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AGP-AMDe- Ethiopia Warehouse Receipt System and Regulation: A Case for Expansion



ABBREVIATIONS

ATA	-	Agricultural Transformation Agency
AGP-MADe	-	Agriculture Growth Program-Agribusiness and Market Development
BRP	-	Business Reengineering Process
CBE	-	Certified Business Enterprises
CFC	-	Common Fund for Commodities
ECX	-	Ethiopia Commodity Exchange
EAGC	-	East African Grain Council
EGTE	-	Ethiopian Grain Trade Enterprise
ECX WHR	-	Ethiopia Commodity Exchange Warehouse Receipts
ETB	-	Ethiopian Birr
GRN	-	Goods Receipt Note
IFC	-	International Finance Corporation
MoT	-	Ministry of Trade
TWHLB	-	Tanzania Warehouse Licensing Board
WR	-	Warehouse Receipt
WRS	-	Warehouse Receipt System
WRICO	-	Warehouse Receipts and Inventory Collateral Office
WRF	-	Warehouse Receipt Financing

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EXECUTIVE SUMMARY

Smallholder farmers in Ethiopia, as in many other African countries, are largely located in poor rural areas, geographically dispersed, and have limited access to road and communication infrastructure; thus raising the cost of market participation. This is especially true for farmers growing relatively low value staple crops on smallholdings. Many development efforts focus on increasing the production capacity of smallholder farmers in order to increase their incomes. However, in the absence of strategies that increase market access and augment limited demand, production increases and storage capacities may actually depress commodity prices and incomes.

A warehouse receipt system (WRS) provides guaranteed storage and quality control to buyers and sellers. In Tanzania, for example, after the WRS was introduced, farm gate prices increased leading to an immediate and positive impact on farmers' income. It enabled farmers to improve the quality and increase the quantity of their produce and access financial services and loans.

The Government of Ethiopia plans to define a strategy that will ensure access to finance by the smallholder farmers and increased returns from the sale of their commodities. The aim is to greatly expand the physical availability of warehousing services, while making warehouse receipts a primary tool of trade and trade financing. Such a system will allow banks to improve the quality of their lending portfolio, and enhance their interest in the agricultural sector. This will result in higher returns to farmers, better service to consumers (lower prices, better quality and greater variety) and macro-economic benefits through a more healthy trade balance in agricultural commodities.

A WRS has significant potential to resolve the existing challenges in the output market. It is a system of financing and trading agricultural outputs based on a warehouse receipt; a document guaranteeing the existence and availability of a given quality and quantity of commodity in storage for safekeeping. The system finances agricultural commodity owners by using their commodity as collateral.

A well-designed warehouse receipt system can provide many benefits to smallholder farmers, cooperatives, traders, and other players across the agricultural value chain. The first and most immediate benefit to smallholder farmers is that it enables smallholder farmers to access credit by using their output as collateral. This satisfies farmers' cash needs at harvest time and allows them to wait for a better offer or price at which to sell their commodities; which as a result gives them better bargaining power. The second benefit relates to reducing post-harvest losses. A WRS can enable standard storage service provision on a credit basis; so farmers can pay for the service after their product is sold; which can reduce the incidence of post-harvest losses.

Finally, the system allows farmers to create a financial identity. In a WRS, the opening of individual accounts is mandatory – hence, the account records a farmer's financial history and

can demonstrate their creditworthiness to financial institutions should farmers require further financial support in the future.

The review team found an overwhelming support for reactivation of Proclamation No. 372/2003 that mandates the Ministry of Trade to regulate the WRS. The Warehouse Receipt Financing Proclamation No. 372/2003 identifies the Ministry of Trade as the implementing institution with the responsibility to regulate WRS operations and enactment of directives for matters that have not been covered in the proclamation.

As a way forward, it is recommended that:

- i. The expansion of the current WRS operated by Ethiopia Commodity Exchange (ECX) to cover more commodities and stakeholders;
- ii. Review, update, and implement the Proclamation that gives Mandate to the Ministry of Trade to implement and regulate the WRS;
- iii. Creation of a strong Licensing Regulatory Body;
- iv. Capacity development of all Warehouse System actors and stakeholders;
- v. The Government should treat WRS as a priority and provide incentives to promote availability and access to private sector investments in a warehouse receipts infrastructure;
- vi. Stock-taking of the number, quality and capacity of warehouses in surplus production areas for strategic planning and capacity intervention; and
- vii. Establish the technical, managerial, and resource requirements for establishing a warehouse and grading regulatory system at the Ministry of Trade.

I. INTRODUCTION

As in many countries in Africa, agriculture in Ethiopia represents approximately 40 to 50 per cent of GDP and accounts for up to 60 per cent of Ethiopian exports. The sector also creates employment for approximately 70 to 80 per cent of the population. However, due to lack of strategic planning and investment the country has been facing constant food security challenges. Agricultural market reform in many developing economies proceeded under pressure from the donor community. Quite often, it lacked the full commitment of key policymakers, who had fears about the impact of market liberalization and the elimination of subsidies on access to food by low-income households. As market liberalization takes effect throughout the continent, new challenges emerge as markets are poorly structured and transaction cost are high. Therefore progress must be made in developing the institutional and infrastructure capacity needed for the effect of market liberalization to reach its full potential.

Although traditional financial institutions such as banks are very important to the agricultural sector, current innovations in structured financing are opening greater roles to the private sector. This has attracted both technical knowhow and incentivized the private sector to invest in this important part of the economy. Warehouse Receipts have emerged as an essential tool for financing; especially for small scale farmers in Africa. Different methodologies have been piloted throughout the continent, and newer more efficient structure have been developed and are being rolled out as access to Information and Communication Technology (ICT) tools increases. Although ICT products are new to the agricultural sector, they have been used in other industries and have resulted in improved access to financing; especially in the West. With improved access to ICT infrastructure in Africa, these tools can provide ways and means to reduce the risks that permeate the agriculture industry.

In Africa, the WRS have had a short life span compared to the rest of the developed world. Countries like the USA have used warehouse receipts since the 1800s and Holland is believed to have used them since the 1600s. Simply described, a warehouse receipt is an instrument, whether electronic or hard copy, that asserts & documents the ownership of a commodity, quantity, and quality stored in a warehouse by a warehouse keeper. The warehouse operator is not entitled to any part of that commodity other than the agreed upon storage fees from the depositor.

1.1 Background

The concept of a collateralized transaction was introduced in Ethiopia in the Civil and Commercial Codes enacted in 1960. However, the political and economic climate after 1974 was characterized by tightly controlled grain prices and restricted private sector participation with little room for this kind of financial innovation. Following a change in the political climate

and as a response to the much needed reduction of market constraints that contributed to the food crisis in 2002-2003, the Government of Ethiopia enacted the Proclamation to Provide for a Warehouse Receipts System (Proclamation No. 372/2003) in 2003. The Proclamation was enacted with a view to increase access to finance, protect producers from price shocks, and promote efficient marketing of standardized agricultural products.

Following the enactment of the new legislation, the Ministry of Trade, mandated to regulate warehousing and grading under that law, launched a pilot project to establish a functioning WRS. The project was initiated in collaboration with the Common Fund for Commodities (CFC); an organization that has facilitated the establishment of Warehouse Receipt (WHR) systems in other countries including Tanzania and Zambia. In 2007, the pilot project was at an advanced stage; the Ministry of Trade had built up in-house expertise on WHR, collaborated with the Ministry of Agriculture and Rural Development, the Commercial Bank of Ethiopia had been established, laboratory equipment was purchased, and even WHR's were printed. However, before this pilot project was implemented, the Ethiopian Commodity Exchange (ECX) was inaugurated in 2008.

