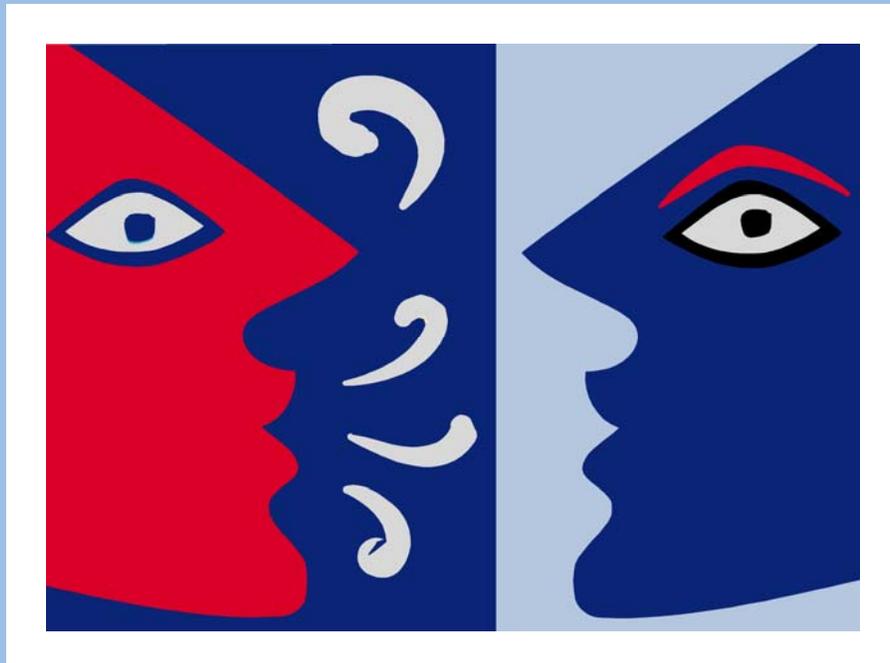




USAID
FROM THE AMERICAN PEOPLE

Silos to Warehouses: Partnerships that Expand Rural Financial Services

AN ONLINE SPEAKER'S CORNER DISCUSSION LED BY BOB FRIES- HOSTED BY MICROLINKS.ORG.



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The views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

INTRODUCTION:

ABOUT THE SPEAKER'S CORNER

The Speaker's Corner is a series of online conferences discussing issues around microenterprise and microfinance. The conferences give the broader microenterprise community a chance to ask questions of an expert in a specialized field within microenterprise and microfinance, as well as give their own perspectives and opinions.

ABOUT THIS DOCUMENT AND HOW TO NAVIGATE IT

As the Speaker's Corner was originally a series of thread on microLINKS.org, the content in this document has been compiled in reverse chronological order. To access the original discussion and other resources related to Silos to Warehouses: Partnerships that Expand Rural Financial Services at www.microlinks.org/silos.

WELCOME POST FROM THE MODERATOR:

Welcome. I am Bob Fries, a technical advisor for ACIDI/VOCA in the areas of financial services and enterprise development. Under USAID's AMAP/BDS project, I did research into Value Chains and their Significance for Addressing the Rural Finance Challenge. I was struck by the potential of warehouse receipts systems, to provide both financial and economic benefits for small farmers. These systems can provide new sources of collateral to farmers and traders, and at the same time provide storage facilities that reduce losses, extend farmers' selling seasons, reduce large fluctuations in price, introduce standards for commodities, and make commodity sales more efficient.

At the same time, warehouse receipts systems often require changes in laws and regulations, changes that can be time-consuming and challenging in many countries. Strategic alliances between storage facilities and specific financial institutions can also help farmers and financial institutions to reduce costs and risks, without the benefit of a full-fledged warehouse receipts system.

While the literature provided a few examples, like the Zambia and Bulgaria experiences cited in AMAP paper, I was left with a desire to learn about more experiences and better understand how small farmers were benefiting from alliances between storage facilities and financial institutions. I am hopeful that this session will provide a chance for practitioners in the field and other interested parties to further our understanding, through an exchange of related experiences, challenges and results.

(Additional resources can be accessed on the Speaker's Corner I2 main page at www.microlinks.org/silos.)

DAY ONE: Relationships that Link Storage Facilities with Rural Credit

There are a range of relationships that link storage facilities with credit; from warehouses that issue receipts that can be used as collateral to cooperatives that provide loans to depositors. Some are facilitating loans without directly participating in them and others are making loans with funds borrowed from financial institutions.

