Warehouse Receipt System

**The mechanism:** A warehouse receipt is a document guaranteeing the existence and availability of a given quantity and quality of a stored commodity. The receipt must stipulate the quality, quantity, type of commodity, date deposited, and the date up to which storage costs have been paid.

**The advantage:** A Warehouse Receipt System (WRS) enables depositors to leverage financing against stored commodities and it ensures trade security for all links in the agricultural industry: producers, farmers groups, traders, processors, exporters and government agencies. WRS reduces post harvest losses by providing for the safe storage of excess grains at harvest time. Safe storage extends the sales season and reduces seasonal price swings. WRS demands consistent standards and grades, allowing for sight unseen transactions and the reduction of transaction costs.

**Prerequisites:**

- Registered storage that have met prescribed physical and technical standards by the recognized licensing authority, i.e. licensed warehouses or silos that issue receipts
- Inspection service that certifies that storage facilities meet basic standards and are suitable for the safe storage of the deposited commodity
- Warehouse operator/Insurance provider who ensures the integrity of the stored goods and covers any losses that might occur as a result of theft or damage
How it works:

1. Depositor takes commodities to registered warehouses
2. Warehouse operator assesses commodities and verifies grade
3. Depositor pays storage and any other fees agreed to in the storage contract
4. Depositor receives “Transferable Warehouse Receipts”
5. Depositor waits until market conditions are conducive to sell the commodity in the warehouse
6. Warehouse operator guarantees delivery of the commodity described on the Warehouse Receipt (this commodity may not be the actual grain deposited, but it must meet or exceed the specifications of the original deposit)
7. Buyer receives commodity in the quantity and quality indicated on the warehouse receipt and can enter into a purchase agreement with added confidence

A closer look

Warehouse liquidation:

If the warehouse operator were to go into liquidation, the depositor’s commodities would not be subject to seizure by creditors as the goods remain the property of the depositor. The only exception to this is the warehouse operator’s ability to recover any outstanding monies due to him/her by the depositor in relation to storage costs.

Financing:

In cases where the depositor has borrowed money using the commodity as collateral, payment for the commodity is made through the financing bank. The bank will then deduct the loan together with any interest and other charges, before crediting the account of the depositor with the balance. In some countries commodity exchanges perform this function and guarantee payment to all parties concerned: warehouse operator, bank and, of course, the depositor.
Requirements for a successful, transferable receipts system

- Discipline and trust in WRS - integrity is key
- Economies of scale to save costs of oversight and administration
- Savings to farmers is the form of financing
- Correct balance of regulatory oversight by state
- Bond and insurance requirements against default, loss or theft
- Specific WR licenses for warehouse operators
- WR tracking system that registers every change in ownership (ensures only one party has legal title)
- Clear legal rights for receipt bearers, receipts serve as documents of title. (This could be achieved through the use of operating rules agreed to by the whole agricultural industry)
- A “central registry” that is responsible for ensuring that the WRS is properly managed from the time of initial deposit to final discharge from the registered store

Why transferable receipts?

WRS can operate with several different types of receipts, or ‘title’ documents. The EA Trade Hub recommends the ‘transferable” receipt because it offers more security. A transferable receipt has a central registry that keeps track of every business transaction. The central registry offers more transparency for an emergent WRS.

Screening and monitoring are built into the system. Each deposit is assessed for quality standards and graded accordingly. Once graded, individual deposits are combined rather than kept in separate lots. One producer’s grain must be interchangeable with another’s.

Every WRS facility is inspected, licensed and insured. The records maintained by these facilities provide financial institutions with valuable insight into specific depositors, allowing banks to more accurately assess if they would like to provide financing. WRS offers clear mechanisms for tapping and protecting the use of deposited grain as collateral.