The Government's focus turned to the new commodity exchange and the Ministry of Trade project was abandoned before it could be implemented. The establishment of the ECX brought about parallel regulatory regime for WHRs. While Proclamation No. 372/2003 was envisioned to cover a large variety of commodities and different types of warehouse operators, the more recent ECX warehouse system is currently restricted to coffee, sesame and white pea beans deposited in ECX operated warehouses.

1.2 Problem Statement

Agricultural markets operate in dynamic environments which are greatly influenced by supply and demand forces. These forces, coupled with the effects of climate change and government policies, significantly impact the livelihoods of smallholder farmers and their ability to plan for production, storage, and ways to access to markets. For instance, in years of adequate rainfall farmers achieve bumper harvests but may lack storage facilities and have inadequate capacity to handle the farm produce. As a result the prices of farm produce fall, causing the smallholder farmers to incur heavy post-harvest losses. Thus smallholder farms are associated with poor economic returns.

On the one hand, lack of finance or appropriately packaged financial services pose great challenges to smallholder agricultural productivity in Ethiopia. It may make it difficult for farmers to procure inputs needed to increase farm productivity. This may compel smallholder farmers to sell their commodities at very low prices rather than wait to benefit from increases in prices which often occur a few months after harvest. Likewise, smallholder farmers may lack access to

insurance instruments which can be used to manage risks. This might make smallholder farmers more vulnerable to forces of nature.

However, there is a growing trend towards development of innovative approaches such as WRS aimed at reducing uncertainty and enhancing efficiency of smallholder farms. WRS is perceived to create credit through inventory or products held in storage. These receipts, sometimes known as warrants, when backed by legal provisions that guarantee quality, provide a secure system whereby stored agricultural commodities can serve as collateral, to be sold, traded, or used for delivery against financial instruments including futures contracts. These receipts are documents that state the ownership of a specific quantity of products, with specific characteristics, and stored in a specific warehouse. In Ethiopia the necessary WRS platform is there (though inactive) due to a lack of a functional institutional/regulatory body to guarantee performance and minimize transaction costs.

1.3 Objectives of the Study

This study is intended to help the Government of Ethiopia define a strategy that will provide smallholder farmers better access to secure markets with suitable financial and insurance services to empower their participation in markets. It is hoped that the findings of this study will lead to an expansion of the physical availability of warehousing services, while making warehouse receipts a primary tool of trade and trade financing. It is further hoped that in the longer term it will enable banks to improve the quality of their lending portfolio, and enhance their interest in the agricultural sector. This increased focus will result in higher returns to farmers through improved services, and provide consumers with better access to lower priced, higher quality and a greater variety of produce; ultimately Ethiopia should see macro-economic benefits through a healthier trade balance in agricultural commodities.

Specifically, this study has the following objectives:

- ✓ To explain the need to expand the current WRS to allow for more commodities and additional actors/operators and to reactivate the Proclamation to Provide for Warehouse Receipts System (Proclamation No. 372/2003)
- ✓ To understand the current operations, risks, and challenges facing the various WRS stakeholders
- ✓ To identify the capacity needs of smallholder farmers, farmer cooperatives, aggregators, and warehouse operators and receipt issuers to engage in WRS
- ✓ To determine how best WRS can improve grain management and marketing (scope and intensity) for the benefit of smallholder farmers
- ✓ To identify existing financial credit sources and insurance services available for warehouse receipt operators

- ✓ To examine terms and conditions of loans targeting smallholder farmers and identify impediments or difficulties hindering warehouse operators in access to credit for production and marketing.
- ✓ To identify the hidden costs embedded in bank loans and identify the cost of risk participation by banks and micro finance Institutions.
- ✓ Explore possibilities of more private sector involvement in WRS

I.4 Approach and Methodology

The following is a list of the activities undertaken in conducting this study. They have been listed in the order they were completed:

- a. **Conference Call:** After signing the contract, the consultants engaged in an electronic meeting with AGP-AMDe team to clarify and finalize the scope of work. The conference call provided further understanding to the assignment; scope and expectations were clearly defined.
- b. **Literature Review:** Past studies and information were collected from USAID/ACDIVOCA Agricultural Growth Program – Agribusiness and Market Development (AGP-AMDE) Project, International Finance Corporation (IFC) reports, The Ethiopia Commodity Exchange (ECX), The East African Grain Council (EAGC), National Ministries, Departments and Agencies (MDAs) reports, and non-governmental institutions.
- c. **Field Visits:** The consultants and local staff visited several key stakeholders. Primary field information was collected to supplement the literature review. Information was gathered through interviews with key actors along the value chains as well support service providers. The Ethiopia Commodity Exchange (ECX), International Finance Corporation (IFC), Farmers Cooperative Union, Industry Experts, Ministry of Trade, Ministry of Agriculture, Federal Cooperative Agency, Agricultural Transformation Agency (ATA), Savings and Credit Share Company, Ethiopian Grain Traders Enterprises, etc. were all consulted. Perspectives were sought on key market and investment opportunities, challenges, emerging trends, and successful models.

I.5 Structure of the Report

This report is organized into six chapters. Chapter 1 focuses on the background, objectives, approach, methodology, and the report output. Chapter 2 provides an overview of Regional WRS Approaches; while Chapter 3 provides synthesis of the historical background of inventory financing in Ethiopia, as well as the Proclamation No. 273/2003 and Warehouse Receipt and Inventory Financing Program. Chapter 4 analyses the current implementation status of WRS in

Ethiopia, focusing on the Ethiopia Commodity Exchange WRS, the successes, challenges, and opportunities. Chapter 5 analyzes the Opportunities for WRS Expansion outside ECX WRS based on successful models elsewhere. Chapter 6 provides recommendations, and a roadmap for implementing WRS and Regulatory framework in Ethiopia.

2. OVERVIEW OF REGIONAL WRS APPROACHES AND BENEFITS

A number of regional countries have, or are seeking to provide their own warehousing services to small-scale farmers. Tanzania, Kenya, and Uganda are all attempting to establish regulatory frameworks with an objective of instilling confidence among depositors and bankers. This section shares some of their experiences which could inform the Ethiopian process of some of the challenges and potential benefits of WRS.

2.1 The East African Grain Council (EAGC)

The Eastern Africa Grain Council (EAGC) is a membership-based organization registered in Kenya as a Company Limited by Guarantee and without share capital. It operates as a nonprofit, non-political, non-denominational organization, which will prepare, disseminate, and promote the exchange of information on matters affecting the regional grain industry. It incorporates the key stakeholders in the regional grain industry including public sector and allied parastatals.

Even though the Council is registered in Nairobi, Kenya, EAGC is not restrictive in terms of geographical coverage and subscribes to an “Africa wide” view. Companies located outside the Eastern Africa region may apply for membership provided they meet the criteria set by the EAGC. EAGC is the recognized regional grain trade organization dedicated to the task of improving the policy and trade environment for the betterment of the grain sector from producer to consumer.

