 4. The farmers in Uganda are fragmented, each with very small volumes of coffee, who will be responsible to mobilize these farmers so that they effectively participate in WRS? 	<ul style="list-style-type: none"> - Since liberalization is a Government policy in force now, it is important that farmers group up so that they attract suppliers of inputs to go down to their level; - By farmers depositing their coffee at designated warehouses and marketing as a group, they are able to cut out the middleman and access better prices from bigger exporters and/or traders; <p>Effort will be put into assisting farmers to be mobilized and training sessions offered on all issues of coffee production, quality control and marketing</p>

<p>Practical demonstration on coffee sampling, quality testing, grade classification and issues relevant to issuing the Warehouse Receipt</p>	<p>- A visit to the selected warehouses, JOB COFFEE factory premises in Mbarara and BCU Factory premises in Mbale were visited. - Participants were taken through the processes after receiving the coffee at the warehouse: weighing, MC testing, Screen distribution, foreign matter and defective counts for quality determination, issuance of warehouse receipts and storage procedures.</p>	<ul style="list-style-type: none"> • Will the farmer groups be assisted to control quality at the farm or buying level in their localities? • How much will the storage costs be? 	<ol style="list-style-type: none"> 1. There is need for the WRS project to extend quality control and to the farmer group level so that rejections due to Moisture content is minimized; 2. Test screens will also be important for farmer groups to assist them assess quality performance from different member farmers or associating groups and determine premium differentials going to contributing members of the group; 3. Storage costs will be minimal and borne by the depositors and spread across the board on per kilo basis.
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IV Conclusion

The training seminar on WRS was well received and participants clearly understood the concept and what they needed to do in order to participate and benefit from the pilot programme.

The problem of farmer mobilization however remains a challenge, because volumes and quality assurance are the key cornerstones for successful implementation of the WRS programme.

V Recommendations and Way Forward

The following recommendations are forwarded:

1. Similar training sessions need to be organized at the lower level so that a wider catchment of farmers and coffee traders at that level are accessed;
2. There is need for follow up action plan so that farmers get mobilized quickly to be able to commence the pilot depositing with the current crop;
3. For purposes of enforcing quality control at farm and local buyer's store level, it is important that local leaders and law enforcement agencies at grass root level get involved;
4. All coffee procurement groups need to be strictly controlled through licensing procedures and heavy penalties levied on those operating outside the regulations;
5. Farmer Groups and Societies that are to evolve and engage in coffee procurement will also need to be lincensed;

6. To facilitate ensure that only quality coffee is produced by farmers, processed and deposited at the warehouses for purposes of obtaining Warehouse Receipts, it is proposed that heavy penalties be levied to any processing factory that will be found processing wet or mouldy coffee – the issue could be followed up with the regulator;
7. The project may need to evaluate the quality assessment tool kit for farmer groups and fund their acquisition for the various groups participating in the pilot.
8. For the interim period, it is recommended that in the event that depositors are fewer than expected, the WRS project should guarantee to pay for the hire of warehouses and collateral management fees;
9. Time is running fast, there is therefore need for project implementation to build on achievements already made and conclude the MOUs with the parties (JOB COFFEE LIMITED, BCU, COTECNA and Banks) to enable the pilot programme commence as soon as possible;
10. Noting that the warehouses create a constriction point in coffee marketing, possibility of evolving an auction system for coffee, using Warehouse Receipts, may be looked into.

Apollo Kamugisha
ASSOCIATE PROJECT COORDINATOR

Cc: NRI Consultants (Mr. Gideon Onumah and Mr. Chris Baine)

WRS COFFEE PARTICIPANTS FROM THE WESTERN DISTRICTS.

