

WAREHOUSE RECEIPT SYSTEMS AND INVENTORY CREDIT IN THE AGRICULTURAL SECTOR: LESSONS FROM AFRICA

PRESENTATION AT PACIFIC REGIONAL CAPACITY BUILDING WORKSHOP ON ENHANCING ACCESS TO FINANCE FOR THE AGRICULTURAL SECTOR

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Similarities in agriculture sector performance

❖ Sector generally under-performing with low and stagnating farm productivity:

-From early 1960s to early 2000s, yields rose by only 29% compared with 177% in Latin America and 144% in Asia

❖ Consequent increased dependence on food imports

-Including what can be produced locally

❖ Traditional crop exports also struggling

-Often implying limited resources to finance food imports and increased vulnerability to food insecurity

❖ Sector capacity to catalyse growth and poverty reduction under-exploited



Similarities in agriculture sector features

❖ Dominated by smallholder farmers:

-Cultivating 1-2 hectares

❖ Low levels of utilisation of yield-enhancing input:

-E.g. Average fertiliser use is under 15kg/hectare compared with over 100kg/hectare for developing countries in general

❖ Sector further constrained by:

-Land access problems;

-Poor physical infrastructure (e.g. rural roads and storage infrastructure)

-Severely under-developed processing industry with capacity to absorb surpluses leading to cyclical glut and deficits; and

-Inefficient marketing systems and acute lack of finance.



WRS seen as a means to reduce marketing and financing constraints in the sector

Definitions

❖ Inventory credit:

-Credit advanced by financial intermediaries is secured primarily against stocks e.g. agricultural commodities

-Where system is under-developed additional collateral may be required and normal credit appraisal procedures may be applied

❖ Warehouse receipt system (WRS) involves:

-Issuing of document (receipt) confirming that commodities of particular description (quality) and stated quantity has been deposited by a named depositor at a specified location.

-Storekeeper/warehouse operator guarantees delivery of the commodities to depositor or third party to whom it has been transferred on presentation of the receipt



Guarantee of delivery absolutely critical!!!

❖ To reduce risk of quantity loss or quality deterioration and requires the following:

-Secure storage facilities (standards that minimise losses)

-Properly assized scales

-Enforceable commodity standards and reliable grading equipment

-Well-capitalised operators with sufficient resources to cover in-store losses and effective warehouse management system

-Complemented by insurance and performance bond

-Competent and honest warehouse personnel

-Secure receipts to minimise risk of fraud (transparent registry important for regulated systems)

-Reliable liquidation systems (minimum firm uptake contracts)

-Reliable market information systems

-Enabling regulatory and policy framework



Features of different types of WRS (1)

❖ NGO-supported WRS:

-First piloted in Ghana by Technoserve and common in Francophone West Africa (referred to as *Warrantage*)

-Storage operations may be managed by farmer group and locally-based microfinance institution (dual-locking system)

-Intensive management support by NGO

-Commercial lending guaranteed by the supporting NGO

-Often targets staple crops

❖ Accessible, especially, by smallholders **but not** attractive to mainstream financial institutions due to:

-Less stringent standards (e.g. for designated warehouse operators)

-Scale diseconomies common

-Receipts not transferable – of limited use in commodity trade

-No firm off-take contracts for stored commodities

-Commercial sustainability is uncertain



Features of different types of WRS (2)

❖ Collateral management by inspection companies:

-Guarantee of performance by collateral managers – predominantly Europe-based inspection companies (SGS the pioneers in Africa)

-Undertake stock quality/quantity monitoring

-Issuing of non-transferable warehouse receipts

-Usually entail additional security and off-take contracts

❖ Benefited mainly large operators **and**:

-Tends to focus on import/export trade with limited access to the domestic trade

-Access is limited by relatively high cost (charge on per-site basis so financially beneficial to large-scale borrowers;

-Non-transferable warehouse receipts cannot be used in commodity trade

-Lack of oversight affects performance and can undermine confidence and expansion of system



Features of different types of WRS (3)

- ❖ **Regulated, widely-accessible WRS – key features:**
- ❖ **Regulatory framework**
 - Certification of warehouses/operators by a regulatory agency which could be government-based (Tanzania); non-govt, stakeholder-controlled, especially by banks/insurers (piloted in Zambia) or private entity (e.g. commodity exchange as in South Africa and Uganda)
 - Supporting legislation may be needed to clarify (still pending)
- ❖ **Network of standard, private warehouses – licensed or certified and supervised by regulatory agency**
 - Need to meet capital requirements (similar to non-bank financial institutions), reference from bankers and other requirements (above).
- ❖ **Standardisation of:**
 - Warehouses
 - Trade-friendly quality standards and of weights and measures
 - Warehouse receipts issued and transparent registry