The objectives of the EAGC are to:

- i. Promote a well-functioning regional grain supply chain, focusing on trade issues affecting all sectors of the chain, and building a platform for reducing constraints in regional grain trade
- ii. Build cooperation, interaction, partnerships, alliances, networks and market linkages
- iii. Collect market data, generate information exchange and share regional expertise
- iv. Promote investment in structured marketing systems including warehouse receipts and commodity exchanges
- v. Act as main certification authority in structured systems; and provide commercial services as needed
- vi. Recognize and support accepted principles of international codes of corporate conduct
- vii. Facilitate awareness of new technologies

2.2 The Zambia Warehouse Receipt System

A warehouse receipt system was piloted in Zambia for grains under a project funded by the Common Fund for Commodities (CFC) and implemented by the Natural Resources Institute (NRI). The project succeeded in creating the foundations for a thriving WRS accessible to both commercial and smallholder farmers. Implementation of the WRS project was launched in 2000 and its pilot use occurred in the 2003 to 2004 season. Its most successful season was from 2004 to 2005 when four warehouse operators with total storage capacity of 105,000 tons were certified; 65,000 tons of maize was deposited, out of which 3,764 tons was deposited by smallholder farmer groups. The receipted stocks were financed by Inter-market Discount House, Barclays Bank, Standard Chartered and Stanbic Bank at average advance rate of 78.6%.

A smallholder group which participated during the 2004 to 2005 season is the Kulya Nkona Agri-Cooperative Society in the Central Province of Zambia. They deposited 950 tons of maize at certified warehouses in Chisamba. The cooperative obtained inventory finance from Barclays Bank and sold directly to Lusaka millers for five months. In an interview, Mr. Amos Makweja (Chairman of the Coop), is quoted as saying "... without the warehouse receipt system we could not keep our maize until it could get good prices ... before we just got very poor prices for our maize. Nobody can cheat me because my maize is kept where everything is recorded ... and it is paid for by buyers from there. Our maize is our security (for loans) and the bankers know where our maize is and that it safe."

2.3 The South Africa Warehouse Receipt System

South Africa presents an advanced example based on the warehouse receipt system because it has a functioning futures market in agricultural commodities. The South African Futures Exchange (SAFEX) was established in the 1990s during an intense period of market liberalization.

The advantages of South Africa include its strong financial infrastructure for the settlement of deals and the quality of its physical infrastructure enabling the trading, warehousing, and transportation of commodities. The strength of the legal system to enforce contractual rights and of legal receipt rights is critical. Thereby, people are able to take the necessary steps to manage their post-harvest risk well in advance.

South African Grain Information Services (SAGIS) acts as an information intermediary for the South African commodity markets. It collects and distributes local consumption and up-to-date market information. SENWES (an agricultural marketing giant) provides mobile phone access to hourly prices of grain via SMS. Even though it is not typical of Africa in favoring large scale farmers, the South African warehouse receipt experience provides a useful benchmark for implementation elsewhere.

2.4 The Tanzanian Warehouse Receipt Systems

The warehouse receipt system was introduced in Tanzania in 2005 with the pilot crops of coffee and cotton. It enables farmers to receive loans and assure the quality of their produce. The system allows coffee producers (individuals or cooperatives) to store their coffee in a silo. Upon the receipt of the coffee, the producers are issued with two certificates: (1) certificate of title for them to keep and (2) certificate of pledge to provide to third parties. Cooperative or commercial banks are the primary participating lenders in the system. The certificates of deposit promote the confidence of farmers in financial institutions. They also enable the banks to reach a new set of customers for financial services.

The warehouses also ensure the transparency of the commodity marketing system. Commodities are classified according to quality and offered for sale at regional and sub-regional markets. For example, coffee is graded and offered for sale at auctions administered by a public organization. Producers in other sectors, such as the Chawampu Rice Growers Cooperative, have followed suit. Representatives of the Cooperative introduced a model whereby they are able to offer 70% of market value on deposited quantities of rice. Subsequently, after selling the crop and subtracting the administrative costs of the cooperative, they provide a second payment to the members of the cooperative. Farmers use any additional income in order to buy seeds, fertilizer and to develop off-season activities.

The WRS functions well due to the high price differentials between the post-harvest season and during the fallow season. The main challenges to the WRS remain:

- ✓ providing adequate infrastructure
- ✓ ensuring warehouse security
- ✓ reinforcing producers' organizations
- ✓ increasing the number of quality control specialists
- ✓ reducing operating costs

2.5 Benefits of Warehouse Receipt Systems and Regulations

Warehouse receipt systems operationalize the food supply chain and involve the following stakeholders:

- ✓ Farmers and aggregators (private individuals or cooperatives)
- ✓ warehouse operators
- ✓ financial institutions
- ✓ exporters or traders

The major objectives of launching the warehouse receipts financing system by ECX were:

- To allow agricultural products, producers, and traders to access short-term loans from participating banks through warehouse receipts issued by the Exchange for commodities stored in its Warehouses; and
- To support the producers by giving them an opportunity to sell their commodities when prices are attractive and by the time they want without any capital tied up.

Small scale farmers' Cooperatives, traders, and processors have had limited opportunities to gain access to financing based on stored commodities primarily due to the absence of a system to manage collateral and the risk associated with it. Thus the Warehouse Receipts Financing system has been implemented by the Ethiopian Commodity Exchange (ECX) with the aim of significantly improving the opportunities for these groups.

There are several benefits to all actors of a warehouse receipt system such as access to financing; post-harvest loss mitigation; promotion of quality management, grading and certification services; price risk mitigation; trade facilitation; and public food reserve management. Each of these benefits is discussed in greater detail within the context of Ethiopia in the sections below.

2.5.1 Access to Finance

In Ethiopia, access to credit in the agricultural sector faces significant constraints, and accounts for only about 10% or less of the entire lending portfolio. A Government directive requiring the banks to buy Treasury bills equating to 27% for each loan they make caused the banks tighten their lending criteria. This especially impacts the agricultural sector where many lack assets to be used for collateral. Without proper access to collateral, banks become very risk averse even returns are high. We believe if the agricultural sector gets a reprieve from this directive coupled by deliberate public sector incentives, there will be a significant increase in lending to farmers and the entire agricultural value chain which account for the largest source of income for the country. A warehouse receipt can be used as collateral by the owner of the goods. Lenders further reduce their risk by lending only a percentage of the value of the stored commodities, usually lending only 60 percent. In most cases, the goods are also insured or the banks hire a collateral manager to oversee the goods.

2.5.2 Post-harvest Loss Mitigation

Post-harvest losses can account for about 20 to 40 percent of the entire production. This is more prevalent in rural areas where there is no proper storage infrastructure. During the pre-liberalization period, the state played an important role in marketing, buying, and storing staple grains. Many storage facilities were funded through considerable investment from donors and

African governments. After disbandment of the various boards, the facilities were left in government hands; although now many of these facilities have fallen into disuse. This has caused a significant loss of storage space since the majority of private sector actors only invested in enough space for their own use and mostly in urban areas. The smallholder farmers lack storage capacity and have few alternatives resulting in high post-harvest losses. The government can therefore give long term leases for their warehousing infrastructure to the private sector which can be used to provide grain storage services to the farmers. A viable WRS will encourage the storage of agricultural commodities in well-run facilities that could significantly reduce post-harvest losses. Providing good grain handling services through the WRS will not only save farmers from losses but also pass on the responsibility to a third party who can handle storage at an effective cost.

2.5.3 Quality Management, Grading and Certification Services

In the current WRS operated by ECX, limited and basic quality control starts at the aggregation centers or primary markets run by small traders and private investors, while technical standards and grading is completed at ECX warehouses. Warehouse standards must be created and implemented both at the aggregation and central warehouse level.

