

2016

Warehouse Receipt System a key Pillar for Tanzania Mercantile Exchange



Meaning of Warehouse Receipt System (WRS)

The Warehouse Receipts System denotes a kind of trade by which commodities are stored in a Licensed Warehouse(s), the owner of the commodity receives Warehouse Receipts, which certifies the title of deposited commodities as of specific ownership, value, type, quantity and quality (grades). The Warehouse Receipts are issued under the Warehouse Receipts Act No.10 of 2005 as amended in 2015. The WRS is supervised and regulated by the Warehouse Receipts Regulatory Board (WRRB). The WRRB is the government agency with the main role of licensing Warehouse Operators, Collateral Managers and Inspectors, promoting and administering WRS in Tanzania.

Main Objective of Warehouse Receipt System

The main objective of establishing Warehouse Receipts System in Tanzania is to foster the efforts of the government to formalize the existing agricultural produce marketing system aiming at minimizing various constraints hampering effective production and marketing of the agricultural produce. Operationalization of WRS failed to produce its expected results due to lack of a well-functioning structured marketing system. For smooth operationalization of WRS, there is a need for a Commodity Exchange, which has been a missing link in the agricultural marketing system. The establishment of Tanzania Mercantile Exchange (TMX) will afford the country with a trading platform that provides transparency, price discovery and low transaction costs among other benefits.

Key Actors in Warehouse Receipt System

Depositor: Any person who deposits a commodity in a warehouse for storage and who is the legal owner or holder of the outstanding Warehouse Receipts, or who is lawfully entitled to the possession of the commodity after the commodity has been sold.

Main roles of depositor

- To bring commodities in the designated warehouse
- To follow all the steps in the receiving (quality check and weighing), storage and delivery
- To verify the correctness of the information on the Warehouse Receipt before signing

- i. **Licensed Warehouse Operator (WO):** A warehouse operator is a legal person engaged in the business of operating a warehouse for checking quality, receiving, storing, and delivering according to the instructions of the owner of the commodities and upon receipts of the prior issued Warehouse Receipts and other required documents. The WO is accountable for the commodities received and stored as to quality and quantity.

Main roles of the warehouse operator

- To receive commodities after quality verification and grading, weighing and counting of commodities
- To store and maintain commodities by following prescribed arrangements
- To deliver commodities after verification of documents, quality and weighting
- To issue Warehouse Receipt

- ii. **Collateral Manager:** A person who issues warehouse receipt, verifies and gives advice on collateral transaction based on that issued warehouse receipt in order to minimize credit risk of the stored commodities.

Main roles of Collateral Manager

- To verify loan application based on stored commodities
- To verify insurance arrangements
- To verify Warehouse
- To verify quality, weighing, stacking and counting commodities
- To issue Warehouse Receipt
- Facilitation of export of commodities contracts

- iii. **Buyer:** the buyer is any legal person who participates in the trade of purchasing commodity stored in the warehouse through brokers in the TMX.

Main roles of the buyer or his agent

- To follow the prescribed conditions of TMX
- To agree on the content of Warehouse Receipt
- To pay for the commodities based on the commodity contract
- To submit Warehouse Receipt and other documents on accessing commodities from the warehouse
- To follow on quality verification, weighing and loading of commodities to the truck from the warehouse

- iv. **Financial Institution:** is any institution which is licensed by appropriate regulatory body to provide financial services e.g. banking, insurance and allied services

Main roles of the Financial Institution

- To facilitate payment for all financial transaction
- To finance commodity trade under the system
- To provide insurance cover for the stored commodities and warehouse infrastructure

