

# Warehouse Receipt System Reform Initiatives in Africa



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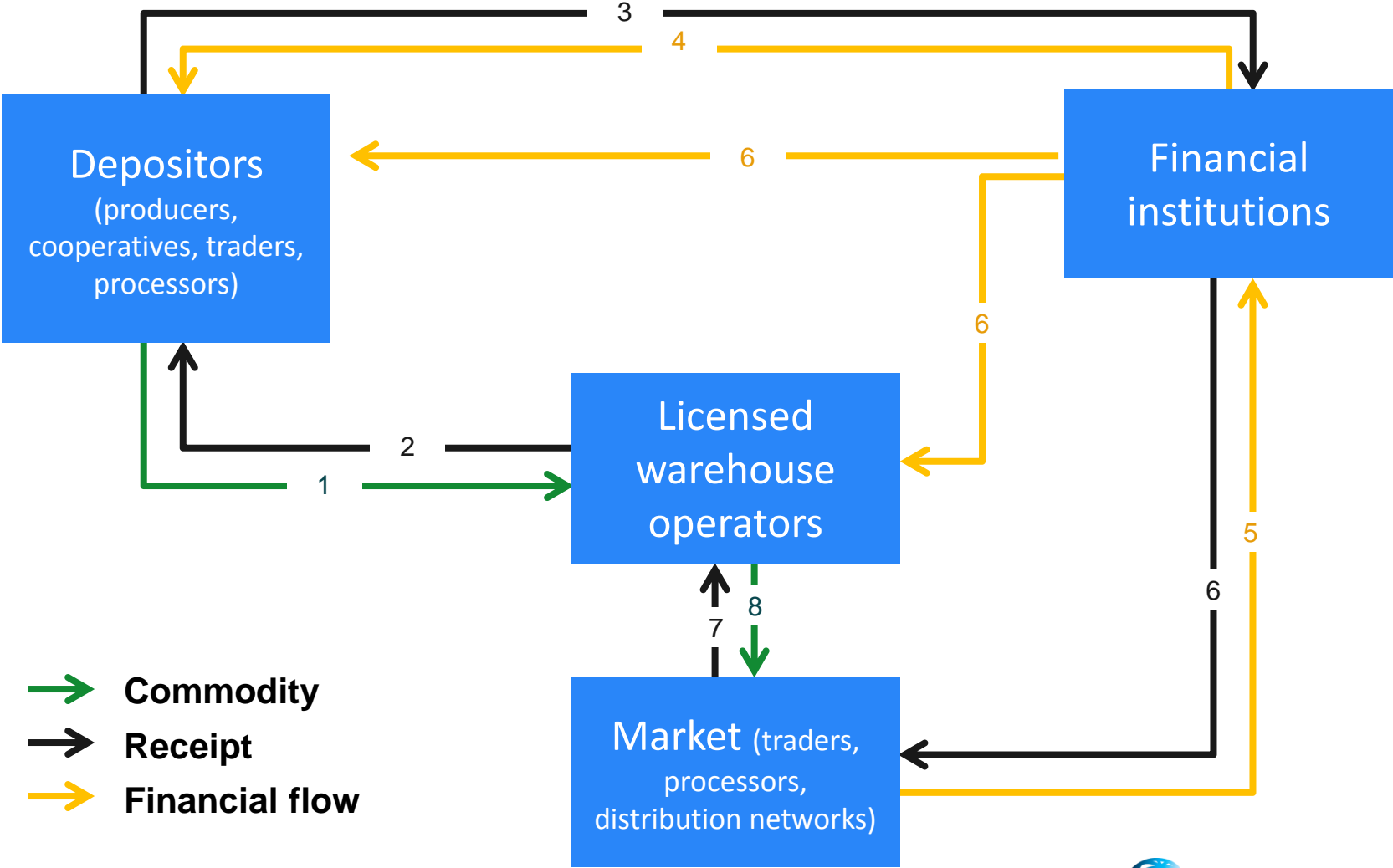


# AGENDA

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- Introduction to Warehouse Receipt Systems
- Our approach to WRS
- Success factors for the banking industry and our support to banks
- Ongoing initiatives in Cote d'Ivoire, Kenya, Malawi and Senegal
- Lessons learned