Evidence on benefits (Zambia)

- ❖ **Kulya Nkona Agri-Cooperative Society, Chisamba, Zambia**
 - 2004/05 deposited 950 tonnes of maize
 - Stored for 5 months with financing by Barclays, making it timely procurement of inputs possible (weaning from donor-funded inputs programme)
 - Sold in the dollarised Lusaka market (through major buyer supplying WFP for Zimbabwe), earning 35% increase in income per tonne of maize.
- ❖ **2003/04 season dominated by trader**
 - Over 4,000 tonnes of maize deposited by three commercial farmers; stored by one operator and financed by one bank
 - Following season over 65,000 tonnes of maize stored by 4 certified operators and financed by 3 banks including Barclays
 - Development disrupted in next season as a result of policy interventions to deal with short maize crop.



Evidence on benefits (Tanzania 1)

- ❖ **Experience in coffee sector**
 - Faced similar constraints after liberalisation as currently in PNG including: quality deterioration and loss of quality premium (as volume-driven assemblers did not quality premium); lack of finance – exporters who pre-financed agents lost money and received poor quality parchment coffee)
- ❖ **System revolves around curing factories charging processing fees and primary-level cooperatives who:**
 - Account for over 55% of coffee traded by Moshi Coffee Auction
 - Assemble produce from members (and non-members) using inventory finance from commercial banks (e.g. CRDB and NMB) and MFI (Kilimanjaro Cooperative Bank) – used for first payment
 - Market processed coffee thereby earning additional income of almost 70% per tonne of parchment Arabica coffee sold (i.e. after 2nd/3rd payments)
 - Coffee quality reported to be steadily improving
 - But auction system requires improvement



Evidence on benefits (Tanzania 2)

- ❖ **Case focuses on Eastern Tanzania where cotton production was in decline**
- ❖ **System revolves around toll-ginning warehouse operator and primary-level cooperative society which**
 - Bulks seed cotton from members and deposits with toll-ginning warehouse operator
 - Obtains inventory finance from CRDB and MNB
 - Market cotton lint to exporters
 - In 2005/06 exported lint to UK buyer – with quality certified using HVI equipment owned by the Cotton Board (same for all exporters)
 - Profits used to finance more than 10-fold increase in production
 - Primary cooperative set up funded guarantee scheme to leverage input finance for members
- ❖ **Similar success in cashew sector**
 - Informal auction system developed on basis of WRS
- ❖ **Extension to grains has been problematic**
 - Mainly because of disabling policy interventions



Tackling implementation challenges

- ❖ Availability of physical storage infrastructure:
 - State sector dominates ownership of available storage capacity, especially in surplus-producing areas but has significant under-utilisation and credibility problems
 - Options: long-term leasing to private operators (Zambia and Kenya) or management by a completely autonomous state-owned warehousing companies
- ❖ Commodity standards that foster regional trade
 - Harmonisation of standards is crucial
- ❖ Market information systems
 - Improvements needed especially in terms of accuracy of data; timeliness of delivery and other non-price information (only 8% of Kenya farmers interested in price information)
- ❖ Building capacity of key players
- ❖ Promote collective marketing by farmers:
- ❖ Robust regulatory systems critical in engendering trust



Tackling policy hurdles

- ❖ Legislation helpful but not the key lever
 - Important in clarifying "rights of 3rd party holders (e.g. Lenders) and legal basis for regulators
- ❖ Enabling policy, including:
 - Stable macroeconomy contributing to lower interest rates (Zimbabwe)
 - Stable, transparent trade policies, including dismantling trade barriers – regional markets are opportunities for sustained output growth (not a leakage) e.g. Tanzania
 - Avoiding ad hoc interventions that hurt the market
 - Fostering smallholder access should not mean exclusive systems
- ❖ Food security/market development trade-off
 - Use of market instrument win-win e.g. WFP's P4P demonstrated effectiveness in procurement
- ❖ Effective policy advocacy needed:
 - Underpinned by evidence-based knowledge (of what works and in what context) and involve all key stakeholders



Potential in the Pacific Countries

- ❖ For durable commodities, especially non-food export commodities the lessons demonstrate feasibility
 - Examples coffee in PNG
- ❖ Grains also feasible if any disabling policy hurdles can be removed
- ❖ Fish products stored in efficient cold stores also feasible
 - Was successfully piloted in Ghana
- ❖ Other products – so long as technical challenges related to storage and grading can be overcome
- ❖ Overall the policy and regulatory problems may be the most challenging
 - Broad-based advocacy involving farmers and other key players may be the key to unblocking the bottlenecks (e.g. recent case in Kenya)

Vinaka!!