No	NAMES	DISTRICT	OCCUPATION
1	KATEBAKA INNOCENT	BUSHENYI	FARMER
2	KASAPURI LEONARD	,,	TRADER
3	MUHEREZA DAVID	,,	TRADER
4	MUGISHA ROBERT	,,	PROCESSOR
5	BATARIMPIKA JOHN	,,	C/M FARMER GROUP
6	NGABIRANO DEUS	,,	,,
7	HIKA SALONGO	,,	FARMER
8	JESSY R DAAWA	,,	TRADER
9	TWINOMUGISHA VICENT	,,	Sec.Mgr UNION
10	KATANYWA MOSES	,,	TRADER
11	BYAMUKAMA LEVI DAVID	,,	FARMER/ Commercial Officer
12	BANGIRANA CHARLES	,,	FARMER
13	MWEBAZE GEORGE KANKIRIHO	,,	FARMER
14	DEOGRATIOUS	,,	C/M UNION
15	TIGAKIRIYO YONA	,,	FARMER
16	KAMUGISHA FRED	,,	C/M UNION
17	NTAREKI YOSAMU	,,	C/M UNION
18	NGAMBE ELIAB	,,	FARMER
19	KIKWARA AUGUSTINE	,,	TRADER
20	NDYABAHWERA WILLY	,,	TRADER
21	MWESIGYE	,,	C/M SOCIETY
22	BIRYABAREMA JORAM	,,	TRADER

No	NAMES	DISTRICT	OCCUPATION
1	GUDO	MBARARA	PROCESSOR
2	MUHANGUZI FREDRICK	,,	TRADER
3	NIWAGABA JUSTINIAN	,,	Local Gov't
4	TUSIIME BOAZ	,,	TRADER
5	TUMUSHABE A UMOJA	,,	FARMER/ TRADER
6	ASIIMWE JOSEPHINE	,,	TRADER
7	ATUKUNDA F R	,,	Commercial Officer
8	NDYAGUMA ANNET	,,	TRADER
9	RWIKARIRA MOLLY	,,	FARMER/TRADER
10	ORACHI WALTER	,,	PROCESSOR
11	BAKYENGA MICHAEL	,,	FARMER
12	KWIZERA BENSON	,,	TRADER
13	MUSHEMEZA SAM	,,	FARMER
14	BAHATI YOSAMU	,,	TRADER
15	KARUJUMBURA REMIGIO	,,	TRADER
16	KWEYABA MYRES	,,	TRADER

No	NAMES	DISTRICT	OCCUPATION
1	RWENTARO REVERENCE	NTUNGAMO	FARMER
2	BEHANGANA JOHN	,,	FARMER
3	NDYARUGAYO WILSON	,,	FARMER
4	KASHAGURE ABEL	,,	FARMER

5	KUBIRIBA ERIC	„	FARMER
6	KAROCO C K	„	D.C.O
7	AHIMBISIBWE C	„	TRADER
8	BYENTARO JEROHAM	„	FARMER
9	MUGISHA JOHN	„	FARMER
10	MATSIKO STEPHEN	„	FARMER
11	BABIGUMIRA KATAGIRA	„	TRADER
12	DR.KATEBARIRWE	„	NDAFA Coordinator
13	TUKAHIRWA GRACE	„	FARMER
14	KATABARWA ALEX	„	FARMER
15	MUGISHA M	„	TRADER
16	BURIIMA GEORGE	„	C/M UNION

No	NAMES	DISTRICT	OCCUPATION
1	KAHEERU JOSEPH	KANUNGU	TRADER
2	SHALITA JULIUS	„	FARMER
3	KAGIREHI LAZARUS	„	D.C.O/FARMER
4	BUSINGYE ALFRED	„	TRADER
5	KATABA JAMES	„	TRADER
6	HAJJI A.K.BARII	„	FARMER
7	MWESIGYE MOSES	„	TRADER

No	NAMES	DISTRICT	OCCUPATION
1	KAJUMA W	RUKUNGIRI	Sec.Pdn
2	KATWIREMU TOPHER	„	FARMER
3	NDYAMUBA NATHAN	„	TRADER
4	MURUHURA TOM	„	FARMER
5	TWEHEYO ERASMUS	„	FARMER
6	RWABOONA DEZ	„	FARMER
7	BUKONKO PATRICK	„	TRADER
8	BISAMUNYU LOUIS	„	FARMER
9	SABITI RIKANIDO	„	TRADER
10	RUMASHA FREDRICK	„	C/MAN UNION
11	TUMWINE CHRISTOPHER	„	Sec.Pdn
12	BIRAMIRE WILSON	„	FARMER
13	MUHEIRWE LABAN	„	TRADER

WRS COFFEE PARTICIPANTS FROM THE EASTERN DISTRICTS.

