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# Warehouse Receipt Financing: Lessons from Ethiopia

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# IFC Support to Ethiopia WHR Finance Program

## Agenda

- I. IFC: Who we are
- II. IFC Support to Ethiopia WHR Finance Program
- III. WHR Financing: Product Features
- IV. WHR Financing: Key Statistics
- V. Key Success Factors
- VI. Key Challenges
- VII. Key Requirements

# IFC: Part of the World Bank Group

IFC is the main driver of private sector development in the World Bank Group

## Investment Services

- Long-Term Debt
- Equity
- Trade Finance
- Risk Management
- Mobilization

## Advisory Services

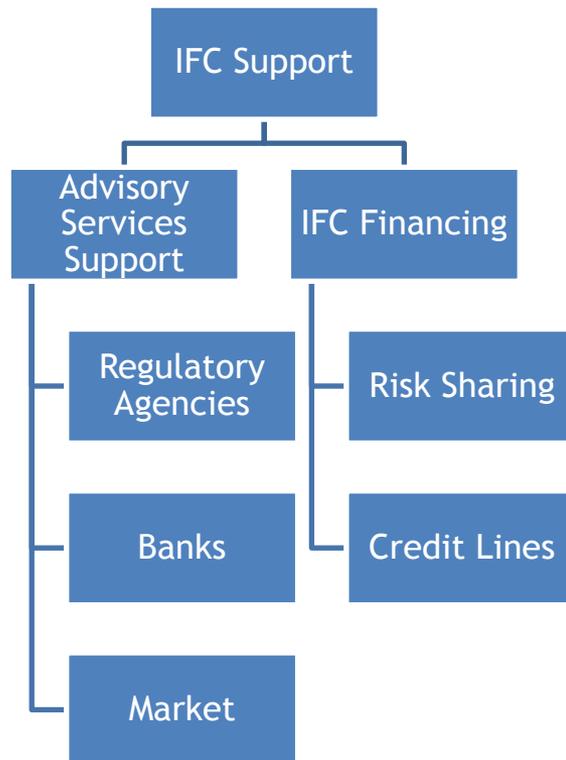
- Investment Climate
- Access to Finance
- Sustainable Business Advisory
- PPP Transactions Advisory

## Asset Management

- Launched in 2009
- IFC Capitalization Fund

# IFC Support to Ethiopia WRF-Program

- The main objective of the Ethiopia WHR -F Program is to help Ethiopia develop a functioning Warehouse Receipt (WHR) financing market through a combination of capacity building and financing to the market.

