



International Coffee Organization
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**Coffee market development and trade
promotion in Eastern and Southern Africa**

Summary of the final report

Background

1. This document contains extracts from the final report of the project entitled 'Coffee market development and trade promotion in Eastern and Southern Africa' which was submitted by the Project Executing Agency, the United Nations Office for Project Services (UNOPS).
2. The project commenced in October 2000 and ended in September 2006. The participating countries were Tanzania, Uganda and Zimbabwe.
3. A copy of the full report in English (including all Annexes) is available on CD-Rom upon request from the Secretariat.

Action

The Council is requested to note this document.

COFFEE MARKET DEVELOPMENT AND TRADE PROMOTION IN EASTERN AND SOUTHERN AFRICA

Summary of the final report

Project achievements

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

- (e) The WRS pilots have been most successful in the coffee sector in Tanzania, which annually attracts inventory-backed financing equivalent to about US\$10 million from three banks: CRDB Bank, Kilimanjaro Cooperative Bank and Exim Bank.
- (f) The cotton WRS has yet to make an effective transition into a mainstream activity but the pilot has been extremely successful in helping one major primary society raise cotton output by its members from just over 130,000 kg of cotton seed to over 1,100,000 kg of cotton seed over a period of about three years.
- (g) The outcome in Zimbabwe has been rather disappointing due mainly to unfavourable macroeconomic and commodity-sector conditions. However, the key building blocks for the WRS have been developed for both coffee and soybeans, including the following:
 - Credible warehouse operators have been sensitized and have demonstrated interest in offering third-party warehousing services under which inventories can be collateralised.
 - Participation by a locally-based collateral manager, ITS-Socotec, was secured.
 - Standard warehouse receipts with adequate security features were printed and issued.
 - Participation by two major banks – Kingdom Bank (private) and Agribank (state-owned) – was secured.
 - Potential depositors, in particular smallholder groups in both coffee and soybean sub-sectors as well as relatively larger-scale soybean producers were sensitised through workshops, project flyers and publication of feature articles.
 - An agreement was reached with the Ministry of Agriculture to integrate the dissemination of market information for coffee and soybean as part of its system.
 - Quality assurance manuals were produced for both coffee and soybean (attached) and training events organised for smallholder groups and other key stakeholders.

Conclusion and recommendations

The substantial progress made in developing the WRS as well as supporting market and quality-assurance systems in Uganda and Tanzania have considerably improved the prospects for mainstreaming WRS in the financing and marketing of agricultural commodities. It is not only the coffee and cotton sectors which have benefited, as there are clear intentions of extending the benefits to other storable commodities.

Hence, within Uganda and Tanzania, the benefits from the project have not been limited to the two targeted sectors. The experiences and lessons from the project are beginning to have a positive impact on options being considered within the Eastern and Southern Africa region as well as continent-wide, to improve crop marketing and finance.

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

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

Supporting initiatives to address these problems in the long-term will ensure that the gains from the project are consolidated and taken forward. They would also imply that the investment by CFC in the project would have long-term benefits in the beneficiary countries, which can also impact on choices by other countries in Africa facing similar crop marketing and financing constraints.

Appendices (available on CD-Rom):

Appendix 1	Summary of delivery of project outputs under CFC/ICO/03 and CFC/ICAC/12 – Trade Finance component and related activities of the cotton and coffee warehouse receipts projects financed by the CFC
Appendix 2	Training manual on Coffee Market Information System in Uganda
Appendix 3	Coffee quality assurance in Uganda – training manual
Appendix 4	Coffee quality assurance in Tanzania – training manual
Appendix 5	Warehouse oversight and inspection procedures and manual
Appendix 6	Training manual on cotton market information system in Tanzania
Appendix 7	Training manual on coffee market information system in Tanzania
Appendix 8	Warehouse receipt system project - Coffee Training Manual, Zimbabwe
Appendix 9	Warehouse receipt system project – Training manual on soybean post-harvest technology
Appendix 10	Proposed follow-up plans and exit strategy to mainstream outputs from the CFC-funded project for coffee and cotton market development and trade promotion in Eastern and Southern Africa
Appendix 11	Budget and Natural Resources Institute (NRI) inputs for proposed follow-up plans and exit strategy to mainstream outputs from CFC-funded project Coffee and cotton market development and trade promotion in Eastern and Southern Africa