# WAREHOUSE RECEIPT SYSTEMS: HOW DO THEY WORK?



# AGRICULTURAL FINANCE IN DEVELOPING COUNTRIES

Access to finance in the agribusiness sector is often the lowest in many developing economies:

- Beyond high levels of informality, one of the primary barriers to increased access to finance is the inability of banks to secure reliable collateral for lending in the sector

Agricultural finance typically revolves around three main options:

- Mortgages over farmland;
- Equipment mortgages / leasing; and
- Charges or pledges over post-harvest production

The first two are the most significant in developed countries but are often out of reach in developing countries, leaving lending against stored goods as the only viable option to extend financing to the agribusiness sector

# BENEFITS OF WAREHOUSE RECEIPT SYSTEMS

Warehouse receipt systems (WRS) help create a framework for moveable collateral on stocks owned by farmers, traders & processors but held in licensed warehouses

Countries establishing a WRS are in a position to improve access to agricultural credit and professionalize agricultural storage, which are critical to:

- Reduce post-harvest losses;
- Improve the stability of market prices;
- Ensure food security; and
- Encourage formalization of businesses in the agribusiness sector

# OUR SUPPORT TO THE INTRODUCTION OF WAREHOUSE RECEIPT SYSTEMS

The World Bank Group, through its Trade and Competitiveness (T&C) Global Practice, provides technical assistance to policy makers to introduce appropriate legislation and institutional frameworks to implement warehouse receipt systems

The legal and regulatory work done by T&C often complements:

- The support provided to banks by the IFC and its Global Warehouse Finance Program;
- The efforts made by the Finance and Markets Global Practice on introducing Secured Transactions regimes; and
- The assistance given by the Agriculture Global Practice to agricultural production

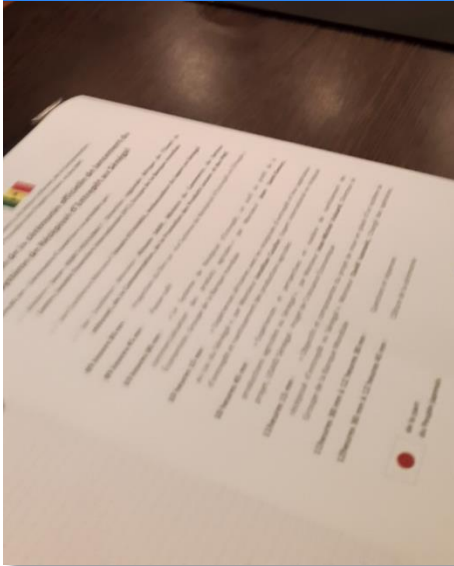
# OUR APPROACH

WRS readiness assessment



## WRS Reform Project

Legislation & regulation



Sensitization & training



Warehousing industry support



Trading platform



# OUR APPROACH – WRS READINESS ASSESSMENT

Different paths lead to success when implementing WRS in sub-Saharan Africa:

- Contract based systems like South Africa (millions of tons a year) vs legal and regulatory systems like Ethiopia or Tanzania (hundreds of thousands tons each)

Yet, similar paths can lead to failure, so we carry out readiness assessments to ensure that certain critical conditions are met regarding the:

- Commodities likely to be used
- Potential users of the system
- Warehousing industry
- Financial institutions
- Institutional capacity
- Financial viability of a WRS



## OUR APPROACH – IMPLEMENTATION (1/2)

Provide technical assistance to introduce appropriate legislation and regulation to:

- Create the legal instrument “warehouse receipt” that constitutes a document of title to goods deposited in a warehouse
- Define issuers of warehouse receipts and determine their responsibilities towards warehouse receipt holders, as well as their lien
- Define the conditions and repercussions of the negotiation and transfer of warehouse receipts

Provide technical expertise and assistance to the WRS regulatory unit during its start up phase

## OUR APPROACH – IMPLEMENTATION (2/2)

Build stakeholders' understanding of the WRS and support by:

- Organizing sensitization events & workshops for all stakeholders from the public and private sectors
- Providing training, notably to the banking industry

