



NATIONAL INDEPENDENT WAREHOUSE RECEIPT SYSTEM BILL FACTBOOK



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EXECUTIVE SUMMARY

Warehouse Receipt Legislation enhances the potential inherent in the implementation of the warehouse receipt system of any country. It creates the framework for the necessary enabling environment for the adoption and use of the warehouse receipts in carrying out transactions. The warehouse receipts have numerous benefits including but not limited to enhanced liquidity through trading on a recognized exchange, financing/ credit mobilization, de-risking of the agricultural lending sector, uniform grading and standardization as well as boosting foreign investor confidence etc. Additional benefits of promoting commodities exchange and the ecosystem include, provision of a mechanism for price transparency and price discovery, moderation of consumer prices, agribusiness becomes attractive, fostering financial inclusion and improving industrial output and profitability as well as government revenue.

Warehousing is key in the entire agricultural value chain and is a critical ingredient in solving majority of the issues facing the agricultural sector.

The critical role of warehousing in the economy has majorly been underplayed, the resultant effect of this is the Billions of Naira being lost on a daily basis due to absence of storage facilities or poor handling of commodities in storage. One major impediment towards having a vibrant commodities market is the financial exclusion of farmers, especially smallholder farmers who produce most of the commodities traded, albeit in small individual units.

Numerous efforts have in the past been made towards having a robust warehouse receipt legislation in Nigeria. Such efforts include that of the Securities and Exchange Commission Technical Committee in implementing the recommendations highlighted in its report on developing a thriving commodities ecosystem in Nigeria. Other stakeholder agencies have also played a major part in ensuring that this bill sees the light of day.

INTRODUCTION

The enactment of the warehouse receipt bill into law will be a critical factor in nursing the implementation of the warehouse receipt system in Nigeria. This has yielded some result with an executive Bill on the subject matter sent to the National Assembly in 2017. The Bill, at the time of preparing the policy brief had been passed by the Senate and awaiting the concurrence of the House. With a Warehouse Receipt system in place, farmers can access finance using the Warehouse receipt as exchange for purchasing inputs. In terms of grading and standards, the WRS Bill will create a uniform and nationally accepted grading system. Infrastructural development can be fast-tracked with the WRS Bill in place.

Nigeria in its bid to diversify its economy and reduce overdependence on oil through the Economic Recovery Growth Plan (ERGP) has made concerted efforts to develop the agricultural sector. Agriculture contributes about 25 percent to nominal Gross Domestic Product (GDP) in Nigeria. Nonetheless, it is estimated that less than 5 percent of bank lending in Nigeria goes to agribusiness. The critical role of warehousing in the economy has majorly been underplayed, the resultant effect of this is the Billions of Naira being lost on a daily basis due to absence of storage facilities or poor handling of commodities in storage. Warehousing is key in the entire agricultural value chain and is a critical ingredient in solving majority of the issues facing the agricultural sector. An organized commodities market consists of multiple players that form the agricultural value chain. They include commodity exchanges, farmers, merchants, aggregators, processors/producers, commodity market operators, warehouse operators, collateral managers, banks, insurance companies, clearing houses, and logistic companies. It is important to organize this market to enhance its efficiency, growth and competitiveness which will better position it to play a strong enabling role in food security, employment generation and economic diversification. The 2018 Report on Commodities Trading Ecosystem in Nigeria by the Technical Committee on

Commodities identified about twenty benefits of promoting commodity exchanges and the ecosystem in general. In addition to some of the benefits highlighted above, they provide a mechanism for price transparency and price discovery, assist in moderating consumer prices, promote attractiveness of agribusiness, foster financial inclusion and improve industrial output and profitability as well as government revenue. They enhance the wellbeing of the farming community and help reduce rural - urban drift. Furthermore, they provide risk management tools and promote quality and standards for Agro-based export commodities. Finally, they create opportunity for investment in the commodities value chain with multiplier effect on socio-economic development.