No	NAMES	DISTRICT	OCCUPATION
1	WBULO WILLIAM ISSA	MBALE	SHIPPING OFFICER Director BCU(Warehouse Operator)
2	BWERI CLEMENT	„	D.C.O Mbale
3	TWIKIRIZE CHARLES	„	FARMER
4	MWENJI WILSON	„	TRADER
5	KHAWCHA J.B	„	FARMER
6	MANANA E	„	FARMER
7	MASSA ISIMA	„	FARMER
8	NAKUNDI MAFABI	„	Secretary for Prodn.
9	WABULO B MARTINS	„	TRADER

10	WANDEBA	„	FARMER
11	WAMAKALE NATHAN	„	Warehouse Operator B.C.U
12	WAMUTU SAMUEL	„	FARMER/ B.C.U Vice Chairman
13	WAMULUGWA JOHN	„	FARMER
14	WANDWASI ERISHA	„	FARMER
15	WANZARA CHARLES	„	FARMER
16	KUSOBA G	„	TRADER
17	WASHITYAYA	„	FARMER
18	KAKALA. D. M	„	FARMER
19	WANINGA STEPHEN	„	FARMER
20	NDUGU STEPHN	„	FARMER
21	TUMWA YEFUSA	„	TRADER
22	WAKOYO BULUCHAI	„	TRADER
23	KAMBO.A	„	Local Gov't
24	KUDOBA GERESHOM	„	FARMER
25	NETALISIRE PATRICK	„	FARMER
26	WABUTEYA JUMA	„	TRADER
27	KAATO ALEX	„	FARMER
28	KUWANAYI JULIUS	„	FARMER
29	NABULWA FLORENCE	„	FARMER
30	WESSWA JAMES	„	FARMER
31	WENWA JONATHAN	„	FARMER
32	TUMMA FRANCIS	„	TRADER
33	MATANDA ROGERS	„	FARMER
34	WILLIAMS MOI	„	FARMER

No	NAMES	DISTRICT	OCCUPATION
1	MUBACHE NASABA	SIRONKO	District Commercial Officer
2	WAMBURU SAM		FARMER
3	WAMUZIRI W. W		FARMER
4	MAFABI AMBROSE		FARMER
5	WASUKILA HANNINGTON		FARMER
6	WAKIDYAYA JOHN WAGANIALA		FARMER
7	CHRIZESTON		FARMER
8	MWABA AMUNARI		TRADER
9	NAIGONO IVAN		TRADER
10	WAMBEDE RICHARD		FARMER
11	KIBEDE PATRICK		Sec. for Pdn
12	GIDONGO JULIUS		FARMER
13	MASABA HUSSEIN		FARMER
14	MADAYA WILSON		FARMER
15	KELERE W SAMUEL		FARMER
16	KIZUBO STEPHEN		FARMER
17	OBBO PROSSY		FARMER
18	WOWILE LAWRENCE		TRADER

No	NAMES	DISTRICT	OCCUPATION
1	MWOKO MUSOBO	KAPCHORWA	D.C.O
2	KULANY WILFRED	„	FARMER
3	AYEBA FRED	„	FARMER
4	TEKO FRED	„	Agric. Officer.

5	SISCO O.C	„	aAgric.Officer.
6	MUBANI ANNET	„	FARMER
7	MAIGUT YOVANI	„	COMMERCIAL FARMER
8	CHEMUSTO WILSON	„	FARMER
9	TOSKIN GEORGE	„	FARMER
10	MUREFU BOSCO	„	FARMER
11	CHELIMO ANDREW	„	FARMER
12	CHEMUTAI CHARLES	„	TRADER
13	BUKENI KINU. S	„	Sec. for Pdn.
14	CHEMUTAI PHYLLIS	„	TRADER
15	SOMIKWO GILBERT	„	FARMER

ANNEX 2

REPORT ON WRS STAKEHOLDERS TRIP TO TANZANIA (MOSHI & DAR ES SALAAM) FROM 15TH – 20TH MAY,2005

The Warehouse Receipt System Coffee Stakeholders in Uganda visited their counterparts in Tanzania from the 15th – 20th May 2005. The main purpose of the trip was to share experience in as far as WRS implementation is concerned.

