PROJECT STAKEHOLDERS

Funded by the Common Fund for Commodities (CFC)

Supervised by the International Coffee Organisation (ICO)

Executed by the United Nations Office for Project Services (UNOPS) -- referred to as the Project Executing Agency (PEA)

Technical advisory services provided by the Natural Resources Institute (NRI) a trade finance consultant, under contract

The project (or projects) implementation countries were Tanzania, Uganda & Zimbabwe

In each country the project worked with (different) government ministries organised into Local Management Units (LMU’s)
STAKEHOLDERS contd. & TERMINOLOGY

Other stakeholders were the clients (farmers & their associations), collateral managers, banks etc.

The project was in short referred to as the WRS project
- Where WRS = Warehouse Receipts System
- The WRS was being implemented for coffee & cotton
- The commodity body for cotton being the International Cotton Advisory Council (ICAC)
- ICO & ICAC were responsible for monitoring and supervision of project implementation

PROJECT TIMEFRAMES

• First signed in 1999/2000, the project underwent, various revisions/addendums – (1, 2 & 3)
  – Addendum 1 was signed in late 2003
  – Addendums 2 & 3 were signed in 2004

• NRI was recruited on 1st September 2004, following addendum 3, to provide technical support/expertise

• The initial targeted project end date was September 2006, however, this was extended by one year to September 2007
PROJECT TIMEFRAMES contd.

• The basis for the extension was that the projects had primarily achieved their objectives BUT that the aspect of capacity building and sustainability of the system, had not been catered for in the initial design of the project(s).

• Meetings were held with governments to seek commitment to support activities during the extension period.

• In particular the governments were lobbied to commit to supporting the formation of regulatory bodies to oversee warehousing in the countries.

PROJECT OBJECTIVES

• To improve the potential benefits (e.g. increased export earnings) from coffee production within the framework of a liberalised global market;
• To improve income of smallholder coffee producers and small-scale traders;
• To develop and test systems of coffee financing and marketing that can be replicated in other developing coffee producing countries; and
• To strengthen public/private institutions to operate a liberalised coffee market
PREAMBLE

Coffee market liberalisation in Africa, was intended to:

- Create space for more competitive private trade
- Reduce state role and subsidies in support of the sector
- Enhance producer incentives, through increasing farmers’ share in international coffee prices
- Encourage increased production and improved quality

PREAMBLE, contd.

However, response to liberalisation has been rather mixed & development of private trade is hampered by:

- Market access difficulties faced by medium-scale (indigenous) traders, which has led, for example to:
  - domination of export trade by foreign companies
- Increased marketing uncertainty, with producers exposed to high price risk
- Quality and quantity deterioration in some regions
- Lack of reliable market information, which weakens the bargaining position of producers
PREAMBLE, contd.

Lack of inventory finance was identified as a major constraint.

Limiting, for example:

– The ability of producer organisations to bulk and exploit new market opportunities on behalf of members

– Competition with foreign trading companies which have access to cheap offshore finance

– Capacity of domestic traders to scale up

PROJECT APPROACH

ACTIVITIES

Project activities to address sector problems were grouped under four components;

– Promotion of privately-run warehousing and warehouse receipt systems (WRS);

– Development of market information systems (MIS);

– Development of quality assurance and certification systems; and

– Development of a system of commodity trade finance based on inventory collateralisation.
### TANZANIA COFFEE WRS

#### Model
- Primarily trust-based with no collateral managers involved
- Network of private non-certified operators (mainly coffee curing factories)
- Grading standards were adopted and enforced
- Regulatory framework was developed
  - Warehouse legislation passed in April 2005
  - Standard WR was (to be) adopted during the extension period
  - Establishment of regulatory agency was also pursued during this period

#### Outcome

**Participation by:**
- 4 coffee curing factories
- 3 banks: CRDB, Exim Bank and Kilimanjaro Coop Bank
- Over 50 cooperative societies (over 5,000 households)

**Benefits to participating farmer groups:**
- Obtained prices 45-70% above those offered by traders
- Groups better managed and more cohesive

Progressive improvement in quality of coffee deposited by participating farmers
Model
• Network of private designated warehouse operators
• Collateral Manager responsible for stocks & issuance of WR
• Auction system setup at the Uganda Commodity Exchange for marketing deposited coffee
• Sustainable Market Information System developed
• Grading standards adopted
• Regulatory framework developed
  – Warehouse legislation passed in February 2006
  – Work on regulatory agency initiated (…..)

