



TANZANIA WAREHOUSE LICENSING BOARD

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THE WAREHOUSE RECEIPT SYSTEM IN TANZANIA

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BACKGROUND INFORMATION

Definition:

- Warehouse Receipt System (WRS): commodities deposited in a designated warehouse enables the access of credit (collateral) to the depositor.
- The system is in operation in more than 100 years in U.S.A and Canada, One of the reasons for its establishment being price stability.
- In Africa the system is now gaining popularity and success in many countries e.g. South Africa, Zambia, Uganda and Tanzania.



.../ BACKGROUND INFORMATION

WRS in Tanzania:

Introduction:

- The Common Fund for Commodities funded Coffee and Cotton Marketing Development project which was launched in 1999.
- The project was implemented for a period of three years which was further extended for period of another two years.

Regions covered under the project:

- Kilimanjaro, Mbeya, Ruvuma, Kigoma, Shinyanga, Arusha

Commodities covered under the project:

- Coffee, Cotton,.



.../ BACKGROUND INFORMATION

WRS in Tanzania:

Output of the project:

- Five Warehouses Namely KCJE, TCCCO, MBICCO, MBOCCO, KNCU ginnery participated during the project life time. (All are field warehouses, no collateral Managers, allowed to charge for the services - Max Tshs 3.00 per Kg)
- Three banks financed: KCB and CRDB PLC- Active ; Exim bank – passive during the project.
- Two commodities got finance under the project pilot sites : Coffee and Cotton.
- Numerous Depositors – Primary cooperatives, Farmers Business Groups, and Private Companies.
- Government facilitated the process of setting legal framework - WRS act No 2005 and Its Regulations 2006.



..../ **Success from the project:**

- Reorientation of the internal coffee trade in Tanzania – Now big buyers prefers to buy from the Auction.
- Legal framework to operational WRS. Now a warehouse receipt is a title document and bankable.
- More traders as depositors -coffee
- Easy access to finance to the small and medium traders - Commercial banks now finance - Traditional export crops and non traditional export crops



National Output of the WRS in Tanzania

Finance:

- includes CRDB PLC, Exim Bank Ltd, Federal Bank of Middle East Ltd, National Microfinance Bank, Kilimanjaro Cooperative Bank Ltd, and Uchumi Commercial Bank Ltd, Mbinga Community Bank and numerous **Savings and Credit Cooperatives Societies** are participation
- Total loan portfolio under this system in coffee and Cashew nuts is more than 120,000,000 USD.
- For the past two years in cashew nuts sub sector farmers have enjoyed stable price.
- Farmers in cashew nuts managed to sell at competitive price even during world economic recessions.



.../ National Output of the WRS in Tanzania

- WRS as a one stop mechanism to solve marketing problems namely: quality, price stability, bargaining power, tax collection, selling and buying in bulk, fight against money laundering, more secured mechanism of exchanging money.

Depositors:

- includes Primary Cooperative Societies, Cooperative Unions, Farmer Business Groups, small and medium licensed Private Companies now they have access to finance.

Commodities Financed Includes :

- Traditional crops (Coffee, Cotton) has expanded their loan portfolio at ground level.
Non traditional crops such as Paddy, Maize, and now Sunflowers are now recognised and getting finance from the bank.
- More than 168 primary cooperative societies in Cashew nuts sub sectors are finance in the business of raw cashew nuts.



Warehouses : Sample of Good Warehouse Operators In Tanzania.