- ✓ They determine the quality of the produce they are buying through physical inspection and traditional means. Different prices are set for the different grades established this way
- ✓ Build capabilities WRS operators in determining standards and improving their grading skills
- ✓ Provide affordable quality grading equipment
- ✓ Certification of aggregation centers as operators

Uganda: Operations of WRS

In Uganda, the warehouse receipt system exist until the year 2008, when WFP signed up for the role. Now, the agency has established two additional warehouses, including one in northern Uganda, to operate a system that helps small-holder farmers earn more. The farmers take their grain to warehouses licensed by the Uganda Commodity Exchange, where the grain is weighed, cleaned, graded, dried, bagged and stored. Every depositor gets a receipt verifying their tonnage and grade. For a small fee, the warehouse guarantees to maintain the grain's quality and quantity until it is transferred to the person who buys the receipt from the depositor or until the depositor decides to withdraw the commodity.

2.5.4 Price Risk Mitigation

Like many African countries, Ethiopia does not have price mitigation mechanisms such as those in many developed nations. This exposes producers to price shocks; especially during the

harvest seasons. A lack of liquidity means that the economy is unable to stabilize the price of commodities through absorption of surplus production during the harvest season. In most cases the prices drops significantly resulting in farmers being unable to generate a profit. Large scale farmers are not affected to a great extent by the adverse movement of prevailing pricing rather than future movement. To help mitigate this risk the farmers can store their commodities in a licensed warehouse and wait for the price to rise. They can also use a combination of derivative instruments to help reduce the risk further. For example, if the farmers have access to the futures or forward contracts they can sell their grain for future delivery. Liquidity can be greatly enhanced through the use of warehouse receipts issued against commodities stored in the warehouse.

2.5.5 Trade Facilitation

Smallholder farmers also benefit from having aggregated their commodities in warehouses that will inspect and certify their stores. By having many small farm operators aggregate their produce in one warehouse, it makes it easier for buyers and traders to buy large amounts of these commodities thus incorporating smallholder farmers into economies of scale.

- ✓ **First, goods stored in a warehouse must be inspected and certified by the operator.** The warehouse operator guarantees the quantity and quality of goods stored. Having this data readily available can facilitate trading when the right amount of quantities and qualities are matched. It is also easier to aggregate small quantities which will help small scale farmers.
- ✓ **Second benefit relates to the possibility of trading before the settlement of futures contracts.** If, for instance, the farmers had sold the futures contracts to deliver their commodity, they only need to present the warehouse receipt and the commodity will be considered delivered.

2.5.6 Public Food Reserve Management

The government can use the warehouse receipt system for the purposes of food reserves. This is a very effective way of maintaining the national grain reserve because the grains can be held in a wide area through a network of privately licensed warehouses. If electronic warehouse receipts are used, it gives an immediate and real time description of all the quantities held by the government. The government is also relieved of long procurement processes, including storing and handling grains. It also improves on the payment process; especially to rural farmers who can be paid through electronic means such as mobile money transfers.

3. HISTORICAL BACKGROUND OF INVENTORY FINANCING IN ETHIOPIA

3.1 Warehouse Receipts Financing prior to Proclamation No. 372/2003

Though it was not supported by a legal and institutional framework, the practice of money lending by banks using grain as collateral has a long history in Ethiopia. The articles of the Civil Code of 1960 stipulate this possibility briefly, although they do not provide a sufficient explanation and could not be referred to as a legal framework for warehouse receipts financing. During those times, the most commonly applied, and still functional, short term loan financing system was known as the merchandise loan. Merchandise loans are advanced to traders/ grain owners to enable them to secure adequate working capital for business expansion.

To obtain a merchandise loan, the borrower deposits a specified amount of commodity in a leased or owned warehouse. The bank's experts, upon the request of the borrower, will evaluate the condition of the warehouse and the commodity and make estimation of the commodities market value. The bank will take joint custody of the commodity until the owner repays the loan amount. Upon repayment of the principal and the interest, the bank lifts the "no sale pledge" and the agreement between the parties ends here.

Challenge: This system is said to be highly exposed to fraud; previous reports show that a large sum of banks' money was lost as a result of such mal-practices by some bankers' employees and traders through overvaluing the commodity and sometimes registering nonexistent inventory in the warehouses.

3.2 Proclamation No. 273/2003 and Warehouse Receipt and Inventory Financing Program

The Government of Ethiopia embarked upon implementing a WRS supported by legal and institutional framework in 2003. Its aim was to alleviate the extreme price fluctuations of agricultural produce and the challenges faced by farmers such as the lack of access to markets and credit. It was initiated by the issuance of Proclamation No. 372/2003 for the provision of a Warehouse Receipts System. The relevant Ministries implementing the Proclamation introduced this system as a pilot program. Accordingly, the Ethiopian Grain Trade Enterprise (EGTE) was selected as warehouse operator to implement the WRS in eight selected areas for wheat and maize.

The Warehouse Receipts and Inventory Collateral Office (WRICO), a functional unit under the then Ministry of Agriculture and Rural Development, was responsible for implementing and

acting as overseer of the pilot WRS program. The WRICO operated under the authorization of the Ministry of Industry and Trade.

During the pilot phase, various activities were established to implement the WRS including:

- Licensing;
- Certification;
- Inspection procedures; and
- A series of awareness campaigns for the various actors and stakeholders.

These activities were conducted and a warehouse operator's license was given to the selected warehouse operators, EGTE.

This initial effort was not a success. Only two deposits were made at one of the selected locations and depositors were not able to obtain loans from the Commercial Bank of Ethiopia as planned when the bank reneged on its agreement to participate.

3.3 What were the objectives?

The major objectives of launching the WRS under Proclamation No 372/2003 were:

- I. To enable any person store his goods, particularly standardized agricultural products, in warehouses which, upon delivery, would issue WR which could then be used as collateral;
- II. To establish a contract between the grain depositors and warehouse operators in the form of a legally binding WR; and
- III. To create an organized and efficient market system for agricultural products thereby ensuring sustainable income to small scale farmers who typically suffered as a result of unpredictable prices during harvest season.

3.4 Challenges related to the Proclamation

Besides the limited experience of the primary stakeholders during this period, some of the articles of the proclamation were frustrating to warehouse operators, including:

- Every warehouse operator shall, as a condition for receiving or renewing a license, execute and file with the Ministry or with a regulatory organ delegated for this purpose by the Ministry, a bond or an undertaking sufficient to secure performance of his obligations towards his customers. The type and amount of said bond or undertaking shall be determined by a directive to be issued by the Ministry or its designate.

- A warehouse operator shall in addition insure all goods for which warehouse receipts are issued in accordance with the provisions of this Proclamation. The warehouse operator should have a financial standing with a minimum capital of one million birr and shall insure all goods for which warehouse receipts are issued. Most warehouses that are available near farmers' village are owned either by traders or primary cooperatives. Moreover, these warehouses are not up to the standard to get insurance coverage from insurance companies and may not have such capital to run their business.

The system was later considered as a market function instead of a WRF institution during the Ministry's business reengineering process (BPR) and was closed. During the preparations for the launch of the ECX, there was a concerted effort by policy makers to link the Exchange with the warehouse receipts financing system. So the office was closed with the assumption that the ECX would replace the WRICO in carrying out and promoting the WRS.