One major impediment towards having a vibrant commodities market is the financial exclusion of farmers, especially smallholder farmers who produce most of the commodities traded, albeit in small individual units. These farmers should be organized into cooperatives to aggregate produce and be encouraged to become members of the exchange. Introduction of the Electronic Warehouse Receipts (EWRs) and the enactment of a Warehouse Receipt System Bill into law will go a long way in ensuring that farmers can access credit easily and affordably. Deliberate efforts are being made to develop public enlightenment and education roadmaps for the commodities market to improve understanding and encourage participation. It is also vital to encourage investment in all the requisite supportive infrastructure such as warehouses and storage facilities by exchanges and the private sectors. Similarly, to enlarge the scope of participation, existing commodity merchants and other relevant stakeholders should be encouraged into the exchanges either as traders or investors.

To provide a ready market for the sale of commodities and incentivize the use of storage facilities (warehouses) which can help minimize post-harvest losses;

To provide warehouse receipts which can enable farmers including small holder farmers borrow against the commodities in the warehouse thereby promoting agricultural produce financing and development

To provide warehouse receipt system, which can also be used as collateral to unlock finance from financial institutions. The passage of the Warehouse Receipt Bill into law should make it possible for exchanges to develop standardized warehouse receipts for trading and which should create liquidity.

This has yielded some result with an executive Bill on the subject matter sent to the National Assembly in 2017. The Bill, at the time of preparing the policy brief had been passed by the Senate and awaiting the concurrence of the House of Representatives.

Structured enlightenment of stakeholders on the benefits of the use of the exchange as well as the introduction of credible and transparent trading platform to provide timely price information would also be vital for liquidity enhancement.

The warehouses can be useful information centers to farmers and participants in various locations. Given that many of the warehouses are within farming vicinity, the exchanges should as a matter of policy, designate the warehouses as price information centers; displaying price and other information electronically, on blackboards or other means. The SEC and the exchanges should also engage relevant agencies such as the Ministry of Agriculture and Rural Development, Nigerian Communications Commission (NCC) and the Telcos on disseminating key market information via text messages to farmers by the exchanges. This has been successful in Ethiopia where the ECX disseminates daily information through text to farmers and others.

This initiative according to the IFC, has led to 70% of small scale farmers receiving final price information (EMCompass, April 2017). This same approach has also been successfully used by ACE exchange in Malawi.

PROBLEMS MILITATING AGAINST A THRIVING WAREHOUSE ECOSYSTEM.

Access to working capital: Working capital ranges from farm inputs (fertilizer, seeds, CPP, etc.) for farmers; raw materials for processors and produce for exporters. Through the use of the warehouse receipts, farmers are able to participate in both Government sponsored intervention programs as well as private sector funded loan programs. The warehouse receipts provides security to the lender and ensures that holder can easily liquidate his position.

Storage and Warehousing: Access to proper storage of agricultural commodities leads to a reduction in post-harvest losses and has a resultant effect of increasing the value received by farmers for their produce. The warehouse receipt bill will stimulate the organic growth of the warehousing sub-sector through the availability of licensed warehouse operators and collateral managers.

WAREHOUSE RECEIPT OVERVIEW

A warehouse receipt is a document that provides proof of ownership of a particular type, quantity and quality of commodities that are deposited in a warehouse or any storage facility for safe keeping. Besides ensuring that standards and grades are maintained, the warehouse receipts allows trading of commodities on a recognized commodities exchange, as well as enables depositors of commodities to leverage financing against commodities stored at accredited warehouses and lastly ensures trade security for all actors in the commodities trading ecosystem.

While the commodity is in the warehouse, the depositor can monitor the prices and sell when favorable, often resulting in a 15 - 20 percent increase in value.

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Banks and other credit providers perceive the risk of lending to agricultural producers as high and are reluctant to grant agricultural credits. Hence, countries may want regulatory reform to address these challenges facing producers and credit providers and to improve access to agricultural credit through the introduction of a warehouse receipt system.

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Source: FAO – Designing Warehouse Receipt Legislation.

Grading and Standardization:

This is a direct fall out from effective storage and warehousing. A uniform and effective grading system for commodities over the years will lead to global acceptance of commodities exports from Nigeria and a boost in global competitiveness.