Other Actors in Warehouse Receipt System

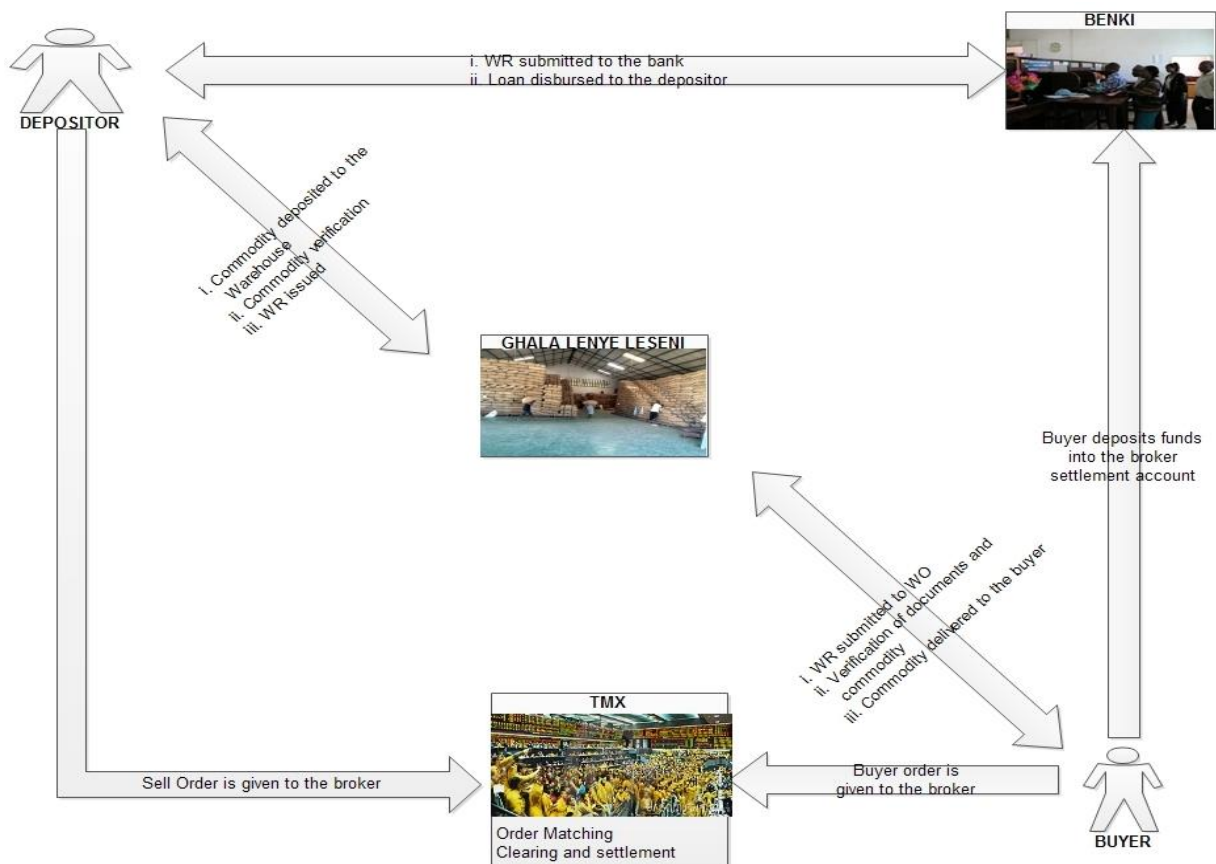
Tanzania Mercantile Exchange: Is a commodity exchange licensed under the Commodity Exchanges Act of 2015 to provide a centralized trading platform where buyers and sellers representatives meet to transact on commodity contracts. TMX is licensed, supervised and regulated by the Capital Markets and Securities Authority (CMSA).

Others who support WRS includes: Regional and Local Government Authorities, Central Government, Crop Boards, Port Authorities, Logistics and Transport companies, Donor organizations and private sector.

Warehouse Receipt System Operation

- i. Farmers, cooperatives, traders and other aggregators, deposits commodity in the Licensed Warehouse after receiving, quality check and weighing processes by the WO;
- ii. Depositor receives the Warehouse Receipts issued by the WO for trading or financing;
- iii. The depositor gives a sell order to his broker to trade at the TMX the commodity contained in the Warehouse Receipts;
- iv. After trade clearing and settlement on the commodity and cash leg takes place whereby title to the commodity passes to the buyer and cash is paid to the seller through a settlement bank.
- v. Buyer arranges to obtain delivery from the warehouse
- vi. On delivery of commodities the quality and quantity verification is done before taking the delivery;