What kind of relationships linking storage facilities and rural credit are you involved in? What are the practical details of these linkages? How large is the loan portfolio and how rapidly has it been growing? How many small farmers are currently borrowing, and what percentage of the loan portfolio do they represent? What is working well in these relationships and what are the biggest challenges?

-Bob Fries

I work generally in the area of collateral lending, and have only recently focused on understanding and encouraging the use of warehouse receipts. I've become aware that there is some confusion over the conditions that make warehouse receipts useful: for agricultural commodities that fluctuate in price (especially with price drops at harvest time due to a glut of all the commodities hitting the market at the same time), warehousing allows producers to wait out price drops and get a better price. In those situations, the receipts are very useful for obtaining interim financing prior to sale of the goods. Where prices are generally stable, however, warehousing tends to increase costs, with no particular price benefit. Even then, the warehouse can provide value by allowing numerous farmers to store in one place, obtain pre-sale financing through warehouse receipts, but the overall impact is lower.

Does this accurately describe the conditions and benefits? What else is important in explaining how and why a country should set-up a warehouse receipts system?

-Wade Channell, EGAT/EG/TI

I work in the expansion of financial services and have only recently turned my attention to a particular agricultural activity that might lend itself to a storage facility paired with cash flow smoothing mechanisms.

One of my concerns is how to protect small agriculture producers from potential corrupt governance of the warehouse-credit system. There is greater risk inherent in a system that lacks transparency and accountability, so I would be most interested in learning how firewalls and protection can be built into the system. Do you know of cases where systems work within the regulated financial system of a country, and thus benefit from home government regulatory and supervision bodies? How often do warehouse systems go bust after donors end their participation?

And finally, I've been wondering whether the first-best solution would be to keep the warehouse operations completely separate from the analysis, consideration and disbursement of short-term loans. You mention that receipts can be issued by the warehouse to be used as collateral – would working on home government financial sector regulations to permit the use of these receipts for loans from outside financial institutions be preferable to keeping both storage and credit within the same organization?

-Alice Brooks, USAID/Bolivia, Financial Services Program Manager

Thank you Wade and Alice for jumping in. You have managed to hit some of the key themes related to this topic:

- costs and benefits,
- the potential financial and economic benefits of linking storage and finance, and
- system elements that allow for transparency and benefit small farmers

I share Wade's sense that incentives for warehouse receipt systems are strongest for commodities with seasonal price fluctuations. I suspect that over time, if the warehouses are effective in extending the sales season for farmers, the price fluctuations will grow smaller, and the price benefits will be less dramatic. This situation would be more pronounced with linkages to a commodity exchange. However, farmers will still be benefiting from secure storage, more efficient marketing, and better market signals from prices. For the system to keep working, the benefits in farmer or trader income will need to be more than the cost of storage. Otherwise there is no incentive to deposit his product, much less to keep it in storage long enough to use a receipt as collateral on a loan. But while the incentives are there, benefits related to collateral, cost-effective screening for potential borrowers, reduced spoilage, and more efficient marketing are possible.

Do any of the participants have specific examples that speak to these suspicions?

In response to Alice's questions... full-fledged warehouse receipts systems are not the only potential linkages between storage facilities and financial institutions. Financial institutions could tap storage facilities to help collect loans, or to help screen clients -- assuming that a good track record with a silo is an indicator for how well a potential borrower will perform with a loan. Or a bank may have confidence in a private warehouse, and be willing to make loans to depositors there, even without formal, legally recognized receipts. Relationships of this type occur in East Africa, and other places, I assume. Full-fledged systems require collaboration between independent actors --government in providing legal and regulatory recognition of receipts; government or an objective third party that holds the confidence of depositors and financial institutions to certify and inspect qualified warehouses; a fund or insurance product to protect deposits against fire or other types of loss; reliable and secure warehouses; banks willing to lend against receipts; and standards and grades to consistently define the quality of deposits. If incentives exist to put each of these elements in place (see costs and benefits above), transparency can be built into the system, provided each of the actors follows the system without corruption. In none of these situations is the storage facility acting as a lender (the case can be different with cooperatives or silos who issue advances against deposited commodities).

Can any of our participants speak to specific situations -- warehouse as collection agent, as "character" reference, as receipts issuer, as lender -- and how this particular role benefited or exploited small farmers. I think some specific experiences could help to shed light on these concepts.