3.5 Why it was not successfully implemented?

In spite of the government's commitment, and some external support like that of CFC that supported the WRICO in terms of office facilitation and campaigning for awareness, the system did not function efficiently and was closed. Some of the main reasons for this were as follows:

- **Bankers' reluctance and unwillingness to participate in the program:** Though several discussion forums and awareness campaigns were conducted none of the bankers were committed to the system, some citing the superiority of the merchandise loan system to this one.
- **Nonexistence of an organized market place -- like ECX --where stored commodities could be sold:** Potential depositors were frequently asking where they could sell their commodities.
- **Steady increase of commodities' market price:** the program was initiated because of existed extremely low prices of agricultural commodities; in order to provide farmers' with loans while they sought better prices for their goods by postponing their sale. However, grain prices started to steadily increase immediately after the launch of the program and the increase persisted. This phenomenon also discouraged depositors from storing their commodity to wait for price increases.
- **Warehouse operators' stringent grade standards were unattainable by small scale farmers:** This resulted in frustration and discouraged cooperatives and farmers.
- **Employees of EGTE were not willing to accept the program:** mainly due to unanswered issues relating to grain quality standards and compensation for loss due to spillage, moisture loss, and weight differences.

4. CURRENT IMPLEMENTATION STATUS OF WRS IN ETHIOPIA

4.1 The Ethiopia Commodity Exchange

At present, ECX is authorized to operate warehouses, to carry out weighing and inventory management of agricultural commodities, and to issue exchange warehouse receipts for the purposes of Exchange trading by Proclamation No. 550/2007. ECX Warehouse Receipt Financing is a system that allows producers and traders of agricultural commodities to access loans from participating banks by pledging warehouse receipts issued by the Exchange for commodities stored in its warehouses. ECX WHR financing purportedly applies to all commodities – with the exception of coffee for collateral purposes -- including maize, wheat, sesame seeds, and white pea beans. The duration of the WHRs is limited to 2 – 4 months. The expiration period for the loan is similar to the WHR expiration for sale at ECX. The period is based on the maximum length the commodity can be deposited without changes to its quantity and quality.

ECX WHR financing is based on the use of securely stored commodities as loan collateral designed for Akribis (suppliers). The approach allows suppliers, such as farmers, cooperatives, processors and traders, to deposit commodities in designated ECX warehouses where the depositor receives a receipt certifying the deposit of commodities of particular quantity, quality, and grade. One of the key obstacles for banks in Ethiopia participating in this system has been the operational risk associated with storage and warehouse management; which were not previously guaranteed. Under the ECX WHR system the warehouses have been licensed and insured. In addition, operational risks related to the warehouses are guaranteed by ECX.

The ECX has signed agreements with six commercial banks (one government and five private banks) to work in partnership on warehouse receipt financing. However, due to the government's financial policy that requires private banks to purchase bonds equivalent to 27% of each disbursement, none of them have entered the WRF business so far.

4.2 Target Commodities and Beneficiaries

Four commodities traded at ECX, namely sesame, maize, wheat and white pea beans, are eligible for WRF loan. However, only white pea and sesame are actively traded. ECX's future plans with respect to WRF are to diversify the services in terms of number and type of commodities, new locations, and an expanded pool of actors. Currently, the exchange has identified four more commodities to be traded that will likely be eligible for the WHR Financing program. These are:

1. Niger seed
2. Mung bean
3. Chick Peas
4. Sorghum

These commodities were selected because they can be stored for longer periods at the ECX warehouse, which makes them more suitable for the financing program.

The potential users of the ECX WHR system are small scale farmers who are not able to access rural banks and/or micro finance loan services due to existing collateral requirements. The exchange envisages reaching this group through primary cooperatives and unions as grain minimum lot size might be a problem for individual farmers. Specifically, the Exchange will mostly focus on the following potential ECX Members and Clients to implement the WHR Financing under its umbrella:

1. Producers' Groups & Cooperative Unions
2. Commercial Farms
3. Traders

Small scale farmers / producers will need to work via Cooperative Unions or Societies, as there are certain barriers that restrict their participation in ECX WHR financing directly, such as minimum lot sizes, loan amounts, short storage period, long process to get loan, lack of awareness of WRS, and distance to ECX warehouses.

Considerable experience has been gained from the investments made by ECX to launch a functioning Commodity Exchange and ECX Warehouse Receipts program from April 2011 to date. The ECX-implemented Warehouse Receipt Financing is a short-term lending program for supply side (not exporters) members or clients of the exchange using the Electronic Warehouse Receipt as collateral for the loan based on the agreement signed between ECX and Settlement Banks.

4.3 The ECX Principal Stakeholders

The following stakeholders are major participants that significantly contributed to the implementation of the WRS:

- **Depositors / Borrowers:** are ECX members or /clients that deposit their commodities at designated warehouses and use their Goods Receipt Note (GRN) issued by the exchange as collateral for obtaining loans from exchange partner banks.
- **Warehouse Operators (in this case is the exchange):** The warehouse operator will be responsible for weighing, sampling, grading and storing the commodity and issuing the GRN. It

is also expected to keep the commodity in a safe and secured store while maintaining the initial quality.

- **Partner Banks:** Banks accept electronic WHR as collateral for short-term loans, issue WHR pledge requests to the ECX, disburse credit for WHRs, and receive settlements directly from the ECX Clearing House (CH). There is strong reporting and information exchange system between the exchange and the partner banks that:
 - ECX has established a reporting template for sharing WRF status reports, the template details each transaction is sent to ECX on daily basis
 - ECX market data unit also sends daily updates on the average price of sesame to CBE HQ for determination of the loan value
- **Ethiopia Commodity Exchange:** The Commodity Exchange provides market data to value the WHR (such data may be based on ECX trades or third party market information), and provides an efficient trading platform for selling the WHR. The Clearing House of ECX clears the sale of WHR, manages moisture loss adjustments, taxes, fees, and ensures the cash settlement of WHR disbursement to the Loan Account in the Bank.

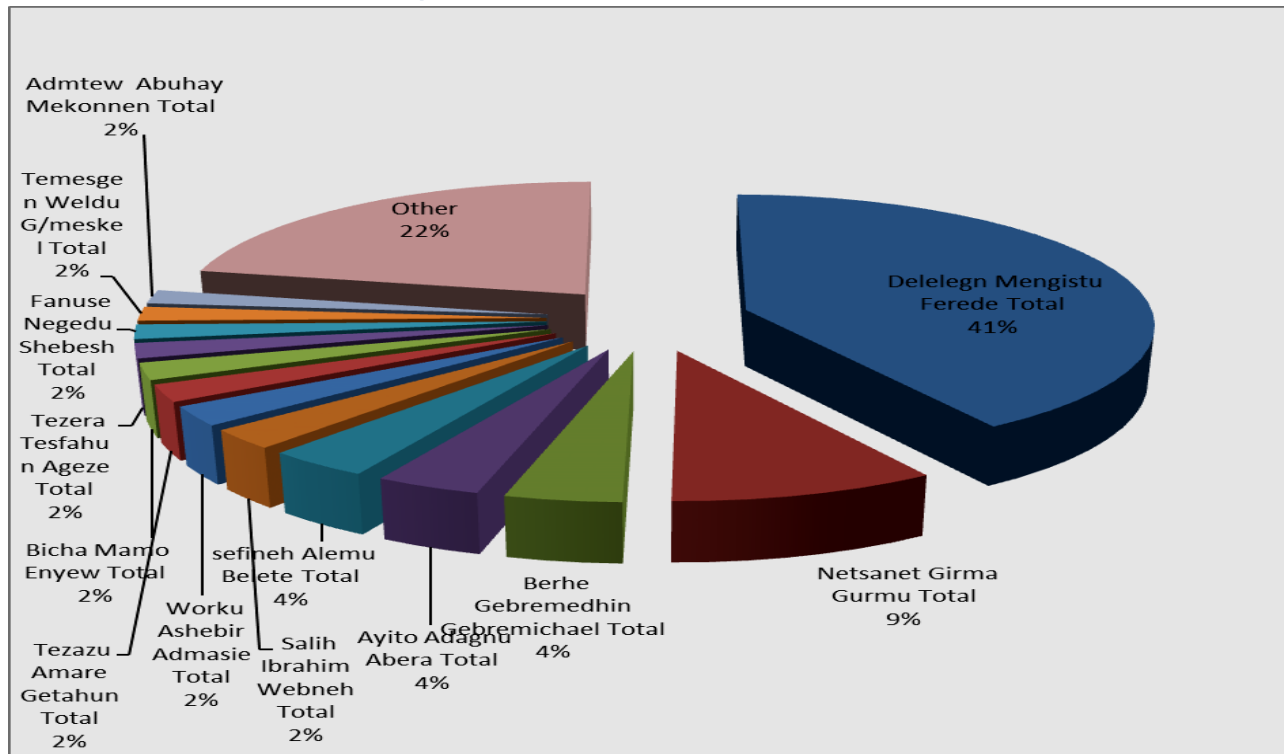
4.4 Benefits of the WRF Program for the ECX