The National Project Coordinator (Uganda) led a delegation, which comprised of Member of Parliament, Banks, Warehouse Operators, Cooperative Union representatives, Coffee Farmer Groups representatives and Coffee Traders among others.

Institutions visited and discussions held.

(a) Local Government Officials.

The delegation paid a courtesy call to the Regional Commissioner for Kilimanjaro area in Moshi, Mrs Sumari who expressed pleasure about the visit.

(b) Tanzania Coffee Board.

The delegation visited Tanzania Coffee Board (TCB) which is a regulatory body for the Coffee sector and they announce the indicative price among other functions they perform, and with the management team led by the Corporation Secretary Mr Kopwe together with Mr Mboya the Director Marketing, who took the delegation through the process of how Coffee samples are delivered by Warehouses (Quality Officers) or Curing factories, to TCB, while here these samples are sent to Exporters (Buyers) by TCB before the Auction takes place.

TCB's marketing department makes payments of 60% worth of deposits after the auction after deducting dues, and its always 1.7%. The delegation was informed that Coffee is delivered by Unions, Private Buyers or Primary Societies at either FAQ or Parchment level with the minimum being 1toone (1,000kgs), still prices are controlled by market forces. Despite the fact that the auction trading system is in place, some people still their coffee through direct sales. The delegation was informed that Multinational are barred from buying directly from the farmers neither do they operate through agents.

The team visited the Auction room, there was no auction taking place but a demonstration was made which clearly brought out the fairness and transparency in this trade.

(C) Cotton Ginnery.

The delegation visited the only Cotton ginnery in Moshi and this ginnery is participating in the WRS. The team was informed that Tanzania Cotton Board (TCB), which is the regulatory body in the Cotton sector, announces an indicative price among other

functions, TCB signs tripartite agreements with ginneries (Warehouses), Banks and the primary that are the main depositors.

NB. Kilimanjaro is not a cotton-growing region and it was off-season.

(d) Coffee Processor.

The delegation visited one of the Coffee curing factories in Moshi (TCCCo) Tanzania Coffee Curing Company. It is owned by 8 Cooperative Unions and it operates as a private enterprise and it deals mainly in Arabica. TCCCo receives coffee from Unions, Primary Societies and Individuals and only sell at the Auction.

The Banks in TZ are confident with TCCCo's credibility hence no use of collateral managers and their costs though depositors pay processing fees, sometimes Bank staff visit TCCCo to ascertain accuracy of information given to them by TCCCo pertaining quality and quantity especially, TCCCo has 5 Banks who finance the WR and these include CRDB, EXIM, HSBC, Stanbic and Kilimanjaro Cooperative Bank, and stocks are fully insured against fire and burglary. Here the depositor is still the owner (WRS Concept) not until the coffee is sold at the auction by TCB.

Information about which Bank deals with which Warehouse is readily available to depositors at the curing plants, Banks and TCB.

TCCCo, which is the only one operating the WRS in Kilimanjaro, has taken up training of farmers in as far as good quality coffee production is concerned and in away it promotes business. The cost implications are covered by volumes attracted and deposited, TCCCo makes sure the Coffee deposited features at the auction within a period not exceeding 6 weeks.

(e) Banks (Financing WR)

➤ Kilimanjaro Cooperative Bank

On the 17th, the delegation visited one of the Cooperative Banks (KCB) Kilimanjaro Cooperative Bank in Moshi, which is financing the Receipt. This Bank was formed by cooperators and it is most especially used by Coffee Cooperatives to finance coffee production, this Bank uses advance payment system. According to the Manager, WRS has been in operation though not officially, though the main challenge the manager foresees is that people still go for direct sales despite the auction being operational. This Bank relies on coffee deposited as security and after auction, the Bank deducts interest and other charges.

KCB advances loans to Primary Societies and the security for this cash is that all societies are insured, the Bank also trains the societies and they are charged interest on all the advances. In return Primary societies sign maximum liability certificates signed by the registrar of companies, Bank writes a letter of offer to the primary society, they sign

an agreement and subsequently write a letter to TCB to auction the coffee and remit the funds.