-Bob Fries

Kenya Maize Development Programme (KMDP) has been trying to establish a GWR system linking small scale farmers (organised into groups) or SS traders to deliver lots of 100 Ton minimum grain to an identified private sector warehouse (most storage is owned by Government)

The warehouse can store grain in 2000 ton vertical storage silos. Collateral management has been identified. The bank with a DCA facility worth 3M USD is in place. The bank wishes to run (Board approval) pilot 5,000 ton.

The bank did not go into contractual arrangement with warehouse and farmers set aside their grain and acquired legal status to sell as groups.

Unfortunately bank felt risk and still have difficulty understanding the crop is the collateral 15 years of historical data and a business model has yet to convince the bank to move forward. Money is expensive here. Banks charge interest rates of 20 percent. Farmers sold their grain into the market later on at a good price.

The issue with small scale farmers is inadequate storage leading to loss of quality and quantity and a general cash liquidity programme not enabling them to purchase inputs timely to enable high production potential. Our issue is bring all the stakeholder together, bank feel high risk to - bad debts - previous bad experiences with small scale cooperatives.

There is strong feeling amongst various players into the need to Restructure Trading Systems away from current Government Central Systems and the resultant market distortions.

In terms of our current farmer base 120,000 farmers production systems have been trebled in 3 years of operation. Grain is now much more available in area of operation, and traders are up-scaling. Prices are still high, above world market average over 200 USD Ton maize (corn). This price is set by Government (National Cereals & Produce Board) and prices are set high due to inefficient production systems. One benefit of the KMDP is that the price per unit of production has dropped 25% and therefore farmers can afford to sell at a more competitive price. We are still trying to bring all the stakeholders together; it is purely a matter of time a small pilot has been launched in Uganda with limited success. Grain warehouse systems are expanding north of South Africa, In Zambia there are some substantial success with ZACA.

-Steve Collins

I would like to comment on the Experience ACCION has with its rural project in Paraguay. EL COMERCIO Financiera, a finance company controlled by Paraguayan central bank has implemented a successful project in the rural areas, working with small farmers. They build strategic alliances with Soybean farmers and processors (generally local processors who also provide inputs, technical assistance to small farmers.). the first lessons learned of this strategic alliance that EL COMERCIO has been replicated with 12 different silos that financed about 340 small and middle sized farmers (10 ha – 200ha). The formalization of the strategic alliance was possible due to the following factors:

- short production cycle, very stable and ample value chain, growing international demand on soy with stable prices
- existence of formalized contracts between farmers, silos and others, known as contract farming (farmers get seeds, inputs from the silo against the sale of future harvest): the farmers can choose between open contract (price is not prefixed), closed contract or a mixture of both possibilities.
- Selection of the key member of the value chain for the formalization of the strategic alliance
- EL COMERCIO has clearly defined who their clients are, what are the requirements and characteristics of a small farmer in order to qualify for credit in this strategic alliance

What are the benefits for EL COMERCIO: Reduction of the credit risk, reduction of costs because the silo is providing insider information on potential clients to EL COMERCIO, the silo also helps to recover the loan with the harvest (EL COMERCIO, the silo and the small farmers are signing a contract that allows the silo to collect the payment of the loan from the harvest and to deposit it to EL COMERCIO). The strategic alliance allowed EL COMERCIO to attend the rural sector, open new market segments.

The benefits for the small farmers are: able to build a credit history with a commercial bank, reduction of their dependency on the silo and other suppliers by having access to cash credit. Cash credit also allows the small farmer to satisfy other needs. Low transaction costs are also very attractive for the small farmer (loan appraisal is made in the field and loan repayment is done by the silo). The gains for the silos are: sharing of credit risk and El Comercio also provides the silo with credit lines against guarantee (land title).

I hope to have contributed with this experience to the discussion. The main challenge EL COMERICO is facing today is to replicate this experience to other crops like sesame, wheat, canola and others

-Bettina Wittlinger, Vice-president ACCION International.

Thanks, Bettina. It sounds like the farmer's relationship with the warehouse is what EL COMMERCIO is using to screen customers for production loans, rather than taking deposited soybeans as collateral for loans after the harvest. Is that correct?

If that is the case, the question raised yesterday about seasonal price fluctuations will not be an issue under this mechanism.

And to address the concerns related to transparency: In developing your strategic alliance, did you include any conditions to ensure transparency in pricing and loan collection processes? Are farmers satisfied with the contract options? Have they raised any concerns about the link between lender and warehouse?

Thanks
Bob Fries

Re: transparency in EL Comercio experience with the Silos' alliance--I think the competition market allowed a win-win situation of the small farmers, because they can chose the better condition for the sell of their harvest (soybean). Not was necessary a link between lenders and warehouse

Regards
Tiodita Moti

This message wraps up Day 1 of our session. Like the rest of you, I am looking forward to a new day. I understand the technical glitches from yesterday should be behind us, so participants should be receiving messages as they are posted and replied to.