Linkage of WRS with TMX



Benefits of Warehouse Receipt System and Commodity Exchange

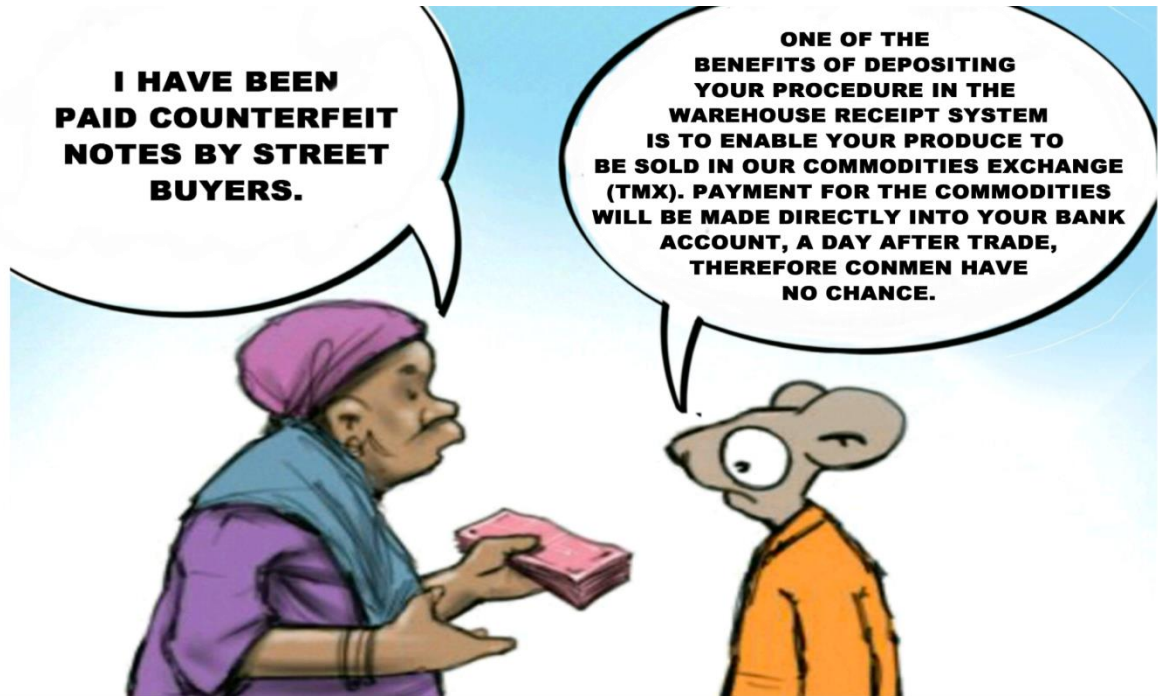
- i. Enabling holder of Warehouse Receipts who is the owner of the commodity to access loan from financial institutions. From crop marketing season of 2007/2008 to 2013/2014 more than TZS 1 trillion has been accessed by farmers. Commodity Exchange will increase confidence of lenders by providing an efficient and effective liquidation mechanism for Warehouse Receipts should the borrower default payment. This will have

an impact of bringing more players from banking industry and other financial institutions which will have a benefit of lowering interest rate and offering more financial services to rural population hence attain the goal of financial inclusion.



The Tanzania Mercantile Exchange will bring the market closer to the farmers, increase transparency, and reduce transaction cost and time, which eventually has an effect of boosting farmer's income. Increase in income will enable farmers to meet the needs of life and save / invest the surplus for future needs, which is among the goals of financial inclusion.

- ii. Minimizing risks and transaction costs to small scale farmers, processors, aggregators, commodity traders and exporters in undertaking commercial operations;



- iii. Empowering small scale farmers, processors, aggregators, commodity traders and exporters to participate more effectively on business of commodity to improve their efficiency and effectiveness in the market supply chain. With TMX small scale farmers are able to trade with big buyers without longer chain of middle men.
- iv. Providing quality assurance and certification system: example, there were areas farmers were cheated that their cashew nuts were second grade. With WRS it was discovered that more than 70% of cashew nuts from that area was first grade.