Name of Warehouse	Type of Commodity	Location	Financing Bank
Tanganyika Coffee Curing Company Ltd	Coffee, Maize and Paddy	Kilimanjaro	CRDB, NMB, Exim, KCB, UCB
Mbinga Coffee Curing Company Ltd	Coffee	Ruvuma	CRDB, NMB, Exim
Mbozi Coffee Curing Company Ltd	Coffee	Mbeya	CRDB, NMB, Exim, MCB
Kanyovu Coffee Joint Venture Enterprises	Coffee	Kigoma	CRDB
KNCU Ginnery	Cotton	Kilimanjaro	CRDB
Mbinga Coffee Curing Company Ltd - Makambako Factory	Coffee	Iringa	NMB
City Coffee Ltd - Mbeya	Coffee	Mbeya	CRDB, NMB
Taylor Winch Ltd	Coffee	Kilimanjaro	??
Ifakara High Quality Rice Apex	Paddy	Morogoro	FBME
Mbeya High Quality Rice Apex	Paddy	Mbeya	NMB
Micronix Systems Ltd - Likombe	Cashew Nuts	Mtwara	CRDB, NMB
Micronix Systems Ltd - Newalla	Cashew Nuts	Mtwara	CRDB, NMB
Agrofocus Ltd	Cashew Nuts	Mtwara	CRDB, NMB
Cashew 2005 Ltd - Likombe	Cashew Nuts	Mtwara	CRDB, NMB
Lindi Farmers Ltd - Mtama	Cashew Nuts	Mtwara	CRDB, NMB
Vision Control and Superintence Ltd - Chiwongwa	Cashew Nuts	Mtwara	CRDB, NMB
Vision Control and Superintence Ltd - Newalla	Cashew Nuts	Mtwara	CRDB, NMB
Baltonic Cargo Superintence Ltd - Nachingwea	Cashew Nuts	Lindi	CRDB, NMB
Baltonic Cargo Superintence Ltd - Lindi	Cashew Nuts	Lindi	CRDB, NMB

Warehouses : Deposits made during the past two year

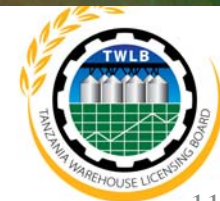
SNo	Warehouses	2007/08(kgs)	2008/09(kgs)
1	Cotton		
	KNCU	574,952	700,000
	Uzogore	48,700	1,000,000
2	Cashewnut		
	Likombe	9,424,324	5,341067
	Newala II	10,019,811	11,368,174
	Newala I	10,995,705	9,771633
	Mtama	19,627,114	9,008,967
	MCC 2005 Ltd	11,898,099	8,089,196
	BUCO-Lindi	-	2,161,831
	Nachingwea	-	1,979,151
	Chiwonga	-	991,590
	TANECU	-	553,085
	Mwendapole	-	73,902

Warehouses : Deposits made during the past two year

SNo	Warehouses	2007/08(kgs)	2008/09(kgs)
3	Coffee		
	Tccco	3,382,377	3,980,561
	Makambako	-	158,826
	Mbinga	4,661,677	9,194,787
	Mbozi	2,073,084	2,352,519
	TOTAL	10,117,138	15,686,693

Main Objective of WRS in Tanzania

- To minimise Constraints that hampering effective production and marketing of agricultural produce.



.../ Main Objective of WRS in Tanzania

Other Objectives of WRS in Tanzania

- Increase export earnings from agricultural production and marketing
- Strengthen institutions and improve local human resources capacities to operate effectively in a liberalised market



- Improve income of smallholder agricultural producers and small scale traders by increasing their market share.



COMPONENTS OF THE WAREHOUSE RECEIPTS SYSTEM

Tanzania Warehouse Receipt system focus on the following:

- Field Warehouses than Port and Urban warehouses
- Warehouse operators than collateral managers
- Depends on the locally available risks mitigation mechanism
- Target and emphasize on the private driven initiatives with minimum government support.



COMPONENTS OF THE WAREHOUSE RECEIPTS SYSTEM

Warehouses:

- Have calibrated certified weigh equipment and fire extinguishers
- Strong and properly finished floor, roofing, walls, doors and windows
- Reliable securities
- Be clean with good drainage system
- Accessible road to the warehouse throughout the year
- Proper lighting
- Properly fence
- Separate furnished and equipped office



COMPONENTS OF THE WAREHOUSE RECEIPTS SYSTEM Cont...

