

# IMPLEMENTING WAREHOUSE RECEIPT SYSTEMS (WRS) IN AFRICA: POTENTIAL, CHALLENGES AND PROSPECTS

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Dr. Gideon E. Onumah

[g.e.onumah@gre.ac.uk](mailto:g.e.onumah@gre.ac.uk)



## Africa's agricultural challenge

- ❖ Inadequate food production:
  - Africa imports 25% of food requirements, valued at over US\$25 billion annually (plus US\$2 billion food aid)
  - Bulk of imports – over 95% originate from non-SSA markets
- ❖ Domestic food supply highly variable, though:
  - Agro-ecological potential for staple production
  - Yield-enhancing technology exist (e.g. fertiliser, irrigation, improved planting material and husbandry)
- ❖ CAADP Pillar 2 recognises importance of markets



# WRS – a *Vuvuzela* or ...?

- ❖ Perceived post-liberalisation as important in addressing inefficiencies in agricultural markets, characterised by:
  - High spatial marketing margins
  - Temporal margins very high – seasonal price variability of over 100% common in cereal markets
  - Squeezing producer margins/raising consumer prices
- ❖ WRS remains popular, especially in ESA, despite slow/limited progress
- ❖ Is it just *Vuvuzela* noise or proved potential?



## Evidence on benefits (Zambia)

- ❖ Kulya Nkona Agri-Cooperative Society, Chisamba, Zambia
  - 2004/05 deposited 950 tonnes of maize
  - Stored for 5 months with financing by Barclays, making it timely procurement of inputs possible (weaning from donor-funded inputs programme)
  - Sold in the dollarised Lusaka market (through major buyer supplying WFP for Zimbabwe), earning 35% increase in income per tonne of maize.
- ❖ 2003/04 season dominated by trader
  - Over 4,000 tonnes of maize deposited by three commercial farmers
  - Financed by Intermarket on basis of forward contract guaranteeing minimum price



# Evidence on benefits (Tanzania 1)

- ❖ Primary-level cooperatives dominate coffee export market
  - Account for over 55% of coffee traded through the Moshi Coffee Auction
  - Assemble produce from members (and non-members)
  - Obtains inventory finance from CRDB, MNB and Kilimanjaro Cooperative Bank – used for first payment
  - Market processed coffee thereby earning additional income of almost 70% per tonne of parchment Arabica coffee sold (i.e. After 2<sup>nd</sup>/3<sup>rd</sup> payments)
  - Coffee quality reported to be steadily improving
  - Auction system requires improvement



# Evidence on benefits (Tanzania 2)

- ❖ Primary-level cooperative society in Eastern Tanzania exports cotton lint
  - Bulks seed cotton from members and deposits with toll-ginning warehouse operator
  - Obtains inventory finance from CRDB and MNB
  - Market cotton lint to exporters
  - In 2005/06 exported lint to UK buyer – with quality certified using HVI equipment owned by the Cotton Board (same for all exporters)
  - Profits used to finance more than 10-fold increase in production
- ❖ Similar success in cashew but not in grains
  - Reasons discussed later.



## Benefits due to role in:

- ❖ Reducing high transaction costs in the predominantly informal agricultural trade
  - Lowering search cost for trade counterparties;
  - Reducing uncertainty (and so cheating) regarding quality and quantity
  - Minimising counterparty non-performance risk
- ❖ Promotes “sight unseen” trade
  - Therefore improves prospects for successful development of commodity exchanges
- ❖ Eases access to inventory financing
  - Enhances deferred sale by easing liquidity constraints at household level and in the trade
- ❖ Improved storage reduces post-harvest losses



## WRS no cure for:

- ❖ Poor physical and institutional infrastructure:
  - Poor rural road/rail infrastructure leading to high transport costs and transit losses
  - Lack of enforceable, trade-friendly commodity standards
  - Lack of reliable market information, especially on supply and demand (not just price information)
  - Under-developed processing capacity (ESA fortunate)
- ❖ Does not automatically to:
  - Emergence of transparent trading and price risk management systems (e.g. Cashew in Tanzania)
  - Improved access to production finance



# WRS certainly no cure for:

- ❖ Weak primary-level farmers organisations
  - Important in fostering bulking to meet minimum volume requirements and strengthening capacity to comply with quality standards in formal (more remunerative) markets
- ❖ Policy-related constraints:
  - Ad hoc policy interventions that distort incentives for private intra-seasonal storage (Tanzania and Zambia)
  - Trade policies that limit regional trade opportunities
  - Administrative levies and controls that raise transaction costs



## Tackling implementation challenges (1)

- ❖ Availability of physical storage infrastructure:
  - State dominant owner of available storage capacity, especially in surplus-producing areas
  - Significant under-utilisation but credibility problems
  - Leasing – a good option; longer-term leases may encourage improvement in infrastructure
  - Minimum is autonomous warehousing companies
- ❖ Trade-friendly commodity standards
  - Harmonisation crucial for market access
- ❖ Improving market information systems
  - Accurate and timely crop forecasting
  - Other market information (only 8% of Kenya farmers interested in price information)



# Tackling implementation challenges (2)

- ❖ Building capacity of key players
  - On a sustained basis – EAGC proposition worth broadening to Southern Africa
- ❖ Promote collective marketing by farmers:
  - Primary-level farmer organisations more effective
  - Reform of cooperative legislation may be necessary
- ❖ Robust regulatory systems:
  - Basis for broader access by multiple depositors and warehouse operators
  - Different models: Govt-based in Tanzania; arms-length ZACA experiment; exchange-based (ZIMACE & SAFEX using 3<sup>rd</sup> party inspection companies; and UCE)
  - Transition from promoters important



# Tackling policy hurdles

- ❖ Legislation helpful but not the key lever
  - Important in clarifying “rights of 3<sup>rd</sup> party holders (e.g. Lenders) and legal basis for regulators
- ❖ Enabling policy – the critical bottleneck:
  - Stable macroeconomy contributing to lower interest rates (Zimbabwe)
  - Stable, transparent trade policies, including dismantling trade barriers – regional markets are opportunities for sustained output growth (not a leakage) e.g. Tanzania
  - Avoiding ad hoc interventions that hurt the market
  - Fostering smallholder access should not mean exclusive systems
  - No strings attached support (e.g. stock markets)



## Tackling policy hurdles (2)

- ❖ Food security/market development trade-off
  - Use of market instrument win-win
  - WFP's P4P demonstrated effectiveness in procurement
  - Potential to reduce financing burden and storage losses
- ❖ Effective policy advocacy needed:
  - Underpinned by evidence-based knowledge (of what works and in what context)
  - Led by key stakeholders including but not limited to farmers' lobby (e.g. traders, processors, bankers, insurance companies and donors – all stand to gain)
  - Not just executive arm but also legislators



## Should it be Vuvuzela – loud but not musical? No!

- ❖ Should not be because:
  - It is crucial in strengthening capacity of markets to absorb surplus and sustain anticipated gains from sector development initiatives such as CAADP
- ❖ Evidence of progress and benefits exist:
  - No longer theory or only South Africa (benefits to smallholders demonstrated)
- ❖ Technical and infrastructure challenges can be overcome – especially with favourable global environment
- ❖ Stakeholder coalitions being fostered – ACTESA and EAGC
- ❖ Political will??