In implementing WRF, the role of ECX lies in facilitating the pledge/un pledge (stock deposits/loans issued against the deposits) process of GRN with the partner banks, conducting awareness campaigns for all actors, and supporting farmers/cooperatives in providing information on market prices. Therefore, while ECX does generate minimal revenue from this service the most significant benefits of the WRF program for the ECX are more indirect. These indirect benefits arise from the support they provide to members who are in need of more working capital but lack the collateral to obtain a loan. However, the relatively small financial gains have likely been a primary reason for the limited expansion of ECX's WRF program to date.

ECX's experience show that a total of 42 borrowers pledged 122 WRs as collateral for a short-term loan and they received a total of 25,118,061 ETB (approx. US\$1.5 million) of finance through 114 credit disbursements during the first year. 20,281,692ETB (81 percent) credit was given for sesame seed WRs, whilst 4,836,370ETB (19 percent) credit was disbursed against white pea-bean WRs. The minimum WRF loan was for 17,970ETB, the maximum loan was for 544,853ETB and the average was 220,333ETB. A total of 2,822 Metric Tons (MT) of commodity was pledged; of which 1,840MT (65 per cent) was Sesame and the remaining 982MT (35 per cent) was white pea beans. There was no pledging of maize or wheat WRs. The volume of commodity financed via WRF represents less than 1 per cent of the total traded volume of those commodities on the exchange during the same period, but over 2 per cent of Pea beans were financed.

The analysis below shows that of the 42 borrowers, most were ECX clients, not members, and the majorities were traders, not producers

Users of the ECX WRF facility



Source: ECX Clearing House data and author calculations

4.5 Implementation Challenges

The following major challenges were faced in the course of implementing the warehouse receipt financing pilot phase launched by Ethiopian Commodity Exchange:

- i. CBE's numerous requirements¹ discouraged loan applicants during the first days. Loan disbursement took longer than expected (up to 8 days), during the initial phase and this has to some extent created disappointment among borrowers.
- ii. Awareness about the WRF loan programs varied among bank branches. Moreover, procedures for processing loan requests were not uniform between partner bank branches.
- iii. Private commercial banks were unwilling to participate citing the 27% bond purchase requirement as a hindrance.

¹ These include: Personal information which was mandatory, number of loans the borrower is servicing, credit information from the banks, etc.

- iv. The storage duration of the commodities eligible and active for WRF loan service is limited to 60 days. Given the time it takes to apply, receive and repay a loan, the borrowers are not able to make full use of their loans in this time period.
- v. ECX extended WRF services only to its members and clients. This critically limited the expansion of the system beyond ECX.
- vi. The system supports only sellers. The commodity has to be exported within 10 days of delivery in the ECX warehouses.
- vii. Due to poor awareness campaigns, many of the key ECX stakeholders lack critical knowledge about the WRF requirements.
- viii. Poor communication between grain owners and floor representatives – the owner applies for a loan by presenting GRNs to the bank, but when it reaches the bank after ECX pledge confirmation, the representatives have already sold it.
- ix. Late applications by borrowers – depositors sometimes apply for a loan after a long period of deposit; minimizing the utility of the loan as discussed above.
- x. The IT connectivity speed at ECX was so slow that responses to pledges were received after 2 days resulting in significant dissatisfaction of borrowers.
- xi. The Partner Banks loan is less than 60 percent of the commodity value, which make loans unattractive to borrowers.
- xii. The bylaw of cooperatives and unions does not allow the management committee to borrow more than 100,000 birr. This was found to be a barrier restricting participation of the farming community in the WRF scheme

5 WHAT ARE THE OPPORTUNITIES AND BENEFITS OF EXPANDED WRS AND REGULATIONS IN ETHIOPIA?

A well-designed warehouse receipt system can provide many benefits to smallholder farmers, cooperatives, traders and other stakeholders across the agricultural value chain. These include:

- ✓ Enables smallholder farmers to access credit by using their output as collateral.
- ✓ Reduces post-harvest losses
- ✓ Reduces transaction costs
- ✓ Increases awareness of quality standards
- ✓ System allows farmers to create a financial identity

Other opportunities are explored in more detail in this section.

5.1 Warehouse Operators Closer to Primary Producers (Cooperatives/Private Sector Aggregators)

There are immense opportunities for Warehouse Receipt System that is closer to smallholder farmers as it enables them to store and sell at higher prices than at harvest time. It also aims to enable smallholders to access bank loans through pledging warehouse receipts for commodities held in storage facilities.

Private warehouse operators may be reluctant to actively participate because this business model is relatively nascent. In the current business environment in Ethiopia, in general, there are plenty of opportunities for investment; some of them tested, very lucrative, and attractive. As such, the private sector may prefer to invest in tried and tested business ventures than considering those business areas -- like warehouse operations -- whose profitability is not yet confirmed.

This shows for the need to consider a broader WRF that attracts the private sector, cooperatives and government parastatals with an incentive package. Those that have warehouse operation and quality management experience could play valuable roles as aggregators or warehouse operators .

The community warehouse program being proposed by the Agricultural Transformation Agency is a step toward responding to the need for increased investment in warehouse operations. The proposed community warehouse receipts system is a simplified version of a warehouse receipt system that provides loan products to smallholder farmers. The system uses community storage facilities (e.g. primary cooperatives) to aggregate farmers' products. Because

these community storage facilities would be located relatively close to smallholder farmers, they provide for easier access. The system would be regulated, certified, and inspected by community officials and composed of the *woreda* level bureau of Agriculture and Cooperative Promotion Agency.

5.2 Enhancing Confidence in the System through the use of Rules, Guidelines and a Legal Framework to guide WRS Implementation

Though Ethiopia is not among the first group of countries that initiated WRS, it is one of the few countries to establish the legal and institutional framework to support the implementation of WRS. Most African countries that have been seeking to introduce WRS have not yet successfully done so. Proclamation No. 372/2003 stipulates that the former federal Ministry of Trade and Industry; currently reorganized as the federal Ministry of Trade or its delegate; can be control the inspection certification and licensing process. The existence of WRS Proclamation No 372/2003, was the first step in the creation of a functioning WHR system. Financial institutions need to have a high degree of confidence in the system before undertaking lending activities. An established and successfully implemented legal framework, which protects the rights and interests of depositors in engaged in public warehousing provision, will ensure stakeholder confidence. This includes a legal basis for these commodities to be represented by warehouse receipts, to be valued, and used as financial instruments in the form of collateral.