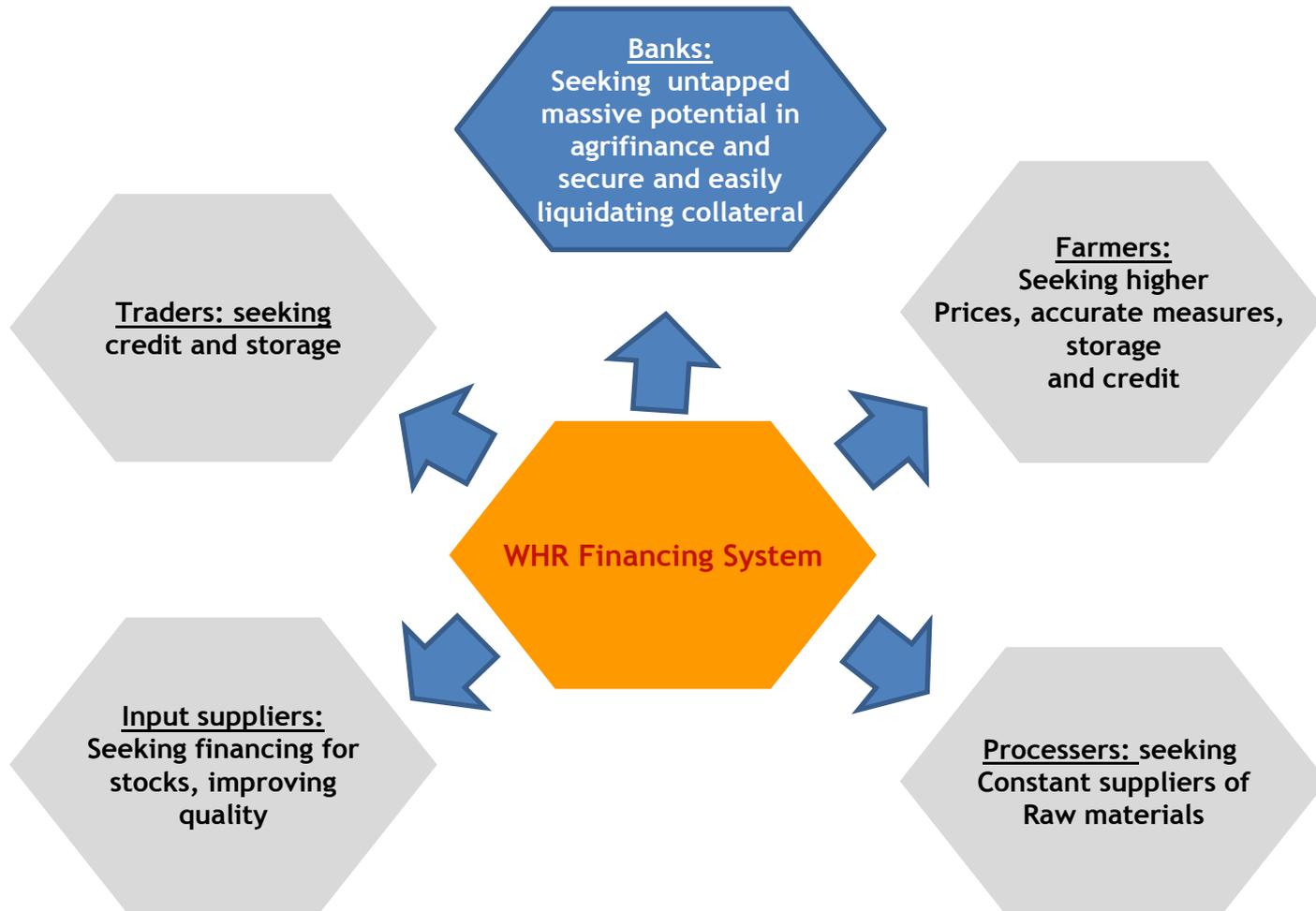


## Why AS in WHR Financing?

- **Lack of Access to Finance:** In Ethiopia, the agriculture sector is vital for economic growth, providing more than 60% employment. Yet, producers and farmers have limited access to finance.
- **New Product:** WHR financing is a way for the underserved market, such as producers and farmers, to access to finance. The market (including local banks) needs to understand the advantage of commodity-based financing.
- **Support investment and advisory services synergies:** When the investee bank's capacity level needs to be improved, the Advisory Services will be implemented.

# Development Impact

Various actors benefit from a properly functioning WHR financing system



# WHR Financing in Ethiopia: Product Features

- Short-term working capital loan (2-4 months)
- Uses ECX WHR as collateral (not physical commodity)
  - WHR Guarantees Quality and Quantity
- Agricultural supply-side actors (not Exporters)
- Currently all ECX Commodities except Coffee:
  - Sesame (90 days), P-beans (90 days)
  - Maize (90 days), Wheat (120 days)

## ECX WRF: Advantages

- Current Small Amount of Financing for Supply-side Trade Finance
  - 600m (\$35m) birr of total agriculture loans of 10b birr(6%)
- Existing Merchandise Loan Disadvantages:
  - Long set-up process
  - Audited accounts required
  - Expensive for banks with sampling/security, etc
- Benefits of ECX WHR Financing
  - Borrower does not require own storage facility
  - Easier access to supply-side credit
  - Bank gets collateral with high liquidity, low cost
  - New business for banks

## ECX WHR-F: How does it work?

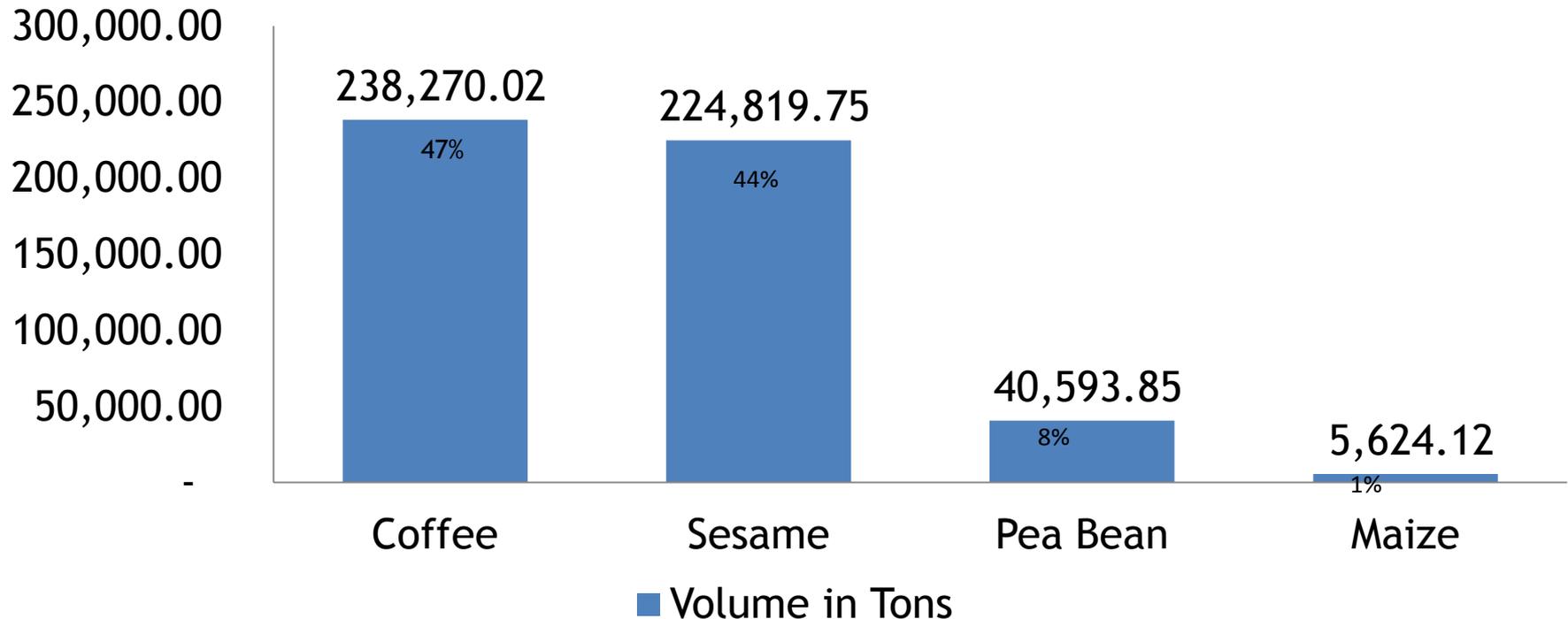
- Commodity deposited at an ECX warehouse
- E-WHR issued by ECX Central Depository
- Apply for loan
- E-WHR pledged to bank
- Loan disbursed
- WHR sold at ECX
- ECX Clearing House sends cash to bank for settlement of disbursement

