

WAREHOUSE RECEIPT SYSTEM

– THE ZAMBIAN EXPERIENCE

A Presentation by:

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WAREHOUSE RECEIPTS SYSTEM

- 1)What are Warehouse Receipts?
- 2)What is the history of Warehouse Receipts in Zambia?
- 3)What lessons can we learn from our experience?
- 4)What is the current initiative by ZAMACE?
- 5)Who will benefit?
- 6)What are the points for the way forward?

What is a Warehouse Receipt?

General Interpretation:

'A document issued by a licensed warehouse operator certifying the quality and quantity of a specified commodity placed by a named depositor into a secure storage environment'

Specifies:

- *Location of warehouse*
- *Commodity type*
- *Date of delivery*
- *Name of depositor*
- *Quality and quantity*
- *Storage charges*

What is a Warehouse Receipt? – cont'd

Two Main Types:



1) Non-negotiable Certificate

- *cannot be transferred or sold*
- *sale of commodity requires cancellation and re-issue*

2) Negotiable Instrument

- *bought and sold with legal protection against claims by previous owners*
- *'bank note' concept*

What is a Warehouse Receipt used for?

Two Key Uses:

1) Trading Instrument

- *Quality and quantity certification allows 'sight-unseen' trade*
- *Allows transfer of ownership without physical delivery*
- *Increases efficiency in agricultural trade*

2) Financing Instrument

- *When backed by a suitable legal framework, warehouse receipts can be used as secure collateral for inventory financing*
- *Farmers, traders and millers can raise finance against them*
- *Increase liquidity in agricultural markets*

History of Warehouse Receipts in Zambia

Collateral Management Agreements (CMAs):

- *Been in existence in Zambia for years*
- *Commodity under the management of a fully insured, fully liable collateral management company (SGS, ACE etc)*
- *Used by large operators to secure finance*
- *Ensures security to lending institutions but expensive*

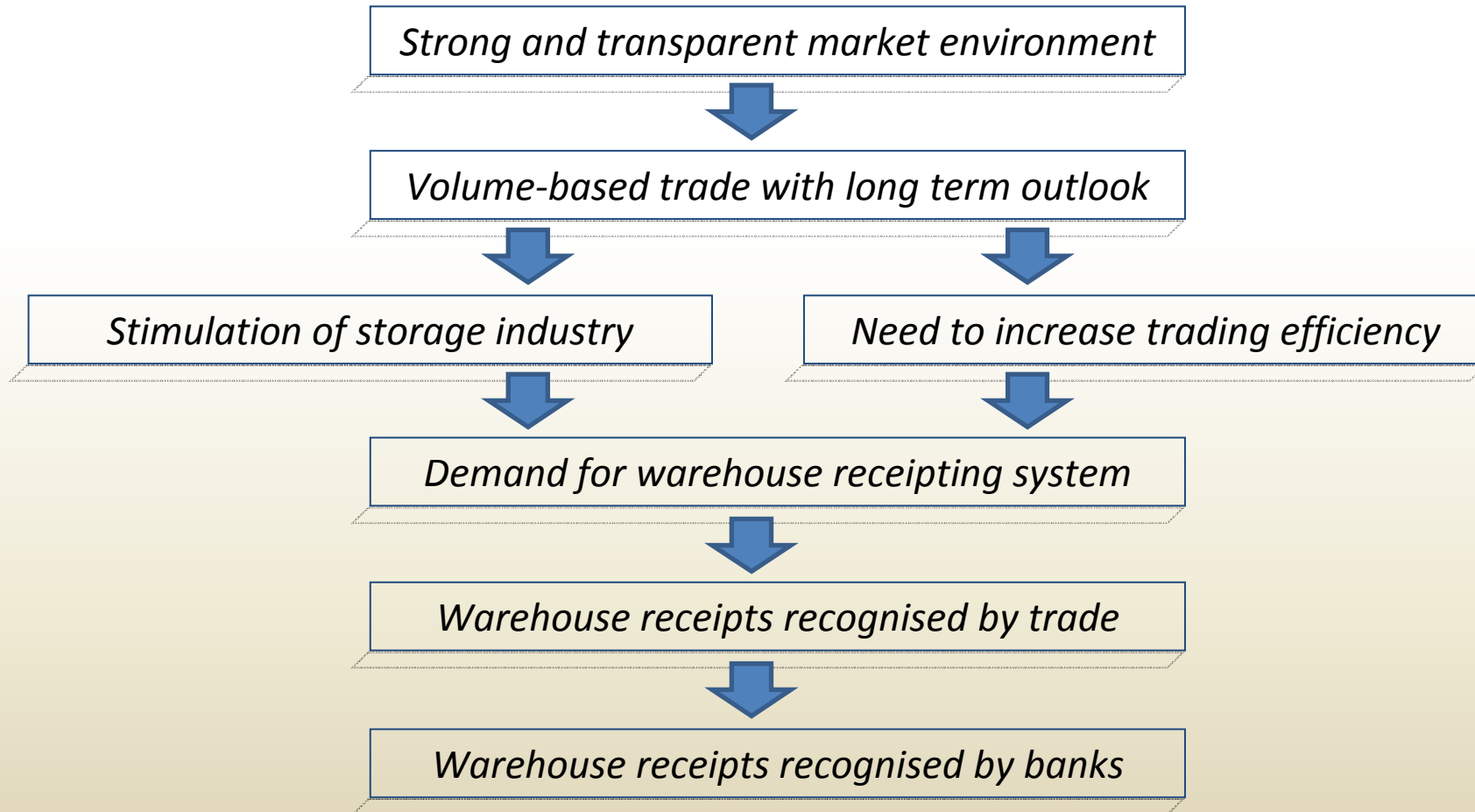
Zambia Agricultural Commodities Agency (ZACA):