5.3 Increased Production and Marketable Surplus for Increased Farmers' Income

Ethiopian agricultural productivity has been increasing tremendously in the past decade owing to the commitment and support of the government to transform the rural economy and agriculture. This effort has resulted in considerable marketable surplus of different commodities; particularly in grain. This boost in production increased the need for markets for small scale producers; this resulted in the rise of small isolated markets that that usually suffered from erratic and unpredictable price fluctuations.

Annual growth rates of production, area cultivated and yield per cereal crop 2004/05–2007/08

Crop	Production		Area Cultivated		Yield	
	Level * Growth (quintal)	Annual rate (%)	Level* Growth (Ha)	Annual rate (%)	Level* Growth (quintal/Ha)	Annual rate (%)
Cereals	120,629,724	12.2	8,230,211	4.8	14.0	6.2
Teff	24,079,480	15.9	2,337,850	6.7	10.2	7.7

Barley	13,264,217	0.7	1,024,390	-3.4	13.0	4.5
Wheat	22,933,077	2.1	1,439,098	0.6	15.9	1.5
Maize	33,142,865	18.9	1,595,238	9.0	20.6	7.8
Sorghum	22,161,808	18.3	1,429,886	7.4	15.4	8.9

Source: Authors' computation using CSA data. Note: * is the average for 2004/05–2007/08

5.4 Interest by Banks and Micro-Finance Institutions in WRS

Banks play a significant role in the successful implementation of the warehouse receipts finance programs; however, the experiences of many countries show that failures of the system in these countries are mainly attributed to resistance or poor participation from banks. The current experience of banks' participation in WRS in Ethiopia has shown that CBE has demonstrated strong commitment and acceptance of the system through effective and customer-oriented service delivery by being the sole bank offering the WRF loan to applicants. In the last three years it has gained considerable experiences and is improving the efficiency of services delivered.

Private commercial banks and Micro Finance Institutions consulted for this study confirmed that they would be interested in WRS as a new product and modify their loan application requirements applied for conventional short term loans to facilitate WRS services. In general, the Commercial Bank of Ethiopia (CBE) has gained experience in offering the merchandise loan to farmers' cooperatives and see the existence of private warehouse operators as a step forward. The CBE is willing to work with the private warehouse operators provided that the regulatory body is in place.

Other country experiences provide valuable in sight in to the role that the domestic banking sector can play. For example, in Tanzania:

Role of Domestic Banks in Tanzania

- ✓ Plays the leading role in financing of the WHR system.
- ✓ Ensures reliable access to credit on the basis of existing experience with the borrower
- ✓ Close follow up on production, level of expenditures per unit of commodity, proportion of supply and demand, etc. for accurate discounting

5.5 Capacity Development at Commodity Aggregation Centers

In accordance with the regulations for the three commodities traded at ECX, members cannot act as buyers and sellers simultaneously. Moreover, traders who do the work of aggregators and create bulk are expected to sell the produce at ECX. In this regard, cooperative societies and large scale commercial farmers are allowed to directly export their produce if they wish to. Aggregators play a significant role in this process in such a way that:

- They determine the quality of the produce they are buying through physical inspection and traditional means. Different prices are set for the different grades established this way
- The transaction is based on cash sale and they effect payment upon receipt of the commodity
- They are responsible for cleaning, packing, transporting and the day to day management of the commodity thereby ensuring its quality is maintained as expected
- They have considerable experience and knowledge in inventory management, recording keeping and handle payments for the various operational expenses

There are potential private sector aggregators that could qualify to be warehouse operators provided that they receive training, capital, and other incentives such as tax holidays and preferential land acquisition procedures. Aggregation Centers could engage the private sector, banks, and the smallholder farmer to transact business in a more formal and convenient environment and be strategically created or established within reasonable distance from main production centers. Market infrastructure such as warehouses, sheds, cold stores among others should be provided in a central location within defined communities. These aggregation points could serve as staging points where products could be assembled for local distribution and aggregated for pick-up for sale in urban markets.

5.6 Promoting more Private Sector Investment in WRS

The findings on challenges confronting the private sector in securing financing for agribusiness vary among regional countries. In Kenya, the private sector considers agribusiness financing on the basis of the entire value chain. They expect public sector to invest in the development of bankable value chain projects, solidifying investment opportunities and potential returns on such investment. According to the Kenya Agribusiness and Agro-industry Alliance (KAAA), Agri-investors will be able to raise the necessary collateral once initial investment studies have been conducted and established. The Alliance believes that studies and subsequent business plans can be used to insure private investment to mitigate risk in the sector.

In Ethiopia, private sector development in the agribusiness sector is perhaps the most challenging as most of the institutions and industry players are still in the hands of the public sector. Many financial policies, including those concerning trade and investment, are quite

different from other African countries which are projecting the private sector as engine for economic growth. In Ethiopia, investment financing is mostly through the Ethiopian Development Bank. Actors complained about the delays and inadequacy of funds to service the numerous investment requirements of the private sector.

5.6.1 What are The Challenges in Attracting Private Sector Investment in WRS?

The formal private sector in Ethiopia has very little capacity and involvement in the Ethiopian economy. There is an over-bearing influence of the state and the public sector in all aspect of the economy including agriculture that contributes about 40 per cent of GDP of the country. The private sector has a relatively low 27 per cent contribution to the economy, and creates a meager 5.5per cent of the formal workforce. Unsurprisingly, the private sector in Ethiopia has tone of the lowest rates of formal business creation in the world. ² Comparatively, Ethiopia has very low private sector investments in the country; 8.8 per cent compared to a sub-Saharan average of 18 Per cent. Another major problem is the limited export diversification and competitiveness in the economy.

5.6.2 Business Enabling Policy Environment

If agriculture is to contribute to the development of the economy, and farmers are not to be left behind, then agriculture needs a proper credit system. Post-harvest credit in the form of warehouse receipt finance has proved to be a critical component for agriculture sector growth in emerging economies. Efficient warehouse receipt finance allows farmers to avoid selling directly after harvest, when prices are depressed. It encourages storage by reducing the cost and by increasing liquidity within the entire commodity chain, which in turn reduces price volatility. By giving farmers access to a new financing tool, it enhances their ability and incentive to invest in production.

In Ethiopia, as in many other countries, the agricultural sector is generally perceived as risky and many banks find it easier and safer to lend to manufacturing, retail and construction businesses in the urban centers. The financial sector in Ethiopia is dominated by public banks, and the provision of financial services is restricted to Ethiopian nationals since banks are restricted in accessing loans from abroad. The government should make agriculture a priority and ensure that there is an enabling environment for businesses and the private sector to borrow and invest.

² Private Enterprise Program Ethiopia: UK Department for International Development, 2011 (Nathan Associate Inc)

6. RECOMMENDATIONS

In order to create a national WRS that allows for more commodities and actors beyond those currently provided for under ECX WRS and to enable a Community Warehouse Receipt System (CWRS) pilot to launch, we urge the Government of Ethiopia to take the actions outlined in this section.