## Who are the users?

- ECX Members & Clients
  - Co-operative Unions
  - Traders (92% of trade, but 6% of finance)
  - Commercial Farms
- Barriers to Small Farmers
  - Min lot size & loan amount
  - Distance to an ECX Warehouse
- Small farmers will need to come via Co-op Unions or Societies

# Summary of WHR Financing-Key Statistics

- ECX dramatically increased the volume traded from the previous year total of 223,000 tons at a value of Birr 6.7 billion (\$382m) in 2009/10 to 509,308 tons at a value of Birr 18.7 billion (\$1bn) in 2010/11.



# Warehouse Receipt Financing has only started recently

- A total of four banks have signed agreements with ECX to start WHR Financing
- Summary of WHR Financing ( Nov 2011- Jan 2011) - ETB12 Million (\$690,000)
- Number of WHRs Financed: 64
- Main Commodities covered: Sesame and P-Beans
- Projected WHR-F for FY ending June 30: ETB 100 Million (\$5.8 million)
- Coffee will be covered once warehouse shortage constraints are addressed

# Key Success Factors

- **ECX: A Strong Partner:** ECX assures all market players the security they need in the market through providing a secure and reliable End-to-End system for handling, grading, and storing commodities, and a risk-free payment and goods delivery system to settle transactions.
- **Performance Guarantee:** ECX guarantees Payment, delivery and withdrawal according to WHR Quantity, Quality & Trade Execution Price (minus moisture loss). Price Risks not guaranteed.
- **Price Discovery System in Place:** 300 Rural Electronic Price Tickers (REPT) at local level in a public market space and ECX website by which market information is updated real time.
- **Supportive Legal and Regulatory Framework:** Outlines forms of WHRs, legal status of WHRs, rights and obligations of Warehouse Operators, Rights and obligations of Banks or lending institutions.
- **Public Awareness and Education:** Efforts to educate traders, cooperative unions, commercial unions, processors and millers about benefits of WHR-Financing.

# Key Challenges

- **Government Regulations:** Credit Cap imposed by the GoE led to liquidity crunch in the banking sector. Banks in turn are restricting their services to the agriculture sector.
- **Lack of Adequate Warehouses:** Without established 3<sup>rd</sup> party collateral management entities in Ethiopia, ECX conducts its own warehouses. Warehouse capacity increased by 92%, from 1.4 million bags to 2.8 million this year alone. Yet, because of shortage of WHs, ECX is forced to reduce to duration of deposit in coffee to 30 days.
- **Conservative Banking Practices:** Conventional lending Practices Vs Warehouse Receipt Financing
- **Public Awareness:** No adequate awareness about requirements for WHR Financing by traders and farmers.
- **Lack of supportive regulation:** Directive restricting external loans by banks has negatively impacted demand by local banks for IFC WHR investment.

# Key Requirements for successful WHR-F

- Establishing the scope for WHR-F (types of commodities, demand for receipted commodities ,etc)
- Designing the Legal and regulatory Framework ( legal status of WHRs, rights and obligations of Warehouse Operators, Banks or lending institutions, enforcement in case of default, performance guarantee, etc)
- Identifying robust and cost effective financial performance guarantees providing recourse to depositors and financiers in the event of warehouse failures
- Licensing, oversight and inspection of warehouse operators, training of staff, ensuring adequate warehousing capacity exist
- Establishing system to facilitate sale of warehoused commodities ( ex, ECX in Ethiopia)
- Designing and Implementing a communication strategy for relevant stakeholders

## Upcoming Activities

- Africa Warehouse Receipt Financing Conference (organized by IFC and ECX - expected in June 2010)
- Warehouse Receipt Financing: A toolkit for Financial Institutions in Emerging Economies (Expected to be launched in April, 2011)
- IFC's Guide to Legal and Regulatory Reform in WHR Financing (Expected to be launched in May 2011)

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