Access to finance:

Small holder farmers require finance to meet their daily obligations such as feeding, clothing, health bills and other day to day expenses. Typically, farmers are forced to sell their produce at harvest when it is cheap, leaving room for middle men to take advantage of eventual price movements. A farmer can deposit his commodities at a accredited warehouse, obtain a warehouse receipt evidencing his claim to the commodities and be able to obtain financing on the back of the receipt from a financial institution.

Infrastructure Development:

In many countries, the utilization of the warehouse receipt has proven to be a major contributor to fast tracking the infrastructural development in terms of roads, electricity, etc which have stifled the growth of the agricultural sector. Farmers will no longer have to undertake the huge costs of storage, logistics and other ancillary costs which can be exorbitant due to non – availability. The warehouse receipt will enhance liquidity and increase private sector participation in the commodity ecosystem.

This allows sales to continue over time from one harvest to another, thus stabilizing prices. Importantly, the system drastically reduces post-harvest losses as the storage and care of the commodity is transferred to certified warehouses equipped with appropriate facilities and expertise to ensure quality and quantity.

BENEFITS OF WAREHOUSE RECEIPT LEGISLATION

Warehouse receipt legislation is necessary in countries where farmers and other producers do not have access to working capital or face difficulty in accessing short term financing by borrowing on the back of their produce at harvest.

Warehouse receipt legislation is also necessary in countries where the Government wishes to liberalize the agricultural sector and allow the private sector and foreign investors to participate fully and commercialize agricultural production.

Finally, warehouse receipt legislation is necessary for countries that wish to undertake reforms in their economy to ensure food sufficiency, adequate post-harvest handling, efficient storage and warehousing services.

FRAMEWORK FOR LEGISLATION IN NIGERIA

The legal framework for governing warehouse receipts in Nigeria should regulate the following key elements;

- Scope and Definition
- Administration
- Licensing and oversight of warehouses
- Performance guarantees for warehouses
- Contractual rights and obligations of parties
- Legal status and format of the receipt
- Receipt details and form
- Registration of receipts
- Negotiation and transfer of receipt
- Settlement and release of stored goods
- Execution and priority of obligations
- Offenses and penalties
- World history and stats

OVERVIEW OF THE CURRENT BILL

The current warehouse receipt bill amongst other things seeks to:

Provision	Comment
Establish the Nigerian Independent Warehouse Regulatory Agency to regulate the operations of licensed warehouses in Nigeria;	In order to fast track investment in the commodity markets, the already existing organizations with regulatory purview of aspects around the commodity ecosystem including the SEC, FMITI, FMARD and the Exchanges should come up with regulation to create an enabling environment for participants.
Provide a regulatory framework for trading in warehouse receipts;	This is necessary for providing security for participants in the warehousing sector. It will also give credibility to the use of warehouse receipts in Nigeria and boost the confidence of foreign investors.
Institutionalize best practices in commercial warehousing in Nigeria;	This will lead to effective storage, reduction in post - harvest losses, increase private sector participation in the warehousing sector and also lead to acceptability of commodities from Nigeria in international markets
Enable depositors store and retrieve agricultural and other commodities in commercial warehouses; and	This will commercialize the sector and entrench trust in the use of public warehouses.
Enhance the issuance and use of negotiable warehouse receipts as valid negotiable instruments and acceptable collateral by financial institutions in Nigeria	This will boost trading of commodities on a recognized exchange and also increase participation of retail and institutional investors in the commodities markets.

The Bill is clear as to whether it will be possible to trade warehouse receipts in a spot commodities exchange or commodity derivative markets and any oversight role the Securities and Exchange Commission (SEC) would have in the trading of warehouse receipts as part of its regulatory mandate.