6.1 Review, Update, and Implement the Proclamation that gives Mandate to Ministry of Trade to Implement and Regulate the Warehouse Receipt System

WRS runs well if accompanied by a regulatory system for licensing and inspecting third party owned/managed warehouses and by a process for quality management, grading, and certification. Reactivating the Ministry of Trade's mandate to regulate warehousing and grading is absolutely essential to broaden the geographical spread and diversity of commodities and to make warehouse receipt financing more accessible to small-scale farmers and traders. This will also attract private sector investments in warehousing which has been lacking and provide ECX with a structure to use in case it would like to exit warehouse operations and regulation.

Reviewing and updating some of the chapters of the Proclamation No. 372/2003 is important so as to reflect the current economic and business environment. This amendment recommendation/proposal has been made based on two facts:

- ✓ The proclamation was issued over ten years ago and the dynamic nature of the business environment requires updating of rules and regulations regularly
- ✓ Some of the articles of the proclamation, such as those related bonds insurance, publication of tariffs, and inventory management systems were under debate even at its initial launch stage in 2005.

6.2 Create a Strong Licensing Regulatory Body

Ethiopia will need a strong regulatory body to implement the Proclamation. Such a body will be constituted by the Ministry of Trade and shall comprise of both public and private sector officials. Articles 27, 34 and 37 of Proclamation No. 372/2003 give the Ministry of Trade or its appointed designated authority to license, collect fees, and inspect warehouses. This body will be under the Ministry of Trade and will be mandated with implementation of the EWRS. In Tanzania for example, the WRS is implemented by the Ministry of Trade and the Tanzania Warehouse Licensing Board has been constituted by the Minister of Trade through a legislative Act of Parliament to oversee implementation of WRS.

Composition and Role of Tanzania Warehousing Licensing Board (TWHLB)

Composition of TWHLB (Appointed by the Minister of Trade)

Ministry of Trade

2 representative of Cooperatives

Representative of farmers

Private Commercial farmers

Member of Tanzania Bankers Association

Member of Warehouse Operators

Role of TWHLB:

Training warehouse operators, and other key stakeholders

Licensing of the warehouses based on the set criteria

Ensure warehouse receipt operation procedures and rules are adhered to by the stakeholders.

Penalty/sue non-compliance,

Certification and licensing

Provide robust certification, oversight and licensing

Inspection

Maintain database of all Warehouses approved

Documentation

Arbitration - Handles disputes arising from the stakeholders

Provide trading platform for sale of underlying commodity

Source: Tanzania Warehouse Receipt Systems Act and Regulations of 2005

6.3 Capacity Development of all Warehouse System Actors and Stakeholders

A WRS capacity building program for relevant actors and stakeholders is a key activity in the process of implementing a successful system. Some of the warehouses operators do not have adequate storage and post-harvest handling knowledge. The Ministry of Trade, in consultation with key partners, must develop a strategy to train actors about each component of the system. Experienced trainers in WRS must be identified to systematically provide the training. The capacity building should be prepared for the various actors in tailor- made form, and based on their respective capacity gaps and the responsibilities they will bear in the system.

Accordingly, technical experts at the regulatory and licensing level should be able to plan, coordinate all stakeholders, and conduct monitoring and evaluation of the performance of the system. In general, major actors should have knowledge in the areas of contracts and arbitration, warehouse operation and collateral management, commodity handling and grading, warehouse receipting, warehouse regulation, exchanges, clearing and settlement etc. other

stakeholders need to know how the system works and most importantly their roles and responsibilities. Stakeholders requiring training will include:

- Warehouse operators and inspectors
- Bankers and Micro-finance institutions
- Cooperative organizations and farmers
- Traders, aggregators and processors

Capacity development activities should also be accompanied by experience sharing visits by WRS stakeholders to successful regional or international WRS operations. Learning first hand of lessons learned from other countries implementing WRS will provide an invaluable learning tool for the Ethiopian system. The experiences gained elsewhere are an essential element during planning for WRS. Accordingly, the performance of countries of similar economic development levels with similar and socio economic systems will be most relevant.

6.4 The Government should treat WRS as a Priority and Provide Incentives to Promote Availability and Access to Private Sector Investments in Warehouse Receipts Infrastructure

Farmers do not have appropriate storage facilities for their product; the only source of storage services is provided by private traders. A review of the current banking regulations and recommendations on how they can improve liquidity flow to small scale farmers and private traders is important.

- ✓ Agriculture is important to the national economy thus the government needs to make WRS financing a priority. This will be good for national food security and will assist in enhancing farmer incomes.
- ✓ Preferential interest rates and credit allocation for WRS financing
- ✓ Lift the 27 percent government bond purchase requirement from every loan disbursed as it limits the amount of funds available for lending, especially to agriculture

6.5 Take Stock of the Number, Quality and Capacity of Warehouses in Surplus Production Areas – for Strategic Planning and Capacity Intervention

Stock-taking of the resources required to implement a successful WRS will help to identify resources gaps and allow for planning resource acquisition where gaps are identified. The recommendation is that the Ministry of Trade (or the designated regulatory body) should conduct an assessment of:

- ✓ **Grain Warehouses:** the number and type of ownership (public, cooperative societies or private); and their capacities, standards and accessibility

- ✓ **Scales and weighbridges:** number and their status in surplus grain producing areas.

This information will help shape the policy and infrastructural intervention on how to develop the warehouses.

6.6 Technical, Managerial, and Resource Requirements for Implementing a Warehouse and Grading Regulatory System at the Ministry of Trade

WRS Regulatory Body

Regulation is critical to the successful implementation of a WRS, and the government must be committed to finding the correct balance of regulatory oversight. The Ethiopian WRS regulatory body that is to be established should be done so with minimum resource requirements at the initial stages and will be a functional unit of the Ministry of Trade. The WRS regulatory body is required for overseeing the entire system and to regulate the WRS, including registration of storage facilities, operational requirements, insurance and safety measures, procedures for finance, audit and inspection requirements and requirements to issue, transfer/trade and cancel VRs in particular.

Resource Requirements

The following resources will be required to operate an effective regulatory body:

1. Staff:

- WRS coordinator who has a strong background in Agricultural Marketing and finance.
- Licensing and certification expert with an educational background and experience in the fields of warehouse and inventory management and grain quality management.
- Inspection expert with an educational background and experience in the fields of warehouse and inventory management, grain quality management, and auditing and inspection
- Legal advisor (optional) with a commercial law background that is able to advise and support the unit on legal matters

2. Office space and office equipment:

Two offices that can be shared, complete with computers and other office furniture

3. Administrative services:

Finance, accounting, administration and general services can be distributed to current units under the Ministry

7 APPENDIX

Road Map

WAREHOUSE RECEIPTS PROPOSED IMPLEMENTATION ROAD MAP		
Component	To be done by	Target date
Promulgate the WRS strategy	Government (Ministry of Trade), Stakeholders	Continuous
Commodity systems policy review, comparing situation in Ethiopia with practice elsewhere	Farmers, WRS Operators, Ministry of Trade	May 2013
Reactivation of national warehousing law	Government	October 2013
Review, update and implement the regulatory framework	Government	April/May 2014
Develop and institute electronic warehouse receipt system and central registry	Software companies, Electronic registry	June/July 2014 Continuous
Develop and institute standardised system of grades and quality certification, enforcement and dispute settlement	WRS Operators, Ministry of Agriculture, MoT	April/June 2014
Formal start to implementation	Regulatory authority, Electronic registry, Warehouse operators	April 2014
Community WRS	Government, WRS Operators	Immediately
Periodic monitoring and evaluation as implementation proceeds	Government, Regulatory body	Continuous