- *Donor-funded non-profit company promoting a warehouse receipting system established in 2000*
- *Certification and inspection agency*
- *Certified 26,000t of capacity, 17,400t of receipted commodity*
- *Ceased operations in 2006*

ZACA – What went wrong?

- *Management and reputational issues brought early end to donor funding*
- *Focus on financing*
- *Limited 'buy in' from financial sector*
- *Therefore, perceived to be of little value to agricultural sector*
- *Focus on smallholder warehouse receipting – donor orientation*
- *Never found a place in the market*

ZACA – Lessons Learnt



A warehouse receipt system doesn't create an orderly market.
It is a product of one

New initiatives by ZAMACE– Starting with the Market

- *Creating incentives for transparent and volumes-based trade*
- *Warehouse receipts needed for 'sight-unseen' trade*
- *Focusing first on establishing credibility of receipt*
- *Recognise importance of warehouse receipt system for smallholder/emergent farmer inclusion – trade confidence*
- *Embarking on ZAMACE certified district warehouse initiative – 3 warehouses certified in Monze, Kalomo and Mkushi*



What is a ZAMACE Certified Warehouse?

- *Private registered company*
- *Physically secure storage facilities*
- *Trained warehouse staff*



- *Comprehensive stored-crop insurance ceded to ZAMACE*
- *'Public' facility – farmers and traders can deposit and store crop*
- *Issue Warehouse Receipts and Goods Received Notes*

ZAMACE Warehouse Receipts and GRNs

Warehouse Receipt

- *Parcels greater than 30t (ZAMACE minimum)*
- *Depositor can chose whether to sell or store*
- *Contacts ZAMACE broker (or buyer) directly*
- *Depositor charged for storage, handling and fumigation*

Goods Received Note

- *Parcels less than 30t*
- *Gives Issuer the mandate to sell on behalf of Depositor*
- *Issuer aggregates to 30t+ and sells across Exchange*
- *Depositor paid post-sale less fixed all-inclusive commission*

What is ZAMACE's role?

- *Train warehouse operators and staff*
- *Provide operating, storage and documentation procedures*
- *Provide robust certification, oversight and inspection role*
- *Maintain database of all ZAMACE documentation*
- *Authorise any withdrawals from warehouses*
- *Provide trading platform for sale of underlying commodity*



What are the Benefits to the Market?

To the Commodities Trade....

- *Increases efficiency*
- *Generates confidence in dealing with lower end of market*
- *Aggregates crop in secure and accessible sites*
- *Reduces 'transaction costs' of trading smallholder crop*

To the Farmer and Small Trader....

- *Reduces post-harvest losses*
- *Allows crop to become 'commercial' through Q&Q certification*
- *Rewards quality and reduces 'discounting'*
- *Allows access to ZAMACE*

Benefits to the Smallholders

- *Provides transparency and price discovery*
- *Removes all position-takers between the farmer/trader and the end market*
- *Offers the best possible market price under prevailing market conditions*
- *Mitigates substantial risks in transactions*
- *Empowers the farmer to evolve from price-taker to price-setter*
- *Eventually will create the opportunity to access credit from financial institutions*



Points for The Way Forward

- *Confidence must be built in the entire agricultural market to provide the incentives to store crop and reduce seasonal price fluctuations*
- *Amendment to Agricultural Credit Act – incorporates warehouse receipts into law. Will be presented to Parliament in 2009*
- *Agricultural Marketing Act – would provide the statutory ‘muscle’ to oversee a vibrant storage industry. Will be presented to Parliament in 2009*
- *Once receipts have gained the confidence of the market and with legal backing, financial institutions could ‘adopt’ the warehouse receipt as secure collateral*
- *Major buyers (including Government?) should be encouraged use warehouse receipts to buy and store commodities*