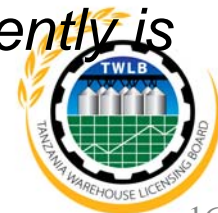
Commodities under WRS

- Non Perishable
- Conform to the established national or international standards
- Suitable condition for storage, transportation and handling
- Be deposited by individual or groups or firms
- Be stored in its original state or processed depending on the instructions by depositors or nature of the commodity itself

Warehouse Receipt:

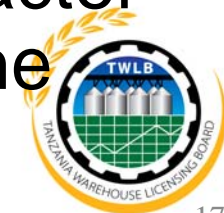
Receipt that issued by a warehouse operator in respect of storage handling of the commodity. It shows quantity and quality of a commodity in storage

The Tanzania Warehouse Receipts Act provides for a *Negotiable receipt and Non negotiable receipt. Currently is Non negotiable is operational.*



Finance

- Finance is issued to the depositor upon surrendering a warehouse receipt (Certificate of Pledge)
- **Measures used for consideration of loan facility**
- Issue of loan at reasonable amount normally 70% of the prevailing market price.
- Use of risk mitigation instruments (insurance against fire, burglary, extra security from the government instruments, involvement of the local people in the business, Client character assessment Register of first charge by the lenders etc)



COMPONENTS OF THE WAREHOUSE RECEIPTS SYSTEM Cont...

Market

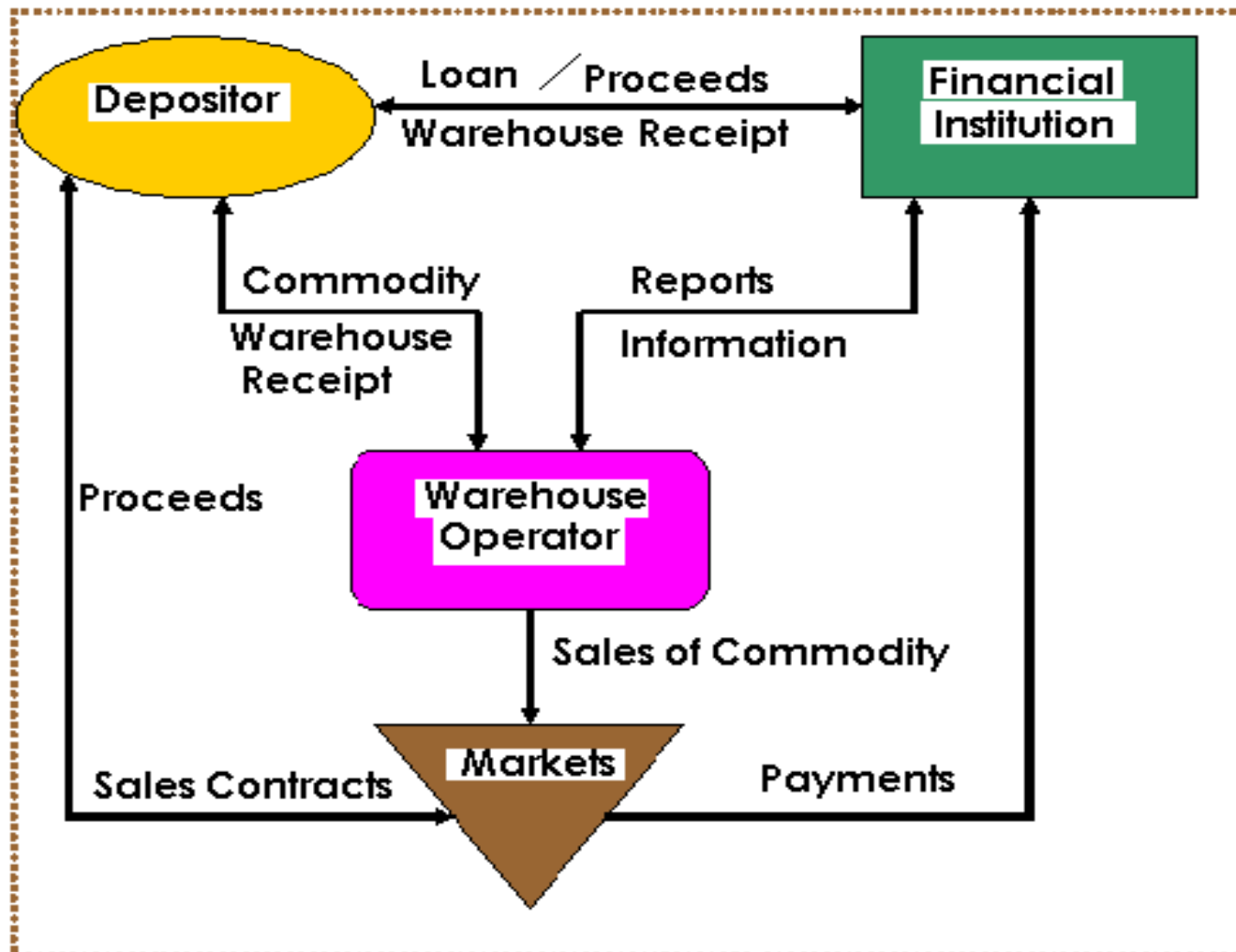
- Individuals, Local processors, Exporters Companies
Cooperatives who can buy the commodity from
Warehouse at competitive price