However there have been both positive and negative experiences already, for example the Unions and Societies ended up over borrowing, which led to diversion of funds. Also delays in delivering the money which links up coffee collection and purchase of season inputs and in some cases when it is delivered it's insufficient. The system increased production volumes and improved quality.

The manager informed the delegation that there are some issues that had to be addressed to smoothen out the operations for example farmers should be encouraged about uniting for the sake of volumes, then the abolishment of subsidies to the coffee sector also Primary Societies are charged concessional interest rates by Banks and currently it is 17%, though hoping to go down.

➤ CRDB

The delegation visited CRDB and met with the Ag. Managing Director, Director Credit and the senior relationship manager finance. This Bank is owned by Media group, Tanzania nationals and the largest shareholders are cooperatives, it also has a component of 30% of Danida investment fund. It majors in agriculture financing both crop and machinery to the tune of USD 75m and has 30 branches all over Tanzania and is purely commercial.

CRDB first experimented a WRS arrangement in 1996 but they had a collateral manager in place. Currently CRDB is financing 4 cooperatives involved in cotton (Ginneries) with ACE and Battonic as their collateral managers and CRDB advances these cooperatives. Quality and Quantity at this level is a responsibility of TCB and the collateral manager at the warehouses, however CRDB has a complaint about ACE regarding quality because their staff do not go down to primary societies to supervise, also its very difficult to claim from CMs. CRDB pays 65% initially and the balance after taking care of risks.

CRDB monitors the amount of coffee traded on the auction through TCB, CRDB also hedges the crops against price fluctuations and this is based on certainty of procurement of these crops.

CRDB has in place a clause designed to safeguard against double financing for instance some ginneries and processors with their mother companies who pre-finance them.

The major challenge CRDB has faced is with cotton rejects and coffee delivery from societies and unions to the curing factories or to the auction.

(f) Participating Primary Society.

The delegation visited one of the Primary Society (Nkwasira Cooperative Primary Society) in Kilimanjaro area experimenting the WR financed by KCB, and the

management is impressed by the system except coffee prices are affected mostly by seasons.

(g) WRS Implementing Ministry.

The delegation left Moshi for Dar es Salaam on the 19th, and work resumed on the 20th. While in Dar the delegation met with the Ministry of Cooperatives and Marketing officials led by the Ag. Permanent Secretary who is also the Assistant Director Cooperatives in charge of Financial Services.

The main purpose of the visit was to find out what and how Tanzania managed to move faster in general performance in implementing the WRS especially the WRS Bill. The team was informed that the bill was actually debated and passed but it only awaits the Presidential assent, however the PS assured the team that there is no turning back as far as the WRS operations are concerned.

- The delegation was informed that one of their methods of work was carrying out massive sensitization of WRS stakeholders though still issues were raised because it's a new product as far as financial operations are concerned.
- Also intensive training in terms of procedure and sensitivity of the product, this included the Members of Parliament on the Ministry's committee also.
- The availability of Infrastructure also contributed a lot, for example the availability of Warehouses recognized by law and keen to the business.
- Necessary links in terms of accessibility to and marketing points (Road Networks). Tanzania has a large number of commercial farmers for economic cost effectiveness of the system. Availability of Cooperative and well organized Farmer Groups.
- The Financial Sector was brought on board and got heavily involved by building their confidence
- Also Tanzania has a good spread out of the Banking sector in the country.
- Priority was given to Banks with grass root financial intermediaries that have also developed linkages in rural areas like (CRDB, NMB and the SACCOs).
- Well-organized farmers through and into cooperatives and associations.

(i) On the question of sustainability of the system, the Ag. PS informed the delegation that;

- Tanzania government allocates funds to such programmes and this one in particular under this ministry.

- Other sources would be parliament appropriations, also taxes can be levied and collected later but there should be value for money.
- Formation of a regulatory body that will have a budget that is supposed to oversee the system.
- Grants would also be considered.
- Charges on services rendered by the system.

NB. Estimates envisaged were not readily given however there are various sources though the proportionate is not yet known.

Issues raised.