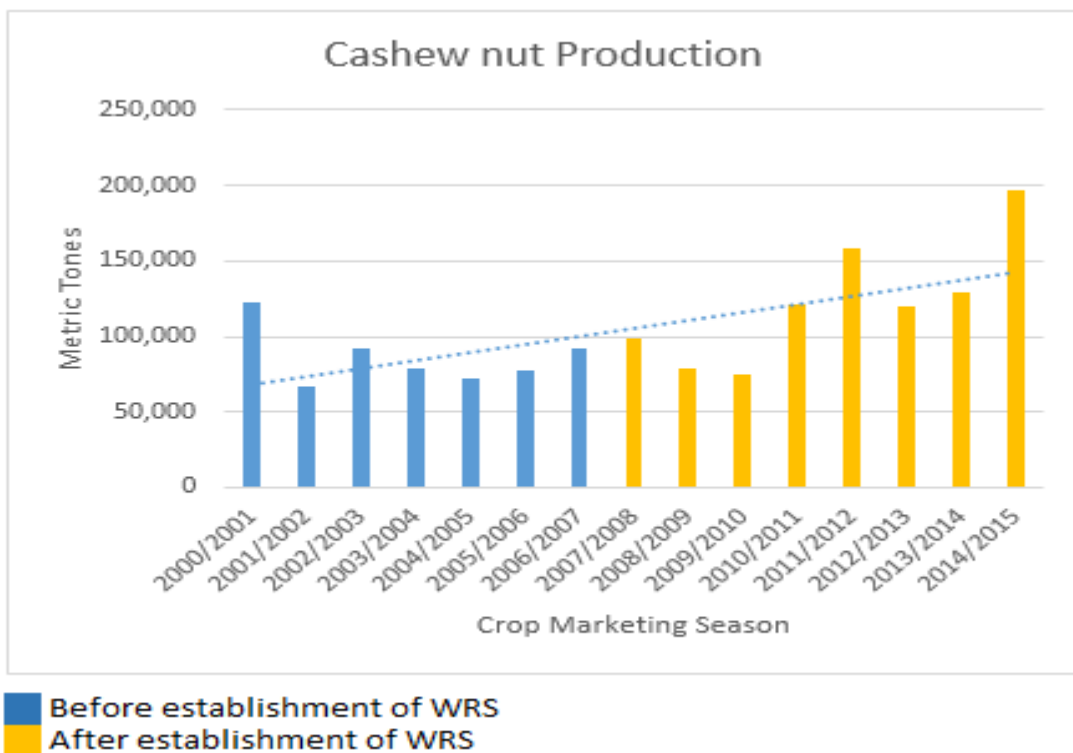


Cashew nut quality check at the Licensed Warehouse

- v. TMX creates a mechanism of disseminating reliable marketing information to different stakeholders through various channels e.g. print and electronic media;



- vi. Increasing participation of indigenous commodity traders in the international trade;
- vii. WRS has increased production of participating crops e.g. cashew nuts production increased from 99,107 MT in 2007/2008 to 197,000MT in 2014/2015.



- viii. Encouraging local processing of primary products with a view of value addition and promotion of industrialization. E.g. it ensures local processors of raw materials from the Commodities stored in the warehouse.
- ix. Enhancing access to proper crop storage facilities, reduce post-harvest losses and enhance food security;



- x. Supporting linkage for input supply sub-system. For example, TMX aims at stabilizing prices of the produce thus enabled farmers to have access of agricultural inputs.

Prices before WRS

| Crop marketing season | Indicative price | Average price to farmer |
|------------------------------|-------------------------|--------------------------------|
| | Shs | Shs |
| 2002/03 | 540 | 443 |
| 2003/04 | 540 | 360 |
| 2004/05 | 750 | 600 |
| 2005/06 | 600 | 500 |
| 2006/07 | 600 | 350 |
| Prices after WRS | | |
| 2007/08 | 610 | 720 |
| 2008/09 | 675 | 685 |
| 2009/10 | 700 | 915 |
| 2010/11 | 800 | 1,550 |
| 2011/12 | 1,200 | 1,480 |
| 2012-13 | 1,000 | 1,250 |
| 2014-15 | 1,200 | 1,550 |

- xi. Creating employment and contribution to national efforts in enhancing poverty reduction especially in the rural areas.

xii. Enhance proper use of weighing and measurement equipment



Sample Warehouses

1. Grade A Warehouse



This type of warehouse with capacity of 5,000 Metric Tons and above can be accredited by TMX as a delivery site of contracts executed at the commodity exchange.

2. Grade B Warehouse



This type of warehouse with capacity of 1,000 – 4,999Metric Tons can be accredited by TMX as a delivery site of contracts executed at the commodity exchange.

3. Grade C Warehouse



This type of warehouse with capacity of 200 – 999Metric Tons can be used as a collection centre to supply commodities to Grade A or B warehouses.

Challenges found in WRS to be addressed by establishment of Commodity Exchange

To reap the intended benefits, efforts to establish Commodity Exchange should go parallel in increasing investment in:

- i. Increasing capacity of warehouse Receipts Regulatory Board (WRRB) in supervision and regulatory role
- ii. Construction and rehabilitation of warehouses to meet the requirements as prescribed by WRRB.
- iii. Capacity building of users and warehouse operators
- iv. Improve Information and Communication Technology
- v. Improvement of commodity grading and assaying system including introduction of certification programs for assaying personnel
- vi. Enhancing capacity of Weight and Measures Agency (WMA) properly supervise and regulate weights and measures used in the system

- vii. Enhancing trade of Warehouse Receipt which base on forces of demand and supply with improved transparency.
- viii. Increasing volume of commodities traded through structured system
- ix. Provision of awareness programmes to key stakeholders and farmers

(For more information, please contact)

Acting Chief Executive Officer
Tanzania Mercantile Exchange PLC
4th Floor, New LAPF Tower,
P.O Box 31632, Dar es Salaam
Telephone: +255 22 2129724
Email: tmxplc@gmail.com

the Chief Executive Officer
Capital Markets and Securities Authority
6th Floor, PPF Tower, Ohio/Garden Avenue
P. o. Box 75713 Dar es Salaam
Telephone; +255 22 2114959/61
email: info@cmsa-tz.org