Yesterday (Day One):

- We talked conceptually about the benefits of linking storage facilities with financial institutions, and a participant from Kenya identified some challenges: getting the banks on board and price distortions due to the government's role in the grain marketing system.
- Some questions were raised about the conditions for establishing a warehouse receipts system—are they only efficient for commodities with large, seasonal swings in price; and how do the benefits to small farmers change as the price swing is reduced over time? Those with relevant examples from the field are encouraged to share their observations. From Kenya we received the following response, which a number of you missed because of the technical difficulties:

Maize in Kenya: At beginning of season sells at farm Gate at around 130USD Ton equivalent (sold in Ksh per 90kg bag) 70% of Grain was traditionally sold at farmgate and often had to be sold due to inadequate or no storage. The traditional pattern is that price rises to over USD 200 per ton 3 or 4 months after harvest. The farmer is torn between immediate need for cash. (Corn) Maize is one crop per annum and the land is replanted to same crop some 3-4 months after previous harvest. (50% of total land cultivated is to maize. So it is the traditional staple). Cash is needed for land preparation and access to inputs a warehouse receipt system offers the advantage of good storage: improved quality and a payment of say 60% crop value with the farmer having the option to sell

when price rises. The bank releasing the balance sale less storage costs/finances & collateral man costs. The cost of collateral management is very nigh when traded volumes are small.

I agree with your comment about the benefit of season price fluctuations which might well level out if buyers know that there was a ready source of supply. In Uganda they are grappling at setting up a commodity exchange but I think realize that they need to go to warehouse receipting prior to that. Uganda have just enacted warehouse receipting legislation into law, we tend to want to get the dynamics to work before it comes restrictive, but banks feel the need for law to enable them to have call on selling farmer collateral (grain) if the market should hit a trigger price. Obviously the biggest worry to GWR is the numerous corruption things that might occur along the chain. Another disincentive to banks to look at this business opportunity is that in fact in many developing countries banks make so much money charge high interest rates 20% that these may be major disincentives and can the commodity tolerate such charges. In the case of maize in Kenya 20% is still profitable for the farmer: storage average 5M. We have extrapolated up to 8M.

- Questions were raised about the measures or conditions that would protect the small farmer from corrupt or exploitative practices. Are linkages that separate the storage and lending functions better at this? Are investments better made in regulatory changes that provide rules of the game for issuing receipts, and using them as collateral?

I hope we can pursue this theme more deeply in Day 2.

-Bob Fries

DAY TWO: Mechanisms and Conditions that Provide Benefits to Small Farmers

Welcome to Day 2, I would like to pick up on the theme of ***mechanisms and conditions that provide benefits to small farmers***. One of the document links posted to the speakers' corner space on Microlinks (Section 3.3: Warehouse Receipts, [document here](#)) describes two different approaches to organizing the mix of stakeholders – one government led (Bulgaria) and one led by a private association of stakeholders (Zambia). Steve Collins mentioned the challenges they face in Kenya in bringing the perspectives, resources and requirements together in Kenya. The absence of legally recognized receipts in Kenya is one of the banks' concerns. I am aware of more direct linkages between silos and a financial institution in Paraguay. It would be interesting to share some specific lessons drawn from these and similar experiences:

Some claim that receipts systems increase lending to larger farmers and buyers rather than smaller farmers. Is this the case? Are small farmers benefiting from receipts systems, or from less complex alliances between storage facilities and financial institutions? Where is this happening? How are they benefiting? What features in a warehouse system or a strategic alliance make it more beneficial to small farmers?

-Bob Fries

Hi Bob,

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I hope to have contributed with this experience to the discussion. The main challenge EL COMERICO is facing today is to replicate this experience to other crops like sesame, wheat, canola and others.

-Bettina Wittlinger

Hello again from Bolivia. I'd like to ask a few questions to Bettina on the Paraguayan experience she posted.

(1) Is EL COMERCIO Financiera a regulated financial entity, adhering to the same norms as private sector regulated financial entities? That's unclear as you mention that it's controlled by the central bank. Is it in essence a state development bank?

(2) Are the lending operations secured with collateral, or are they unsecured credit?

(3) What kind of provisioning is required by the Paraguayan Super of Banks, or equivalent regulatory body, on EL COMERCIO for these types of loans? If the operation was being performed by a private sector bank, would the provisioning differ?