Support the warehousing industry by:

- Developing operational guidelines for supervised private warehouse operations
- Providing assistance to warehouse operators to strengthen their operations
- Mobilizing and facilitating private sector investment in improved storage facilities

Engage stakeholders to explore options for a warehouse receipt trading platform

# SUCCESS FACTORS FOR THE BANKING INDUSTRY (1/3)

Have a clear high-level strategy for warehouse receipt financing regarding:

- Commodities that qualify for warehouse receipt financing
- Warehouse operators with which the bank is willing to work
- Commodity quality requirements
- Enabling environment factors
- Targeted clients

Secure skilled and well-trained staff, including loan officers, customer relationship managers and bank operation officers, with solid knowledge of:

- Trade and commodity finance mechanisms
- Types of commodities, market structure, factors determining prices, and typical seasonal patterns
- WRS regulations, rules and procedures
- Borrowers' business model and operating environment

## SUCCESS FACTORS FOR THE BANKING INDUSTRY (2/3)

Implement robust market monitoring and price information systems regarding:

- Data and news on the market for relevant commodities and main factors influencing prices
- Systematic collection and internal dissemination of applicable interest rates, loan portfolio by commodity and value, and availability of funds for credit per season
- Identification, monitoring and internal sharing of a commodity reference price

Design specific risk management and mitigation strategies for risks related to warehouse receipt financing:

- Such risks include borrower credit risk, structuring risk, market and price risk, currency risk, operational risk of the bank (e.g., middle office risks), performance risk of the warehouse operator, legal risk, and government intervention risk

## SUCCESS FACTORS FOR THE BANKING INDUSTRY (3/3)

Adopt a warehouse receipt loan pricing strategy that takes into account potentially lower costs and risks:

- Collateral managed by a third-party warehouse operator under the oversight of a regulatory agency
- Financing following an agreed loan to value ratio and granted against a specific commodity on which price information is available
- Relatively easy loan recovery in the event of default (sale of receipt)

Introduce and disseminate a dedicated marketing strategy:

- Warehouse receipt financing is an opportunity to increase exposure to agricultural clients that needs to be well understood by bank branches in the regions interacting with those clients\*

\* Further information on the challenges and opportunities for banks can be found in the IFC's *Warehouse Finance and Warehouse Receipt Systems, a Guide for Financial Institutions in Emerging Economies*

# OUR SUPPORT TO BANKS

Provide training sessions specifically tailored to banks and to warehouse receipt financing:

- The training expands on the key success factors presented before and walks bank representatives through concrete cases

Provide liquidity for on-lending or risk mitigation solutions through the IFC's Global Warehouse Finance Program:

- Credit line – IFC offers short term loans to banks, which on-lend the funding to commodity depositors against warehouse receipts used as collateral
- Funded/unfunded risk sharing – IFC guarantees up to 50% of short term loans extended to commodity depositors against warehouse receipts used as collateral

## ONGOING INITIATIVES (1/4)

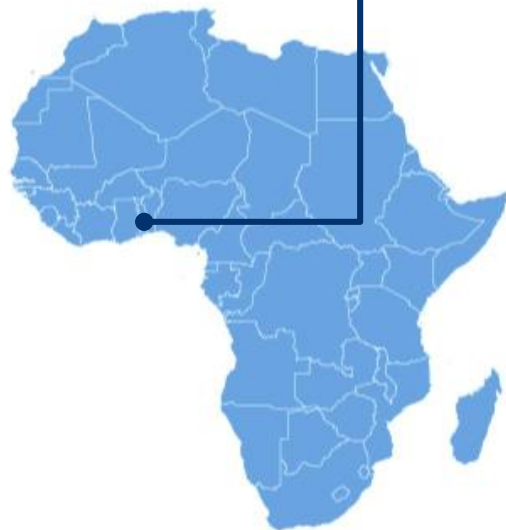
### Cote d'Ivoire

#### Progress to date:

- Project launched in 2013
- WRS Bill passed by Parliament (first time in francophone Africa)
- Focus on harmonization of good practice WRS laws and the Ivorian and OHADA legal environments
- Sensitization events to raise stakeholders' awareness of the WRS
- Assessment of warehousing capacity in the country

