

NMB EXPERIENCE IN WAREHOUSE RECEIPT SYSTEM - FINANCING IN TANZANIA.

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About NMB

1997

- National Microfinance Bank was incorporated

2005

- 49 % shares sold to Rabobank Consortium (35% Rabobank)
- 51% United Republic of Tanzania

2008

- 49% shares – Rabo bank consortium
- 21% shares sold through IPO to Public
- 30% to date United Republic of Tanzania



About NMB



- 149 Branches & still growing
- 500 ATMs & growing
- NMB Mobile Banking
- Bank on Wheels
- Total assets U\$846.7Mn
- Net/I 2012 – U\$ 61Mn

www.nmbtz.com





What is a Warehouse Receipt?

Is 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 licensed commodity storage warehouse

It specifies:

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

The receipts are issued in duplicate i.e. Certificate of Title (CT) and Certificate of Pledge (CP)

Types of a Warehouse Receipt



1) Non-Transferable Certificate

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

2) Transferable Certificate

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



History of Warehouse Receipts in TZ

Tanzania Warehouse Receipt Licensing Board (TWRLB):

- 1999 – 2002 - Technical assistance project funded by CFC
- 2002 – 2005 – Pilot Warehouse Receipt Financing projects under technical support funded by CFC before establishment of Legal Framework *(FI's were hesitant to adopt this financing model)*
- 2005 – Legal Framework Warehouse Receipt Act passed by the Parliament
 - Establishment of Tanzania Warehouse Receipt Licensing Board (TWLB)
- 2006 – Warehouse Receipt Operational Guidelines released
- 2006 – Todate – Few FI's adopted the financing model and developed product based on the principles of Warehouse Receipt System i.e. accepting the receipts issued by Warehouse Operators as documents of title.



Role of TWRLB

- Training warehouse operators, other stakeholders and educating FI's on the use of WRS in financing purchase of commodities
- Licensing of the warehouses based on the set criteria's
- Ensure warehouse receipt operation procedures and rules are adhered by the stakeholders.
- Provide robust certification, oversight and
 - inspection role
- Maintain database of all Warehouses approved
 - Issuance of the CT & CP and other documentations
- Handles disputes arising from the stakeholders
- Provide trading platform for sale of underlying commodity



Suitable Warehouses –WH/Operators

- Well secured warehouse with a security fence
- Storage Warehouse built with a standard building materials suitable for all weather conditions – dry & wet
- All storage warehouses to be used must be adequately insure against fire, burglary and other insurance risks for goods in the warehouse
- Storage warehouse must have all equipment's for checking quality of the commodities delivered
- Ensure performance Bond/Indemnity insurance is available to compensate in-case of false reports

Warehouse RS – How it works





WRS business model details

1. Farmer/Trader/Group/Company deliver the commodity in the approved warehouse & issued with two receipts (CT & CP)
2. Depositor deliver the receipt to FI's for loan disbursement. Usually loan disbursed is between 50% - 80% value of the commodity
3. Depositor and Buyers negotiate and agree on price to be offered
4. Buyer make payments to the bank account of the FI's which financed the depositor
5. FI's issues release warrant for the buyer to access the commodities from the controlled warehouse
6. Warehouse Operator releases the commodity as per release warrant to buyer.

Key success factors



STORAGE



MARKETS



BANKS/FIs



Policy & Legal



- Good warehouses
- Reliable roads & communication
- Warehouse receipt financing act
- WRS operation guidelines
- Skilled W/Operators

