

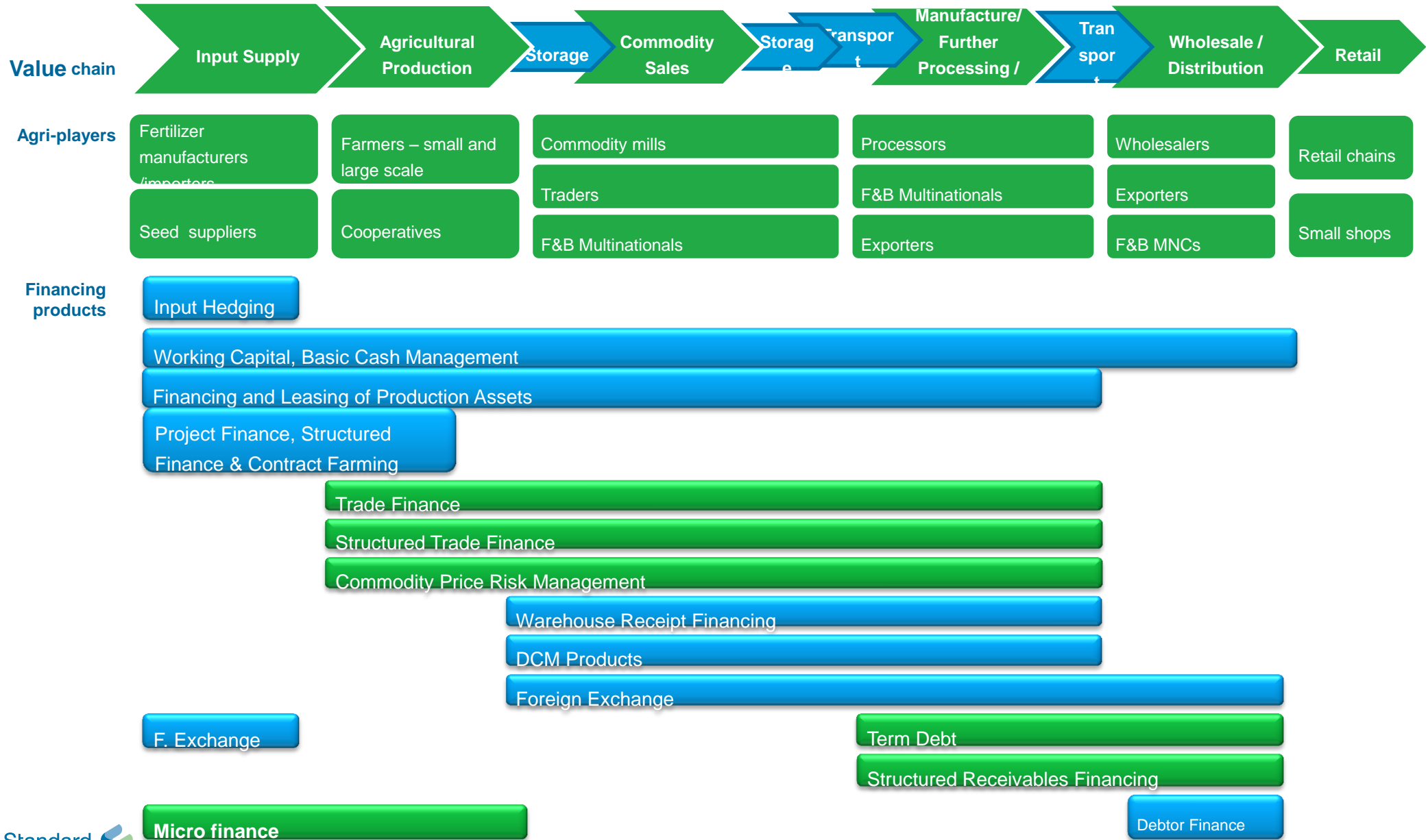


## *Warehouse Receipt System From Banks Perspective*

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# Commodity Value Chain and Key Players