#### Specificities and partnerships:

- Cashew value chain chosen as a pilot for the WRS as part of a comprehensive WBG program to develop the value chain



#### Current challenges:

- Secure funding for conducting activities beyond legal and regulatory reform
- More efforts needed to raise awareness and secure the support of stakeholders with vested interests in the status quo

## ONGOING INITIATIVES (2/4)



### Kenya

#### Progress to date:

- WRS Bill endorsed by Cabinet and before Parliament for deliberation
- 2,000 depositors in 14 pilot warehouses
- 5 banks participating and lending against receipts: 5.5 million USD in the pilot phase
- Capacity building of WRS stakeholders: operators and financial institutions
- Ongoing study on the impact of warehouse receipts reform on structured trade and lending

#### Specificities and partnerships:

- Partnership with the East African Grains Council, which is leading the pilot
- Collaboration with AGRA and Financial Sector Deepening

#### Current challenges:

- Exploring arrangements (e.g. PPPs, long-term leases) with the Government to make state-owned warehouses in strategic locations available to the private sector to scale up the WRS
- Emerging issue of high cost of credit being a significant deterrent to farmers' participation



## ONGOING INITIATIVES (3/4)

### Malawi

#### Progress to date:

- WRS Bill drafted and being formatted for Parliament reading
- Practitioners' guide developed for parliamentarians and future users
- 1,000 farmers and 500 traders using the WRS (up from 500)
- 30,000 MT of maize stored (up from about 10,000 MT)
- 6 banks financing warehouse receipts: US\$9 Million of financing (up from US\$500k)
- Study tour to South Africa and India to learn more about the operationalization of WRS and commodity exchanges

#### Specificities and partnerships:

- Partnership with the Agricultural Commodity Exchange for Africa (ACE) and the Action Holding Commodity Exchange (AHCX) that will link the WRS to their exchanges
- Collaboration with FIRST Initiative, USAID, GIZ and the EU

#### Current challenges:

- Secure funding and support for a comprehensive program beyond legal and regulatory reform

## ONGOING INITIATIVES (4/4)

### Senegal

#### Progress to date:

- Project launched in 2014 with a pilot on the rice sector
- WRS Bill drafted by the stakeholders working group and in the Government's hands
- Focus on harmonization of good practice WRS laws and the Senegalese and OHADA legal environments
- Sensitization activities have started with future WRS stakeholders: depositors, warehouse operators, financial institutions





#### Specificities and partnerships:

- Financial support from the FIRST Initiative, GAFSP and the Government of Japan
- Collaboration with USAID project on a warehousing infrastructure and warehouse financing information system

#### Current challenges:

- Important efforts are needed to raise awareness and understanding of warehouse financing
- Institutional capacity constraints

# ONGOING INITIATIVES – OUR TEAM

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## LESSONS LEARNED (1/2)

Warehouse receipt systems are both simple on paper and difficult to successfully implement in practice...

...Vested interests need to be overcome and a wide variety of stakeholders need to be mobilized to gather support for reform...

... As a result, modes of implementation may vary in each country to build momentum for reform:

- Specific value chains were chosen as pilots in Cote d'Ivoire (cashew) and Senegal (rice)
- WRS is being developed in close partnership with the East Africa Grains Council in Kenya and with the two commodity exchanges operating in Malawi

## LESSONS LEARNED (2/2)

Legal and regulatory reform is a great opportunity to...

- Engage stakeholders, build their understanding of the WRS and get them excited
- Create legal instruments and practices to make the system secure

... However, many other challenges need to be addressed to ensure a WRS's success...

- Provide market transparency and clear outlets for stored goods
- Promote adequacy of the storage infrastructure and trust of market players in storage practices

... Which is an incentive to implement more comprehensive programs and to combine forces with others

- Include components on sensitization and training, assistance to the banking and warehousing industries and trading platforms into WRS reform projects
- Seek to build alliances with WBG colleagues and projects, with partners in country, and with other donors

# THANK YOU!

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For more information, please do not hesitate to contact:

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