(4) What are the interest rates applied to these loans to the farmers?

(5) Do the silos charge a collections fee to EL COMERCIO for administering the collections at harvest time?

(6) Are any subsidies or credit guarantees provided by the Paraguayan government or the donor community in this alliance?

Thank you, I found this information very helpful.

-**Alice Brooks**, USAID/Bolivia

Hi Alice

I try to answer your questions, and help to Bettina, who's started "on vacation" now. I worked in EL Comercio with Bettina for Accion as a Resident Adviser. Sorry for my English.

(1) El Comercio is like a Bank, regulated financial entity adhering to the same norms as private sector. The main difference between Bank and "Financiera" is that the banks have count with checks and the "Financieras" only have savings. The Super of Banks in Paraguay is in The Central Bank and control to the banks and "Financieras"

(2) The loans have the same collateral as the micro credits

(3)The Provisioning for these types of loans as the same of the microcredits

(4) The interest rate is about 12-15% annual (paid at the time of receipt of the loan). The currency is US Dollars because the soybean is sell for the international's market and the farmers received and payed your credits in dollars

(5) The Silos don't charge any collect feed to the Comercio, but only in about one-third of El Comercio's alliance with the Silos, the Silos collect to repayment of Loan from the Comercio. As El Comercio becomes more comfortable with the risk profile, many of the newer alliances with the silos do not include the recovery of the loan from the farmers by the silo

(6) There aren't any agricultural subsidies provided by the government of the Paraguay, because the soybean is a profitable crop in Paraguay

Regards

Tiodita Mori

Sao Paulo - Brazil

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- (6) Are any subsidies or credit guarantees provided by the Paraguayan government or the donor community in this alliance?

Thank you, I found this information very helpful.

-Alice Brooks, USAID/Bolivia

Your point on receipt systems benefiting larger farmers than smaller farmers in our cash it is purely the economy of scale. Many small scale farmers will only produce a surplus of a little as a ton of grain, even less. Consolidating together we look at a minimum of 100 tons is simply smallest amount manageable to go to receipting systems. Even traders consolidating grain start to offer credit to farmers knowing that they will deliver to them. This happens a lot in the rural areas Malawi/Kenya so indirectly even the farmer benefits from a trader delivering to a warehouse. Critical is regular current market information on prices, this can be posted via mobile phone on boards and service centres, and in larger trading areas also through internet. Farmers are much better off not being caught out by middlemen.

-Steve Collins

DAY THREE: Benefits Related to the Commodity

Yesterday, we learned a bit about two experiences—efforts in Kenya that have had success in improving organization, production, costs and pricing within the maize value chain. However, banks remain reticent in accepting deposited grain as collateral, perhaps in part due to the limited legal standing of the receipts. In Paraguay, a finance company is providing seasonal production loans to 340 farmers who deposit their soybeans with partner silos. The silos help screen customers and facilitate loan collection, but do not enter into the loan agreement between farmers and the finance company. Others participating in this e-session may have experience with cooperatives, who provide loans or advances to their members, in addition to storage and marketing services; or with formal systems in which banks have confidence in the legal value of the receipt. If that is the case, we would be interested in hearing your perspective.

Yesterday's questions focused on financial access for small farmers. Today's focus more on benefits related to the commodity:

Effective warehouse systems can enhance the profitability and competitiveness of a value chain by reducing costs (less spoilage, bulk sales), extending the sales season, and reducing price fluctuation. Can you provide specific examples of benefits like these? How have small farmers shared in these benefits? What specific elements of a warehouse system were necessary for small farmers to share in these types of benefits? Can you provide specific examples—e.g., elements of the contracts they enter into with farmers or financial institutions, the characteristics of the crop, access to price information, more or less competition between warehouses, constructive government roles or keeping a distance from government interventions?

Finally, one specific question along this theme: Bettina, you mentioned the challenge of applying your lessons with soy silos to new crops. What is it about the Paraguay's soy value chain that contributed to the success in working with small farmers and the silos they use?

-Bob Fries

By way of background, my main experience with WRs is as follows.

1. I used the system of 'Almacenes Generales de Deposito' when working Central America during the 70s. These are non-trading General Warehouses, often belonging to banks, and regulated by the State (i.e. banking authorities, Ministry of Trade or Agriculture). They exist all over Civil Law countries, but not in countries whose legal system is based on Common (English) Law. They have their origins in the 19th Century, and some have re-emerged in former communist countries, making use of pre-communist legislation, which I suspect is based on a French model. A legal historian could clarify this.