Outcome
• Pilots in Western Uganda (Robusta) and Eastern Uganda (Arabica):
  – 12 primary-level farmer groups were recruited to participate
  – Financing was available from Allied Bank International
  – However, no financing was applied for in 2006 as farmer groups sold their coffee deposits directly to exporters
  – All the same, participants earned premiums of about 30% due to high quality and attractive volumes

• The second round pilots which was to begin in April-June 2006 was hampered by funding issues (the pilot having run out of coffee project funds)
ZIMBABWE COFFEE WRS

Model
- Participating warehouse operators
  - Zimbabwe Coffee Mills and GMB (state-owned)
- Collateral manager (ITS Socotec) responsible for stocks and issuing WR
- Grading standards adopted
- Secure standard WR printed
- Participating banks:
  - Kingdom Bank, Agribank and Stanbic Bank
- Participating coffee farmer groups:
  - Vumba Agricultural Collective Cooperative Society
  - Honde Valley Coffee Growers Association

ZIMBABWE COFFEE WRS

Outcome
Basic framework for WRS set up prior to start of 2005/06 season but failed to record significant coffee deposits due to:
- Rapid decline in coffee production resulting from:
  - Acute lack of inputs
  - Severe drought
  - Uncertainty arising from land reforms
- Macroeconomic instability plus exchange controls

Pilot initiated for relatively less constrained soyabean sector, this was however not actively pursued.
GENERAL LESSONS/CONCLUSIONS

• It is feasible for small-scale farmers to access WRS - this would be greatly beneficial to them

• Involvement of a Collateral Manager may be useful in Uganda, but is not a pre-requisite in Tanzania and Zimbabwe

• Effective mitigation of process/business risks is critical for success of WRS

• Warehouse legislation is important -- progress made, in the promulgation of warehouse legislation, made mainstreaming of WRS possible in Tanzania and Uganda.

Local leadership and support from policy making bodies very crucial to success

For example, while the project was similar for cotton in Uganda and Tanzania, there was generally less progress in the cotton sector than in coffee

– Dominance of ginners especially in Uganda limited the opportunities for use of WRS by non-processors (smaller traders and farmer groups)

– More detailed explanations are available in the final reports

Stable macro-economy and policy environment essential

– Case of Zimbabwe

Managing business opposition is a major initial challenge
The shortage of funds that was faced by the projects during 2006 was a major drawback to operations during the year, with a spiral down effect into the final year (2007).

On the whole, however, progress made on the projects was commendable.

GENERAL LESSONS/CONCLUSIONS, Contd.

Although the projects showed strong signs of positive progress and final closure, there remained need to:

- Consolidate achievements & assure sustainability of processes (Primarily the subject of the extension phase)
- Share lessons
- Explore inclusion of other commodities
Final reports were received in September 2007. After review, revision & finalisation, they were sent to CFC, ICO and ICAC in October 2007. They are as follows:

**CONCLUSIONS, Contd.**

Final report (1) / manuals (9):

1. Manual for warehouse and oversight inspection (combined for both Ug. & Tz.; for both/all commodities)
2. Inventory backed financing manual (for both commodities, Tz.)
3. MIS training manual (for both commodities, Tz.)
4. Coffee quality assurance manual (Tz.)
5. Cotton quality assurance manual (Tz.)
6. MIS training manual (coffee, Ug.)
7. MIS training manual (cotton, Ug.)
8. Coffee quality assurance manual (Ug)
9. Cotton quality assurance manual (Ug)