# CURRENT STATUS

- **Basic financing products include traditional overdrafts, medium term loans which are b/sheet based and input financing, intermediary finance and stock financing (can be off- balance sheet)**
- **In the absence of the ACT, very few banks in Zambia provide stock financing by way of FAWR's in which case a collateral manager is required to issue non negotiable WHR's, monitor stock (quantity and quality) & additional legal charges incurred to secure position**
- **Collateral Management costs can be prohibitive for the farmer/trader to benefit from stock financing under CMA or SMA. Benefits mostly traders/farmers with financial muscle**
- **Insurance required include Multi peril insurance for input financing and all risk insurance covering stock financing (FAWR)**
- **WHR presented to bank is discounted to account for price volatility & margin calls built in structure to secure bank position. Commodity must be marketable with price discovery mechanism (Zamace used locally as price reference).**
- **Tenor agreed, info from CRB obtained before disbursement, assignment of receivables**
- **Sale & release of stock is against cash pmt in collection account (LC's/Gtees acceptable)**
- **Notable deals include \$140m maize purchases, \$175m fertilizer imports**
- **Commodities include maize, wheat, Soya beans, Burley and cattle**
- **No comingling of stocks financed (easy identification in case of diff financiers)**
- **WHR offers the bank control over the goods and maintain control until released/liquidated**

# AGRICULTURE CREDITS ACT, 2010- BAZ Views

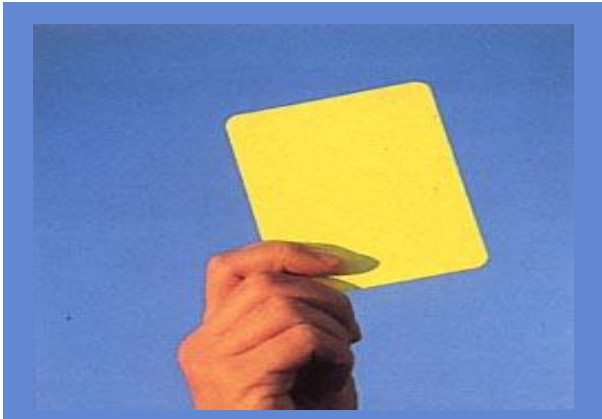
- **The bank (BAZ) welcomes the Agricultural Credits Act, 2010 as it brings the much needed improvement in stock credits and trade in agricultural commodities via the establishment of the Warehouse Receipt system. The Act establishes the Warehouse Licensing Authority and provides for its powers.**
- **The Act recognizes the warehouse receipt as document of title whether negotiable or non negotiable. The system is such that it can be self securing and self liquidating.**

**The Bank believes such an ACT will provide an environment of methodical dealings in the warehouse receipts that allow for orderly operation of the stock financing system and orderly trading of agricultural commodities and therefore help in the efficient operation of the commodity exchange such as ZAMACE.**

- **An orderly warehouse receipts system should be able to promote the development of cheaper and more efficient financing to the agricultural sector (cost of financing).**
- **The small scale farmers remain to also benefit as they will be able to bulk their crop as groups into economical sizes that can be sold at better prices and also be able to defer sales through access to finance secured against the warehouse receipts. The farmer in time will become the price maker and not a price taker. There will be increased opportunity to access credit.**

# Challenges and opportunities

## We do have some challenges...



- Infrastructure (silos/warehouses, roads etc)- National storage capacity. Fragmented and weak storage capacity (lots of refurbishments needed)
- Behavioral change on the part of the farmer, trader and financier
- Limited linkages to the market via a commodities exchange. Price discovery needs to be enhanced
- Limited or no access to commodity derivatives on the local exchange
- Efficient database management, integrity of system (tracking to ensure 1 title owner at a time) e.g. validity/charges on WHR's deposited (Banks may need to independently verify)

## ...but the opportunities are overwhelming



- It enables farmers including those who would otherwise have no access to credit, to access more bank finance at a better interest rates and for longer terms
- It gives farmers more opportunity to invest and flexibility in their sales (unlocks cashflow)
- It can revive commodity processing i.e. meets working capital needs for a commodity processor (raw commodities awaiting processing and processed commodities awaiting sale)
- It can facilitate imports and exports (in transit and in central storage)

# END

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**Thank you**