Legal Framework

- The Warehouse Receipt Act No 10 of 2005
- The Warehouse regulations of 2006
- The Tanzania Warehouse Licensing Board is now operational though with under staffing.



OPERATIONALIZATION OF THE WRS



How WRS Operates?

- Deposit of commodity in a licensed warehouse
- Depositor borrows against commodity upon surrendering the Warehouse receipt to the bank.
- Depositor with loan sells the commodity
depositor without loan sells the commodity
- Buyer redeems CP from the financier
- Buyer gets the commodity from the warehouse
- Balance after payment of loan & interest is left in the depositors account



KEY ACTORS IN THE WRS

Depositor: A person who deposit commodity in a warehouse for storage handling

- The legal holder of an outstanding warehouse receipt

➤ **Roles of depositor**

- To make prior arrangement with the warehouse operator
- To remove the commodity from the warehouse
- To repay the loan and lien
- Insure commodity & cash on transit and also price
- To adhere to the quality standards for the commodity to be deposited



Warehouse Operator

- Individual engaged in the business of operating a warehouse.
- **Technical requirement**
 - Locally limited liability company, Association or Cooperative Society/union with certificate of registration
 - To be licensed by the TWLB
 - Have qualified staff
- **Financial requirement**
 - Be able to prepare of the company's working capital statement
 - Have sound financial solidity
 - Insure warehouse, commodities and staffs
 - File with TWLB performance Bond



Roles of warehouse Operator

- Receive commodities, conditioning or handling grading without discrimination
- Keep open approved schedule of charges for services
- Mark the commodity
- Deliver commodity after payment of lien and submission of required document
- Issue Warehouse Receipt to the depositor



The Lender

- Person or institutions which perform the activity of finance through WRS.

➤ Roles of the Lender

- Develop loan agreement using commodity in a warehouse as collateral
- Acknowledge the commodity, the warehouse operator and the depositor
- Provide guidance to the depositor on financial matters
- Issue release order to the warehouse operator



Buyers

Roles

- Determine Price
- Make payment of the stored commodity through bank.
- Submit the two receipts (CP and CT) to the warehouse operator
- Remove Commodity from warehouse within seven days after settling all payments



Tanzania Warehouse Licensing Board

➤ Roles

- License warehouse, warehouse operators, warehouse inspectors
- Approve warehouse receipts books
- Ensure establishment and maintenance of accurate information system
- Develop standards and grading system
- Awareness creation in use of WRS
- Monitoring the operation of the WRS
- Coordination of stakeholder forums



ADVANTAGES OF WRS

- **1. Depositor**
 - - Access to loan
 - - Good prices
 - - small scale farmers/traders work through business groups
 - - Reduction in post harvest losses
 - - Adhere to quality
 - - Processing for value addition
 - - Assurance of marketing information
- **2. Financier**
 - - Commercial operations with minimum risks
 - - Expansion of financial services to rural areas



ADVANTAGES OF WRS cont.

- **3. Warehouse Operator**
 - - Creation of employment to rural areas
 - - Make use of warehouses
- **4. Buyers**
 - - Assurance of quality goods
 - - Assurance of amount in one place and in time
 - - Trade with minimum risks
 - - Assurance of marketing information



CHALLENGES IN FACE WRS IN TANZANIA

- Poor infrastructure (markets, roads processing facilities)
- Formation of stable coops and farmers business groups
- Creating a functioning warehouses.
- Putting a warehouse receipts as a trading instruments
- Lending procedures and availability of financial services close to farmers is not always easy
- Low level of productions.
- Poor Quality and standards of commodities produced still of poor grades
- Resistance from the existing marketing systems and channels – cartels, sabotages





Thank you for listening