BENEFICIARIES AND IMPACTS

I. REDUCTION OF TRANSACTION COSTS

The benefit of the Warehouse Receipt Bill and overall development of the commodities market ecosystem is going to accrue to the micro, small and medium enterprises (MSMEs) sector of the economy. The stakeholder engagement on the Warehouse Receipts Bill has indicated that in order for this benefit to accrue to MSMEs engagement in commodities trade the Warehouse Receipt Bill as a legislative measure/framework must bring about a satisfactory level of coordination across the commodities market ecosystem if there is any intention of raising the participation of MSMEs in the formal engagements that the legislative framework envisages. Therefore, the Warehouse Receipts Bill must significantly reduce transaction costs that would otherwise inhibit MSMEs participation where the replication or duplication of regulatory agencies with oversight over the commodities eco-system will increase transaction costs. To ensure that such regulatory duplication is addressed and at the same time not create gaps that will provide room for regulatory arbitrage, it has been recommended that:

- Securities and Exchange Commission (SEC) should be the regulatory agency with licensing powers, oversight and other supervisory rule-making of the implementation activities of the Warehouse Receipts transactions on the commodities market ecosystem
- Coordination and governance across the market players directed at meeting standards should be provided by existing regulatory agencies such as the Standard Organization of Nigeria (SON), Weights and Measures Unit in the Federal Ministry of Trade & Commerce – and that this is in keeping with international best practices and standards recognized by International Standards Organization (ISO).
- Accordingly, there is no need to retain the provisions in the Warehouse Receipts Bill that are geared towards establishing another regulatory body to regulate warehouse receipts, warehouses, weights, measures, grading, produce quality etc.

I. ENHANCING THE USE OF COMMODITIES AS COLLATERAL

Farmers, traders, processors and exporters at the MSMEs level seeking access to finance for working and investment capital purposes are often unable to meet banks' demands for collateral. The types, quality and amounts of collateral that these enterprises can provide often do not meet banks' criteria, leaving such enterprises unable to secure their borrowing requirements. Adding to the problems, legal restrictions and institutional shortcomings for establishing, perfecting and enforcing security interests on company assets such as land, moveable or accounts receivable limit the acceptability of such assets as collateral.

The use of stored commodities by MSMEs as collateral is one way of overcoming collateral constraints and enhancing agricultural lending and provides a valuable addition to the traditional use of real estate and land as loan collateral. In addition, having in place a reliable and cost-efficient system for issuing warehouse receipts not only enhances commodity financing, but also contributes to improving the efficiency and transparency of commodity marketing by providing independent grading and quality

certification to all the actors involved in commodity chains. It allows commodity producers, processors and traders more flexibility in the timing of their sales and purchasing, by enabling easy refinance for the goods that they have in storage – for example, farmers are no longer forced to sell their produce directly after harvest to meet urgent financial needs.

A warehouse receipt will therefore give more security to credit providers and thereby improve the situation of poor access to credit which has been identified as a critical obstacle to MSMEs' access to finance. Commodities seem perfectly suited for this role. The simple idea behind using a commodity to secure a loan is the same as that of mortgaging a house, whereby a bank lends against the security of a house as collateral, even if the owner of the house (the borrower) falls bankrupt, the bank is not exposed because it has recourse to the house.

Collateralized financing can make access to credit easier and cheaper, helping MSMEs, agro producers etc., to reduce (to a very considerable extent) their costs, thus making them more competitive. It allows MSMEs, smallholder farmers etc. to provide greater security and more guarantees to their creditors and banks.

Enhancing the use that is made of commodities for collateral purposes has three economic benefits:

- An alternative source of ready finance is created; the pressure for immediate sales is reduced. This improves the functions of markets, and reduces volatility: for example, rice growers, maize, cotton etc. will not need to sell their produce immediately and directly after harvest in order to obtain cash. They can store their produce instead, for later sales, and obtain credit based on the produce placed in storage (warehouse).
- Large scale use of warehouses as “transit points” for sale of produce for value addition manufacturing off take stimulates the emergence of a more or less fixed relation of local prices to national price and world market prices: the physical price becomes the sum of a reference price and a location plus quality premium/discount. Such a process would enhance the usefulness of a future market in Nigeria for price forecasting and hedging purposes would increase competitive power of Nigerian agro entrepreneurs (because what will be the premium/discount is known under normal circumstances).
- Because the quality of commodities in a warehouse needs to be carefully specified and checked, Nigeria’s grading systems will be further developed and the trust of national and international markets in these local grading systems are likely to be improved and we will avert the recent embarrassing experience of

export of beans and other agricultural produce to Europe. This in turn makes it easier to sell on description, rather than by sample –which can reduce transaction costs to a considerable extent.