2. From 1992 onwards, working with the UK Natural Resources Institute (NRI), I looked for ways in which warehouse receipt systems (WRS) and inventory credit can be used be of use to sub-Saharan Africa. I promoted a pilot 'commercial inventory scheme' for maize in Ghana in the 1990s, involving two banks, two warehouse operators, and various traders. It grew successively for three years, and then flopped as a result of two factors: (a) Government intervention - ad hoc removal of import duties for certain favoured parties undermine the collateral value of stocks, and; (b) non-performance of the leading warehouse operator - a parastatal.

3. I have researched WR systems in N and S America, E Europe, Asia and Africa, and have published on the subject of WRS, esp. FAO Agric Services Bulletin No 120, and the Coulter and Onumah paper in Food Policy 2002.

4. From 2000, I managed a CFC-funded project to institute WR systems for grains in Ghana, Zambia and Ethiopia. Best results were achieved in Zambia, where we helped the stakeholders set up a non-Governmental regulatory body (ZACA). The project terminated in 2004, and for information after that date I am dependent on information from ZACA, a later USAID support project and information I gleaned during a short visit in June of this year. Deposits of maize held in certified warehouses were 6,000 tonnes in 2003, 66,000 tonnes in 2004, fell to zero in 2005/06 (reportedly due to poor harvest and apprehension over Government intervention). The 2006/07 is good and ZACA expects deposits to be of the same order or greater than in 2004. All deposits in 2003/04 were by commercial farmers, but smallholders accounted for around 9% in 2005/06. It is not surprising that commercial farmers were the 'early adopters' and it is necessary to monitor the trend in smallholder deposits over time. The legal amendment to make warehouse receipts a negotiable instrument and giving ZACA an official regulatory status has still not been passed. We ended the Ghana component of the project because of lack of drive from local stakeholders; in Ethiopia the State assumed much more control over the Project, and a warehouse receipts was passed - I do not know if any warehouse receipts have been issued.

5. In 2000, I led teams which drew up roadmap for the development of WR systems in India and Kenya. Of these the Indian study seems to be having most resonance; warehousing operations are being established in conjunction with commodity exchanges. As Steve Collins is aware, the policy framework is less conducive to this sort of initiative in Kenya.

6. For the last three months, I have been EC Adviser to the Ugandan Commodity Exchange, which has been designated as an arms-length regulatory authority under the recently passed WRS Act. We are presently in the inception-cum-planning phase of this project.

Here are a few comments:

Working in Latin America, Alice is right to be concerned about Governance. For example, since 1990, Brazil has been making efforts to clean up its system which was severely compromised by politics - some of the Armazens Gerais belonged to Senators etc., so it was difficult for the State to institute a tight regulatory regime. Such experiences explain why NRI encouraged Africa to establish non-Governmental regulatory agencies, at arms length from political processes which invade the administrative/technical space.

If one can establish an honest and strict regulatory system, the main challenge is scale. The regulatory system is likely to require an operating budget upwards of US\$ 100,000 per annum, and this needs to be funded out of user fees levied on the participating warehouses. This is not easy to achieve in countries where total grain production is

of the order of only 1 or 2 million tonnes, which is the case in many African and Latin American countries.

The benefits of the WRS should not just be seen in terms of securing speculative gains from seasonal price increases. Participants can gain simply by bulking up commodities of known quality, at a known location and consequently being able to offer them to more distant buyers further down the market chain. Most smallholder participants in Zambia appear not to have held their stocks in certified warehouses for very long but they nevertheless gained from the operation.

The El Comercio Financiera model is closer to the operations of AFGRI in Zambia. This is a massive South African former cooperative, nurtured under the former regime's controlled marketing system. It has over 3 million tonnes of storage capacity in South Africa, and has set up a substantial operation in Zambia. In 2004, it received more than half of the volume deposited in ZACA-certified storage space. Instead of issuing warehouse receipts against the stock it financed the farmers directly, on the understanding that they were free to sell the product to players other than AFGRI.

-Jonathan Coulter

Hi Bob

You are right about the high importance of value chain in the case of Paraguayan's experience with the Silos. The soybean of Paraguay has a strong value chain. There exists a well developed infrastructure, including storage facilities, transport, harvest's services, Information, and other inputs. All the actors are in the win-win relationship. Identifying and understanding the value chain was critical for El Comercio because allow determine business opportunities and identify potential risks as well as to identify gaps and constraints financing to those involved in soybean production. I think there isn't other similar value chain in Paraguay. Do you know to the other important value chain?

