

WAREHOUSE RECEIPT FINANCING THE HOUSING FINANCE BANK UGANDA EXPERIENCE

**AGRIFIN FINANCING AGRICULTURE
FORUM – 2012 , March 28-30, 2012
Kampala, Uganda**



**Housing
Finance
Bank**

we make it easy

HOUSING FINANCE BANK UGANDA

Background



- Registered as Housing Finance Company Uganda Ltd in 1967 and operated as a mortgage bank for 40 years.
- Licensed to do Commercial Banking in 2008, as Housing Finance Bank.
- Performance as Commercial Bank 2008 -2011:
 - Developed various products to offer commercial services
 - Assets grew from UGX207bn to UGX460bn (220%) (\$87m - \$194m)
 - Loans grew from UGX149bn to UGX343bn (230%) (\$63m - \$144m)
 - Deposits grew from UGX 78bn to 209bn (267%) (\$33m - \$88m)
 - Distribution Channels
 - Branches grew from 4 to 15
 - ATMs from 5 to 21

- Mortgage & Term Finance products
 - 70% of the banks current business
- Commercial Banking Products
 - 30% of the banks current business
 - Agricultural Based lending Products
 - Agribusiness Loans
 - Warehousing Receipt Financing

WAREHOUSE RECEIPT PRODUCT Rationale

- HFB introduced the WHR Product in March 2010.
- Strategic intent in exploring opportunities to support the agricultural sector.
- WHR provided alternate options to land based security for access to loans.
- Legislation put in place to enable utilisation of negotiable warehouse based instruments (WRS Act 2006).
- Prior to this financing to grain traders was limited to private arrangements with facility owners.
- Requirement of fixed price off-take agreements from large buyers restricted pricing flexibility to the majority of traders.

WAREHOUSE RECEIPT PRODUCT

Key Features



- Financing available to licensed warehouse depositors:
 - For maize, paddy rice, beans, coffee and cotton at a minimum tonnage of 3MT
 - Importers with tax & freight financing needs
- Advances equivalent to 60% of value of commodity held at prevailing prices.
- Interest rates is HFB prevailing prime rate + 4%.
- Tenors not exceeding 120 days.
- Farmer/Trader required to sell through the UCE trading floor.
- Repayment and settlement from sales done through a formal arrangement between UCE and the bank.

WAREHOUSE RECEIPT PRODUCT Performance

- Financed agricultural based WHR to the tune of UGX 1,000,000,000/= in Year 1 (\$422,000) (Approximately 70 clients).
- Financed imports based WHR to the tune of UGX 1,000,000,000/= in Year 1 (\$420,000) (Approximately 30 clients).
- Financing of agricultural based WSR dropped drastically in Year 2 as a result of poor harvests across the region.
- Financing of imports based WHR continued to grow in first half Year 2, but affected by macro economic shocks in the second half of Year 2.

WAREHOUSE RECEIPT PRODUCT

Success Factors



- Enabled farmers and small traders to access credit for the first time.
- Enabled traders to purchase more grain with financing based on grain already in the warehouses.
- Gave farmers access to bulk buyers like World Food Program (WFP).
- Better post harvest handling techniques improved through participation in the WHR system.
- HFB Brand awareness as an innovative and diversifying bank was enhanced.

WAREHOUSE RECEIPT PRODUCT Challenges

- Existing Large traders and warehouse owners did not support the system wholly.
- Technological hitches with issuing, encumbering & releasing receipts at the UCE.
- Limited licensed warehouse facilities countrywide (8 licensed to-date).
- HFB distribution channels not co-located with existing licensed warehouse facilities.
- Warehouse charges to depositors perceived to be high.
- Un-predictable weather patterns impacting potential yields on grains.
- Lack of proper awareness of licensed warehouse sites and likely benefits throughout the value chain.

WAREHOUSE RECEIPT PRODUCT Challenges

- Significant Interest rates increases in 2011.
- Inadequate awareness and sensitisation carried out to support the product.
- Large buyers still biased towards purchasing from the existing private warehouses.
- Liberal trade regime in Uganda abets trading and exporting of non graded commodities.
- Absence / Non enforcement of graded commodity standards across the country and within the region.

PREREQUISITES FOR A SUCCESSFUL WRT PRODUCT

- Critical mass of licensed warehouses should be in places in close proximity to the producing areas.
- Financing institutions should be in close proximity to warehouse facilities.
- Bulk buyers should give priority to licensed warehouses under the Uganda Commodity Exchange (UCE).
- Extensive sensitisation of players within the value chain (farmers, traders, warehouses and banks) on the benefits of the WHR system.
- Competent farmer's societies or cooperatives to help small farmers bulk their produce to quantities acceptable to the licensed warehouses.
- The legislation should mandate the regulator to access all storage facilities to ensure standardisation of the quality of commodities marketed.
- Policies should be in place and enforced to control the quality of grains that are traded within the country and the region.