

# The need for effective regulations in Warehouse Receipt System (WRS)



A Warehouse Receipt is a document issued by a licensed warehouse operator certifying the quality and quantity of a specified commodity placed by a depositor into a secure storage environment. It is regarded as an all inclusive practice to solve marketing problems such as: quality, price stability, bargaining power, tax collection and bulking of produce. In Tanzania, WRS was established to reduce constraints, which hampered the effective marketing of agriculture produce. The system also aims to improve the incomes of smallholder producers and small-scale traders by reducing post-harvest losses and increasing their market share.

## Requirements for WRS

The successful operationalization of WRS is reliant on the following pillars: (i) well-managed warehouses, (ii) functioning markets and (iii) financial institutions (commercial banks). Regulated warehouses that are reachable by roads with reliable communication are essential. For the full benefits of WRS, markets need to be properly organized in order to get good prices. Transparency and reduction of transaction costs are drivers of this second pillar. Accessibility to financial services (by farmers and traders) both in terms of availability and affordability, creates the third pillar for WRS to succeed.



*A warehouse licensed by TWLB*

## Warehouses in Tanzania

WRS is governed by The Tanzania Warehouse Licensing Board (TWLB) and is regulated through the Warehouse Receipts Act No. 10 of 2005 and the Warehouse Regulations of 2006. More than 60 warehouses with a combined capacity of 267,000 tonnes, owned by private and/ or cooperatives have been licensed by TWLB. The current move by the government to give the Cereals and Other Produce Board (COPB) warehouses formerly under the National Milling Cooperation (NMC) would increase the number of warehouses. Currently only 8 commodities (coffee, cotton, cashew, rice, maize, sesame, sunflower and pigeon pea) can be traded under WRS.

## Markets

Benefits of WRS can be realized only when there is the commercialization of crops involved, which depends on well-functioning markets. These markets in turn are defined by adequate infrastructure, functioning market institutions and incentives in place. The economic reforms of the 1990s ensured well-functioning markets. Since 2002 however, there has been a policy reversal in Tanzania with government mediation of markets. These include subsidizing inputs, price setting and export bans, to mention a few. So as to ensure well-functioning markets the government needs to promote governance and the state's capacity to monitor market development in order to encourage market participation and competition, contract enforcement, as well as property governance. Thus avoiding channelling investments to rent seeking groups.

***“Well-functioning markets are defined by adequate infrastructure, functioning market institutions and business incentives.”***

Tanzania Graduate Farmers Association (TGFA)

## Price setting by Government distorts markets

Price setting by government is likely to distort the markets, in terms of proper allocation of resources by farmers and traders, and making WRS difficult or even impossible to operate.

The Lindi Regional Government, through the marketing task force, set the sesame floor price in the region for the 2010/11 and 2011/12 seasons at TZS 1,000 per kg, which was below the market price (estimated to reach TZS 1,600). This led to the collapse of the WRS system in the 2012/2013 season. Similarly, the Cashew nut Board of Tanzania set the price for two consecutive years above the prevailing world market price making it unprofitable for exporters to purchase. This resulted in chaos in the producing regions and putting blame on the WRS. The spirit behind floor-price settings might be good, but there can be dire consequences when the price is wrongly set. The WRS has shown how it can be successfully implemented in coffee and paddy marketing, where prices are mostly set by the market.

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## Policy Environment

Government mediation on markets manifests itself through export bans. In the 2009/10 season, the government intervened in the grains market by imposing a ban on the export of maize and rice to regional markets. The interventions coincided with the piloting of WRS for grains, in an attempt to expand coverage for export commodities concerning grains. As a result of the export ban, farm gate prices in the surplus producing areas collapsed as it proved more costly to deliver into the urban markets than into the regional markets. Producer groups which collateralised their grain stocks in order to benefit from seasonal price rises incurred losses and the repayment of inventory credit was put at risk with some financial institutions pulling out of the system.



*“An understanding of how the warehouse receipt system works is very important for all those who use it. Lack of transparency brings about fears that the systems might be unfair. The building of trust can lead to a positive shift in the commodity markets.”*

Tanzania Graduate Farmers Association (TGFA)

## Financial Institutions

Financial institutions are important for WRS as they provide the necessary finances to enable deposits of commodities by producers. Finance is issued to the depositor upon surrendering a warehouse receipt. Although the Tanzania Warehouse Receipt Acts provides for a Negotiable and a Non-Negotiable Receipt, currently non-negotiable is operational. WRS has made it easy for small and medium traders to access finance. Commercial banks now finance traditional exports and non-traditional export crops. There are 7 commercial banks which are presently involved in WRS, with a total loan portfolio estimated to be above 300 million USD.

Access to financial services is limited because of the limited presence of banks in rural areas and high interest rates. Only two banks can claim to have a branch in nearly all Districts of Tanzania. Interest rates ranging from 17% to 22% are too high for most traders and producer groups, and the distorted market environment further exacerbates the issue. However, traders and producers have indicated making profits even under these conditions. Government guarantees of loans are necessary to make the interest rates go down to a level that will be beneficial to both the banks and businesses.

The government through the Cereals and Other Produce Board (COPB) is planning to be a major player in the buying of smallholder crops in the 2013/2014 season. Considered by many as a good move towards ensuring a market for producers, a lot of questions remain on the fate of WRS. Being the guarantor of loans from financial institutions (both through Local Government Authorities and/or Central Bank) the Government plays a major role in ensuring WRS third pillar work with assured levels of risks. Becoming a buyer of crops changes the dynamics. The concern being the power of COPB (public finance and ability to set the initial price for buying a specified crop), might force many small traders out of business and thus WRS. What incentive does the government have to guarantee a private trader so that the same trader can then compete with the government?

## Recommendations and the role of the TGFA

WRS has proved to be beneficial in many countries in the world and for some crops in the country. WRS can only operate successfully when the environment in which it operates is conducive. The role is to create a favourable environment for WRS and to ensure the markets are functioning well. A warehouse receipt system doesn't create an orderly market; rather it is a product of one.

It is recommended that stakeholders work together to ensure an orderly market for WRS in order to function effectively. The **Tanzania Graduate Farmers Association (TGFA)** can collaborate with other stakeholders and work with the **Tanzania Warehouse and Licensing Board (TWLB)** on advocating for the upgrade of village warehouses, so as to increase the access of small-scale farmers to benefit from WRS.

The ultimate goal should be the creation of the commodity exchange market. TGFA and TWLB can collaborate in creating awareness campaigns advocating for a WRS that is effective in getting prices right for the benefit of small-scale farmers and other players in various value chains.

### For more information:

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