Regards
Tiodita Mori

Thanks, Jonathan, for joining the conversation. You bring a breadth of experience: bank owned warehouses; private warehouse scheme between particular banks and particular warehouses; a warehouse system with a non-governmental regulatory body; government regulated warehouses; and warehouses looking to link with commodity exchanges.

Based on your experience, you map out some elements for making systems work: an honest, strict regulatory system (that is widely perceived to be honest and strict, I would add); and scale to cover the costs of this system; and an enabling environment that at least does not undermine the value of deposited assets with ad hoc interventions.

From your experience, how important is a positive role by the government -- legislation and regulation that defines and enforces the value of receipts? In Zambia, did you see reticence on the part of banks because the legislation had not passed, or was there sufficient confidence in the honesty and strictness of the non-governmental regulatory system? Steve Collins implied the lack of clear legal standing for receipts might be a factor limiting bank financing in the Kenya model.

You also point out the importance of effective warehouse systems in facilitating bulk sales, allowing depositors to access more distant buyers, offering better prices.

Finally, you threw out the notion of additional economic benefits from warehouse systems working in conjunction with commodity exchanges. Can you spell out the relationships that exist here, based on your research and field

experience in Kenya, India and Uganda?

Thanks for any additional insights you have a chance to provide.

-Bob Fries

In Zambia, there was some reticence of banks because legislation had not been passed, and this particularly discourages lending to smallholders. As far as I can tell this is because:

- a) it is easier to do searches on a single commercial farmer than on a group of smallholders, any one of whom may owe money against the crop, and;
- b) in the absence of negotiability, the bank can take additional collateral (land, buildings) with the commercial farmer, but not with smallholders.

However, in response to Steve Collins, I have to say that banks' confidence in the integrity of the system, and the underlying economics, has a higher priority than passing a law providing for negotiability. The banks were prepared to finance against ZACA warehouse receipts because they had confidence in the system of regulation which ZACA had established. It should also be remembered that Kenya does not have such a strong seasonal price pattern as Zambia, and the possibility of sudden suspension of duties in the lean season encourages millers to procure on a hand-to-mouth basis rather than holding large inventories.

Due to the short duration of my recent visit, I should not try to make a definitive statement about the rigour of non-Governmental regulation in Zambia as it stands at this moment. However, ZACA indicates that it makes unannounced inspections every two weeks, and comments I received from stakeholders all indicate that the system enjoys integrity. In any case, it is unlikely that private stakeholders would have any confidence in a Governmental regulatory system, given the political pressures involved.

By the way it is important that we define what we are talking about in terms of smallholders. Small and medium farmers, as defined in Paraguay (10 to 200 ha), would be called 'emerging' and 'commercial' farmers in Zambia. Zambian smallholders in turn farm on average much more land than those in Uganda.

I see a strong symbiosis between warehouse receipt systems and the futures and options exchange in South Africa and the same sort of relationships are developing in India. This makes it much easier for banks to lend against inventories, because the futures exchange provides them with market intelligence and they can require borrowers to hedge their positions. It is difficult to establish a commodity exchanges without large producers and/or very large traded volumes, and this probably explains why Uganda and Kenya have had more difficulty in getting their exchanges up and running. Because of this they have adopted different roles: KACE is operating a market information system using SMS and other means. UCE is seeking to establish the WRS which it will itself regulate, and this should provide a better basis for developing spot trading operations through the exchange.

-Jonathan Coulter

Dear Jonathan,

Thank you very much for the details of your work on WR in developing countries, including Ethiopia. We look forward to learn from these.

In spite of the great promise from these WR methodologies for expanding the microfinance outreach by filling in

the deficiencies existing in the dominant (single) Grameen "Group lending", it has not yet been started. We are really very sorry for that, but the demand for it is really very big. We have to galvanize support from Government, Donors, NGOs for that. I would be very happy to hear more your advise on relevant resources on your previous efforts in Ethiopia as well as elsewhere.

-Getaneh Gobezie

Amhara Credit & Saving Institution (ACSI)
Bahir-Dar, ETHIOPIA

[I managed a CFC-funded project to institute WR systems for grains in Ghana, Zambia and Ethiopia. Best results were achieved in Zambia.]

Getaneh,

Good to hear from you.

I am not really up-to-date on the situation in Ethiopia, but it appears from what you say that the WR initiative is not moving very fast, despite the interest of IFAD, IFPRI and World Bank, and CFC's earlier input. All these institutions are potential resources to develop the WR system.

