

Stakeholders' Consultative Meeting on the Agricultural Credit Act

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Siavonga, Zambia

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The Unknown

**As we know,
There are known's.
There are things we know we know.
We also know
There are unknowns.
That is to say,
We know there are some things
we do not know.
But there are also unknown unknowns,
The ones we don't know
We don't know.**

Donald Rumsfeld, February 2002, Department of Defence news briefing

Food for Thought

“In the new liberalized world, farmers need to be savvy enough to use market tools to weather downturns and reassert themselves in the marketplace without the support of subsidies. We call it smart finance.

The farmer that is smart on finance as well as on fields and food is the farmer that survives.”

*According to the Lord Mayor of
London, May 2005:*

Background

- The desirability of creating an African commodity exchange and the use of warehouse receipts was mentioned in the Abuja Treaty of 1991 and the 2005 Abuja Declaration on African Commodities stipulated that **Africa is now committed to establishing an African Commodity Exchange.**
- African Union's Arusha Declaration and plan of action on African Commodities (November 2005). Here commodity exchanges are given a central role and **the AU recognises the important role exchanges have in the agricultural sector.** It is furthermore specified that the **International Community should strive to support commodity exchange initiatives in Africa and the introduction of warehouse receipts.**

Markets

In conducting training courses around the region, the biggest single factor influencing markets and prices highlighted by market participants, including farmers, traders, processors and storage companies was the “ad hoc” implementation of non tariff barriers by governments in Africa. Export bans in particular were seen as a disincentive to participate in markets, as was the payment of unrealistic prices for commodities by government agencies.

Warehouse Receipts

Warehouse receipts are nothing new and have in fact been around for centuries. One of the earliest examples of the use of warehouse receipts was for gold in England, where because the metal was so heavy and bearers of it were prone to being robbed, Goldsmiths issued Warehouse Certificates, which in turn were used to pay debts and to buy goods and services.

Warehouse Receipts

Why is understanding Warehouse Receipts so important for markets in Africa?

If we don't understand
we will continue to do
things the hard way...



Warehouse Receipts

What is a warehouse receipt?

1. **Document of title (ownership) of the goods described on the receipt at the location at which they were deposited.**
2. **Negotiable document (can be bought and sold).**
3. **Makes financing easier by using the receipt and the underlying commodity as collateral.**
4. **A document certifying possession of a commodity in a licensed warehouse that is recognized for delivery purposes by an exchange.**

What is a warehouse receipt?

7. A receipt of commodities deposited in a warehouse, identifying the commodities deposited.
8. Document guaranteeing the existence and availability of a given **quantity and quality of a commodity in storage**; commonly used as the instrument of transfer of ownership in both cash and futures transactions.

Requirements for successful receipts system

For viable WRS:

- Build discipline and trust in the warehouse- **integrity is key;**
- Economies of scale to save costs of oversight and administration;
- Cut costs of financing that are passed on to farmer;
- Find correct balance of regulatory oversight by state;
- Bond and insurance requirements against default, loss or theft.

For viable transferrable/negotiable receipts:

- Specific licensing of warehouse operators for WR;
- Establish tracking system for WR to register every change of ownership (to ensure only one party has legal title);
- Establish clear legal rights for receipt bearers and legally establish receipts as documents of title.

WRS – in Africa

Are there any truly successful and sustainable WRS systems in Africa?

South Africa SAFEX including both paper and electronic WRS.

Other initiatives:

Ethiopia, Malawi, Kenya, Tanzania, Zambia, Uganda

Warehouse Receipts – Malawi



ACE will take two approaches to get warehouse receipts issued, financed and traded this marketing season: -

Urban Approach and,

Rural Approach

URBAN APPROACH



- Looking to get a minimum of 2,000 tonnes of small-holder maize into urban storage facilities, using a number of different registered storage facilities;
- Buy in from farmer associations already in place and training courses completed;
- Each association will deposit what they can;
- Storage operator will issue warehouse receipts to depositors;

URBAN APPROACH



- OIBM will finance the receipts if requested by the depositor;
- ACE will look to market the commodities on the warehouse receipts later in the season, either into the export market or to the WFP, who have indicated an interest in buying warehouse receipts;
- Buy – in from small – scale farmers has been exceptional;

RURAL APPROACH



- Five sites selected in southern and central regions;
- Storage capacity between 200 and 300 tonnes and are located in high production areas;
- Warehouse operators will issue warehouse receipts and an OIBM bank/cash card and OIBM will deposit cash onto the card where financing is required;
- Mobile banks will visit rural areas regularly.