Small holder farmers (SHF):

Nigeria is home to an estimated 50 million farmers, 80% of whom are small-holder farmers. Land holdings in Nigeria are highly fragmented with SHF owning land sizes between 1-2 hectares. Due to inability to access proper storage facilities at an affordable rate, post-harvest losses has always been high.

The warehouse receipt will ensure provision of efficient storage facilities which will significantly improve the lives of small-holder farmers with a significant increase in yield per hectare and per capita income.

Processors:

Processors in Nigeria make up a huge pool of the demand side for agricultural commodities. Due to several factors such as lack of transparency in pricing, dearth of information, and absence of a structured market for buying commodities. The warehouse receipt system aims to address all these issues as well as allow the banks to finance purchase of all raw material requirement of processors at harvest when prices are typically low thereby hedging the risk of price fluctuation to investors and inflation protection in some instances.

Retail /and Institutional Investors:

Use of warehouse receipt will increase the participation of both retail and institutional investors in the commodities markets, effectively providing liquidity in the market through the wide range of products that will be developed around trading of the receipts. Investors will see worthwhile returns on their investments as well as have options for diversifying their portfolios and hedging risks associated with investing.



CONCLUSION

The Warehousing Receipt System Bill creates a robust regulatory framework which clearly defines the rights and roles of participants and is crucial for a functional warehouse receipt system and would:

- Expedite the development of the commodity sector in Nigeria
- Boost the confidence of investors in the Nigerian economy

Being a policy document, the CBN, SEC, Ministry of Trade and Investment will come together to prepare the regulatory guidelines (as an interim arrangement) while the push for this legislation progresses.

It is therefore a collective responsibility of all stakeholders to ensure the smooth and speedy passage of a functional Bill into law.

APPENDIX

AGRA and NESG's Partnership.

The Alliance for a Green Revolution in Africa (AGRA) is a not-for-profit organization working with African governments, other donors, NGOs, the Private sector and African Farmers to significantly and sustainably improve the productivity and incomes of resource poor smallholder farmers in Africa. AGRA aims to ensure that smallholder farmers have what they need to succeed: good seeds and healthy soils; access to markets, information, financing, storage and transport; and policies that provide them with comprehensive support. Through developing Africa's high-potential breadbasket areas, while also boosting farm productivity across more challenged environments. AGRA works to transform smallholder agriculture into a highly productive, efficient, sustainable and competitive system, while protecting the environment.

The Nigerian Economic Summit Group (NESG) is a private sector led think-tank organization that promotes sustainable growth and development in the Nigerian economy. It is a nonprofit/non-partisan organization with a mandate to promote and champion the reform of the Nigerian Economy into an open, private sector-led economy that is globally competitive on a sustainable basis. It has emerged as the leading platform for public-private dialogue in Nigeria.

The Nigerian Economic Summit Group serves as the Secretariat of NASSBER. The National Assembly Business Environment Roundtable (NASSBER) is a partnership between the National Assembly, Nigerian Economic Summit Group and Nigerian Bar Association – Section on Business Law. It is a platform which was created as an avenue for the legislature and the private sector to engage, deliberate and act on a framework that will improve Nigeria's business environment. This is accomplished through a review of relevant legislations and provisions of the Constitution.

NASSBER, through its Finance and Regulations Working Group is facilitating the development of an enabling business environment for Nigeria's Agricultural sector through the enactment/review of relevant enabling legislation such as the Independent Warehouse Receipt System Bill.

NESG-AGRA through the Advocacy and Stakeholder Engagement Program for the Independent Warehouse Receipt System Bill, with the overarching goal of strengthening the Input Systems, improving access to structured market and finance for smallholder farmers in Nigeria, will plan and organize stakeholder forums and widely disseminate stakeholder engagement materials and content through traditional and digital media.



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