The main comment I have is that WR systems need to be established where there is considerable leadership from within the private stakeholders. By this, I do not mean to say they should be dominated by any particular private stakeholder, or group, but it should bring together a collectivity on them in a way which serves the wider public interest. Government should adopt a facilitative posture, e.g. by getting a WRS Law passed and by ensuring that its own interventions are consistent.

One of the main lessons I have learnt from experience is that one should only introduce innovations in countries where the underlying policy framework is likely to be reasonably supportive. If not it is best to wait till circumstances change.

-Jonathan Coulter

It is time to wrap up the e-conference. I appreciate your participation. Wade, Alice and Getaneh, thank you for your observations and questions. Steve, Bettina, Tiodita and Jonathan, thank you for sharing your experiences, which offer a glimpse at the benefits and challenges of effectively linking storage facilities, rural financial products, and commodity exchanges.

You also have pointed out some conditions that are important to success:

- incentives around this linkage within a particular value chain, especially perceived and realized value added through collection and storage, whether in the form of increased average prices, reduced costs due to spoilage, or the ability to tap higher price markets by participating in bulk sales;

- benefits that exceed costs, a function of factors like scale and seasonal price swings;

- transparency and trust, whether in one-on-one alliances as El Comercio in Paraguay has developed with silos, or the network of stakeholders behind ZACA in Zambia. A number of factors can help build transparency and trust, including:

1. farmer and trader access to market and price information;

2. a predictable enabling environment, in which governments avoid ad hoc actions that distort prices. Whether or not they are involved through regulation or passing legislation depends on the degree to which these actions will add to transparency and trust within the system; and

3. broad stakeholder participation, so that all the parties to the system's risks and benefits have confidence that their interests and perspectives are represented.

I also hope those who have observed the exchanges have found some facts, lessons, or perspectives that help them consider the potential of new structures or relationships that can benefit small farmers in their countries.

Thanks,
Bob Fries

POST CONFERENCE DISCUSSION THREADS

I was recently in Ethiopia and took a brief look at the WR issue. The government passed a warehouse receipts law about 3 years ago, but development lags for several reasons. First, the warehouses have not yet adequately developed as storage facilities that can provide the necessary services. One story I heard was of a warehouse that was carefully keeping fungible grain separated by owner rather than combining it as foreseen in the law and in normal practice.

Second, the banks are still quite wary of this concept and don't want to be involved – banking competition is needed to permit new lenders into the market who can help push this form of financing. Unfortunately, the government is adamantly opposed to competition in the banking sector, and all lending is heavily regulated so that there is little likelihood of non-bank lenders offering this service at any significant level. Third, insurance is needed. This may be available already (this point was unclear to me), but there is certainly little public awareness of this risk reduction requirement. Fourth, certification services are still nascent.

The good news is that the law is in place. Unfortunately, laws are only tools, and most of the work still needs to be done.

-Wade
202-712-1909
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Wade, in Ethiopia food aid represents a very large percentage of total grain marketed. The quickest way to get the WRS working would be for the food aid agencies to prescribe delivery of locally purchased food aid in the form of warehouse receipts issued by licensed warehouse operators. Of course the food aid agencies would need to have a high level of confidence in the licensing operation.

The interactions between local purchase of food aid commodities and domestic marketing grain marketing systems is examined in the paper that I co-authored last year with colleagues at NRI. I attach a copy for those who are

interested.

Of course it would be good if the US could agree to support local purchase of food aid, as opposed to just shipping American food in American flag vessels. I know that many people in USAID, and apparently the President himself, would like to see this happen, but I understand there is overwhelming opposition in Congress.

-Jonathan Coulter

Hello All,

Please find the paper Mr. Coulter referenced attached to this message. The paper is also available on the Silos to Warehouses webpage under the 'documents' section (www.microlinks.org/silos). If anyone has difficulties accessing the document please email me at kcurtis@irgltd.com.

CONTRIBUTOR'S LIST

Bob Fries
ACDI/VOCA
bfries@acdivoca.org

Bettina Wittlinger
ACCION
bwittlinger@accion.org

Tiodita Mori
ACCION
tmori@accion.org

Alice Brooks
USAID/Bolivia
albrooks@usaid.gov

Wade Channell
EGAT/EG/IT
wbrooks@usaid.gov

Steve Collins
ACDI/VOCA
scollins@acdivoca-kenya.or.ke

Gataneh Gobezie
Amhara Credit and Savings Institution
getanehg2002@yahoo.com

Johnathan Coulter
EC Advisor to the Ugandan Commodity Exchange
johnathan@uce.co.ug