Keys to success

- Awareness campaigns and training courses to educate the industry and public to the benefits of a warehouse receipts program
- Banks that recognize warehouse receipts as a financial instrument that can help them meet their target
East Africa Trade Hub’s experience in WRS

First Public Warehouse Receipt System Launched in Malawi

The Agricultural Commodity Exchange for Africa (ACE) and the Grain Traders and Processors Association (GTPA) implemented Malawi’s first public warehouse receipt system to help depositors access finance and facilitate trade through the use of these receipts. Through ACE’s WRS, an owner of agricultural commodities can deposit grain securely, until it is profitable to sell, and opt to receive a warehouse receipt, which can be used to obtain immediate finance from a bank. This potential to time grain sales to obtain better prices, access cash and secure storage, provides incentives for grain warehousing and allows grain buyers and traders to access more grain of a known quality and quantity.

A consortium of donors including, the Common Fund for Commodities, the European Union, the Alliance for Green Revolution in Africa and USAID East Africa Trade Hub are funding different elements of the system which requires software development, rural warehouse refurbishment, training, and linkages with farmers to become a fully operational warehouse receipt system, benefitting smallholder farmers and other depositors alike.

The first warehouse receipt was issued at GSL Silos in Kanengo, Lilongwe. Lawrence Chikhasu, owner of Bucow Investment, a small commodity trading company, was the first to take advantage of the new system: “I am a businessman and need financing to keep buying maize from farmers. The storage cost is higher than what I am used to, but my maize is secure and the quality and quantity is guaranteed – I don’t have to think about post-harvest losses anymore.”

Mr. Chikhasu deposited 14.5 metric tons of maize and received 60% of the current market value, comparable to US$1,715 at 20% interest per year. According to Mr. Chikhasu, warehousing is good business: “The warehouse receipt system makes it possible for me to buy larger volumes and keep the maize till the prices are good. I believe the price of maize will allow me to earn a good premium next year after paying storage and interest costs.”

The new public warehouse receipts system is also good for Malawi’s markets. Three banks, Opportunity International Bank of Malawi, Standard Bank and the National Bank of Malawi consider the warehouse receipt to be a secure, tradable document. Banks enjoy reduced risk in financing these receipts and grain buyers know they will get what they pay for when they buy a receipt – the receipt is a form of performance guarantee. Generally delivery on a contract is made when transfer of ownership is done on the receipt; the maize doesn’t necessarily have to move for delivery to take place. This public warehouse receipts system makes trade both easier and more secure, and is expected to attract more buyers and foster a more liquid and vibrant agricultural market in Malawi.
WRS: Tanzania Rural Urban Development Initiative (RUDI)

Rural Urban Development Initiative (RUDI) supports smallholder rice and maize farmers in three districts of Tanzania: Kilombero, Iringa and Handeni. These are very remote areas with no reliable road and electricity infrastructure. Farmers lack appropriate agronomy skills, post-harvest handling education, storage facilities, and inputs; often they sell the rice they produce as paddy immediately after harvest, obtaining low prices.

- RUDI's model is built on several key areas: farmer training, farmer group development, group aggregation/warehouse receipts, value addition, packaging, branding and product differentiation.

- Farmer training on the use of inputs and collective marketing has generated significant returns for smallholders. While RUDI’s progress towards promoting value addition was slow initially, farmers later embraced the system with great gusto and success. All of the groups linked to RUDI have been trained in the use of crop inputs, collective marketing and warehouse receipt systems.

- RUDI, through its grant from USAID’s East Africa Trade Hub, renovated and equipped ten warehouses. These storage facilities had been developed over the years by the communities, donors and the Government of Tanzania. RUDI was able to quickly mobilize their farmers’ associations and concentrate on WRS management and financing instead of on building the warehouses.

- The renovated warehouses were certified by the Tanzania Warehouse Licensing Board. This enabled RUDI’s farmer groups to secure financing from NMB and Stanbic banks; farmers accessed a total of $40,000 USD from these financiers, equivalent to a proportion of the value of the volume of commodity that the farmers had deposited in the certified warehouses; as intended, this type of financing has allowed farmers to store their commodities for longer periods and avoid having to sell at harvest, thereby enjoying higher prices.

- Last season, the price for paddy at harvest was Tanzania Shillings 200/kg. After storing their paddy in secured warehouses for four months, farmers were able to sell for Tanzania Shillings 450/kg, earning more than double the harvest farm gate price.

- With warehouse receipts, RUDI farmer groups have entered a more formalized trade network which should lead to greater market access, trade and increased regional food security.