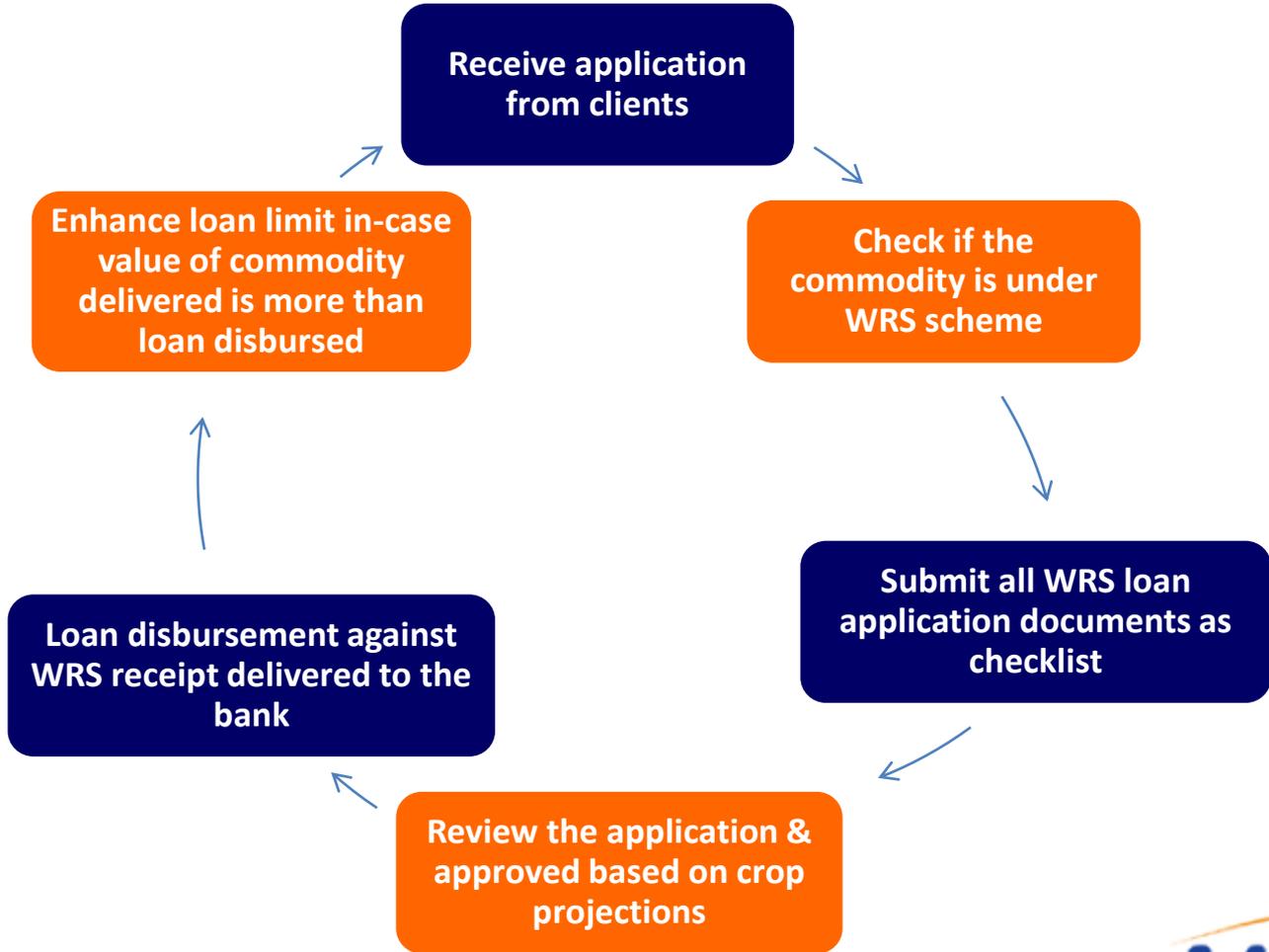
- Organized marketing systems i.e. organized commodity auctions
- Preferably Commodity exchange
- Increase efficiency in agri-trading

- Banks with large network to reach rural areas
- Reliable core banking system/MIS
- Adequate monitoring & supervision

- Sustainable policy environment
- Suitable legal & regulatory framework
- Adequate storage warehouses built to commodity storage specification



Processing WRS WC facility





WRS Financing status in NMB

- More than 351 farmer groups & companies financed as end 2012
- Total portfolio as Dec. 2012 was U\$ 15Million
- Non-performing less than 6%

- 7 crops under the scheme (coffee, cashew, maize, paddy, sun flower, sesame, pigeon peas)
- About 40% of disbursed agri-credits
- Crops highly interfered by politicians

- Manual auction not electronic
- Coffee auction more organized
- Cashew auction poorly organized
- Plan to start commodity exchange



What are the Benefits to the Market?

To the Commodities Trade....

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

To the Farmer and Small Trader....

- Reduces post-harvest losses
- Allows crop to become 'commercial' through Q&Q certification
- Rewards quality – Good quality higher price
- Provides transparency and price discovery



Benefit to farmer cont....

- 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
- Creates opportunity to access credit from C/Banks



Role of Domestic Banks

- Plays the leading role in financing of the WHR system.
- Ensures reliable access to credit on the basis of existing experience with the borrower
- Close follow up on production, level of expenditures per unit of commodity, proportion of supply and demand, etc. For accurate discounting
- Monitoring loan disbursements
- Snap checks in the warehouses to verify stocks reported by warehouse operators
- High costs of monitoring & supervision/MIS

Key Risks Identified in WRS Financing

Operation risk	<ul style="list-style-type: none">-Disbursed more funds than value of commodity delivered-Disburse without receipt-Poor quality of the delivered crop-Inadequate performance bond-No indemnity cover insurance-Non-compliance with WRS operational guidelines
Storage risk	<ul style="list-style-type: none">-Poor built storage warehouses without fencing or security-Inadequate storage capacity of the warehouse-Inadequate insurance cover against fire, burglary-Inadequate inventory management skills

Key Risks Identified in WRS Financing

Credit risk	<ul style="list-style-type: none">-Financing more than the value of commodity due to poor establishment of valuation price, or-Inappropriate discount value of commodities during loan disbursement
Price risk	<ul style="list-style-type: none">-Disbursed more loan than the commodity value when sold in the open market-High logistical costs and taxes/charges involved in the particular crop than expected revenue from sales-Fixing minimum price for farmers before knowing market price from final buyers
Market risk	<ul style="list-style-type: none">-Inadequate and less transparent market systems – calls for establish commodity exchange market-Commodity auctions are manually organized with less participants as buyers-In-some cases sales contracts before financing is needed

Key Risks Identified in WRS Financing

<p>Legal risk</p>	<ul style="list-style-type: none">-Enforceability of the warehouse receipt act laws incase of problems/disputes-Harmonization of laws to accommodate warehouse receipt financing act i.e. company laws, crop boards regulations, local council by-laws etc
<p>Political/Government interventions risk</p>	<ul style="list-style-type: none">-In several cases politicians and Government officials interference with market forces of demand and supply-Cases of commodity export ban has happened while commodities have been financed under WRS-Minimum price setting for farmers has been done for some crops

Lessons Learnt for successful WRS Financing