(ii) On the question of the use of collateral management services and whether the WR is actually functioning for example stocks in Moshi, if their receipt could be presented for financing in Arusha;

The NPC Tz informed the meeting that, Financial Institutions were approached and briefed about their involvement in the system, then warehouses were ascertained in terms of physical state and accessibility, this was done with the help of a collateral manager who was to inspect on behalf of Banks. There are unions that also use collateral managers at an estimated charge of USD 2,000 – 2,500 per month, however some warehouses at the level of curing factories do not use collateral managers and this is privately arranged with Banks, for example CRDB and KCB readily took it on though EXIM had reservations at first but eventually embraced it.

The general feeling is that warehouse operators can provide genuine information about stocks than collateral managers, however collateral managers are encouraged to operate warehouses, and as far as collateral managers costs are concerned, warehouse operators should make sure they attract large volumes in terms of coffee deposits, and farmers can alleviate it through economies of scale (grouping themselves and deliver economically viable volumes), also quality premiums.

(iii) On the question of warehouse operators being depositors at the same time Buyers (Exporters), and the risks associated with it in as far as the other depositors are concerned for example the risk of quality due to mixing stocks, the NPC Tz informed the delegation that, Warehouse Operators in Tz have no conflict of interest whatsoever especially coffee, except cotton where ginners happen to be depositors and exporters at the same time, and in this case that requires a collateral manager, for instance cotton has ACE as their collateral managers.

(iv) On the question of market information in as far as prices are concerned (Premium price);

It has been achieved due to production of good quality coffee also this could be attributed to the auction effect.

Way forward.

The Delegation had a meeting before coming back to Kampala, and the following issues come up;

First and foremost delegates expressed appreciation for the opportunity accorded and the experience gained out of the trip, which was more like “hands-on” for most of them and it actually helped them internalize the concept and its operations.

It is a responsibility of everyone on the team to go back and play your part to facilitate easy implementation of the programme especially participates fully in mobilization and in trainings that are pending.

Warehouse Operators would be very happy to see Banks in Uganda doing away with Collateral Managers who according to them, charge high fees, and the Banks should directly deal with Warehouse Operators just like Banks in Tanzania deal with some curing companies like TCCCo.

Traders expressed concern over the scope of the system (WRS) for it looked like Coffee plays a small role as a single commodity compared to whole range of warehousable commodities.

There was need for mobilization of the potential depositors of the June season to participate in the training workshops that are supposed to be held immediately after this trip.

Generally the trip achieved what it was intended for.

List of Participants.

Names	Sectors represented
1. Mr Fred Mwesigye	MTTI/WRS Coordinator
2. Mr Apollo Kamugisha	UCDA/WRS Associate Coordinator
3. Mr Chris Baine	NRI/DCDM Consultant
4. Mr Charles Kinayenzire	Coffee & Grain Trader (Western)
5. Mr Ayub Kalule Kalale	Warehouse Operator (Job Coffee)
6. Mr Bernard Sabiti	Coffee Buyers representative (Western)
7. Mr Herment Mrema	NUCAFE (Coffee Farmer Groups Promoters)
8. Mr David Kiwanuka	UCDA Information Manager.
9. Mr Francis Wamulugwa	Farmer/B.C.U Member
10. Mr Steven Wakyaya	Farmer/B.C.U Chairman

11. Ms Milly Nkajja	Banker (Standard Chartered Bank)
12. Mr Chris Kigenyi	Banker (Allied Bank)
13. Mr Samuel Wamutu	Warehouse Operator (B.C.U)
14. Hon.Harry Kasigwa	Member of Parliament
15.Mr Lawrence Majwara	Farmer/Member Masaka Union.
16. Mr Stephen Sebugwawo	Farmer/Member Masaka Union
17. Miss Deborah Kyarasiime	WRS

Abbreviations.

ACE Audit Control & Expertise

CRDB Development Bank

CMs Collateral Manager

FAQ Fair Average Quality

KCB Kilimanjaro Cooperative Bank

NPC National Project Coordinator

NMB National Micro-finance Bank

SACCOs Savings and Credit Cooperatives

PS Permanent Secretary

PS Primary Society

TCB Tanzania Coffee Board

TCB Tanzania Cotton Board

TCCCo Tanzania Coffee Curing Company.

TZ Tanzania

WRS Warehouse Receipt System