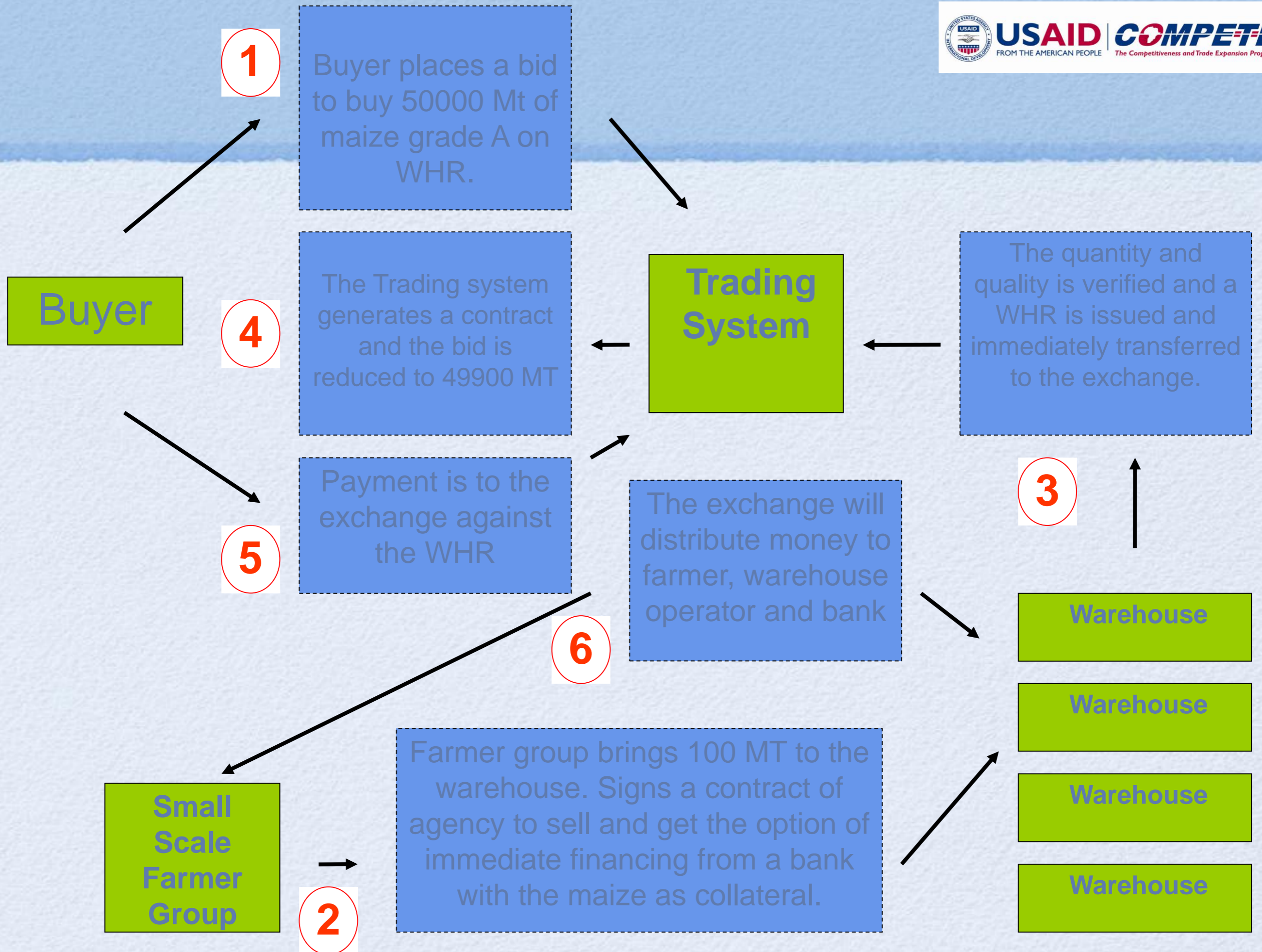
WRS IN MALAWI



- Programme written to incorporate WRS into both the BVO and trading platforms.
- WFP regional office based in Johannesburg and P4P in Malawi have committed to the use of warehouse receipts.

How WRS and Commodity Exchanges Go Hand in Hand

- **Grades and standards:** are essential elements of warehouse operations as well as of exchange standardized contracts.
- **Price transparency:** If receipts indicate a specific grade, this generates price information that can also be used on the exchange .
- **Transfer of risk:** by selling receipts on the exchange, receipt holders engage in transactions and reduce risk for farmers.
- **Integrity and order:** the legal enforcement of quality and the receipt are vital for both the warehouse receipts system and the functioning of the exchange.



Requirements for Structured Trade Systems to Work

- Strong farmers organisations;
- Pro – active private sector;
- Governments to provide enabling environment;
- Removal of political involvement in staple foods commodities especially maize (corn);
- Increased transparency in agricultural markets.

Requirements for Structured Trade Systems to Work

- Increased use of safe and secure storage facilities;
- Introduction and use of warehouse receipt systems which have integrity and provide security to depositors and the market;
- Improved transport and road infrastructure;
- Participating banks.

Change is long-overdue ! In agriculture

The world we have created is a product of our thinking; it cannot be changed without changing our thinking.

Albert Einstein

A thought

"Every morning in Africa, a gazelle wakes up. It knows it must outrun the fastest lion or it will be killed. Every morning in Africa, a lion wakes up. It knows it must run faster than the slowest gazelle, or it will starve. It doesn't matter whether you're a lion or gazelle - when the sun comes up, you'd better be running."

Inspirational sign on a runner's office wall

Is The African Lion's Roar About to be Heard!!



Or

Will we still be talking
about these issues in 20
years time?

Or

Will positive action be taken to ensure that effective, efficient and sustainable warehouse receipt systems are introduced where needed in Africa?

A Final Thought

Risks can be managed with foresight.

Damage can be controlled with hindsight.

Your choice.

Coopers and Lybrand, L.P.

Advertisement in *The Wall Street Journal*, December 7, 1995