

# FUTURE BUILDING

## USING EXISTING ASSETS TO IMPROVE RURAL LIVES IN NORTHERN NIGERIA



### THE PROBLEM

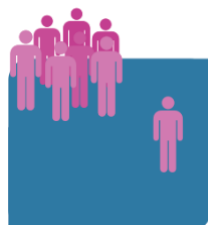
Four factors affect the commodity prices of major food grains in Northern Nigeria:



price instability due to seasonality and rainfall;



production shocks due to speculation, market instability and poor infrastructure that creates a glut close to the farm gate and scarcity elsewhere;



thin markets whereby markets are isolated and not integrated;



lack of adequate and safe produce storage facilities.

In combination, these factors **immediately** affect the price farmers receive for their crop; in the **medium term**, they impact on the farmers' capacity to invest in future plantings; and in the **longer term** they effect the overall price stability and subsequent availability of crops in the local market.

Farmers often lack adequate, safe storage facilities for their produce post-harvest<sup>1</sup> and as a result are price takers, often in a market where gluts lead to price drops. Propcom Mai-karfi estimates that maize prices between glut and scarcity can vary by as much as 44%.<sup>2</sup> Adequate warehousing facilities are one component that would assist the farmers in negotiating better prices, smoothing cash flow, and facilitating the commoditisation of maize as a tradeable commodity.

### A SOLUTION

The key objective of any Warehousing Receipt System (WRS) intervention is to establish an efficient channel for farmers to access a range of buyers who are consistently looking for high quality grain, allowing the farmers to use their grain as a commoditised asset.



A warehousing company will quality assure any grain deposits it takes in, and then store these for the depositor (often a farmer), while collectively marketing all the deposits, giving a receipt in exchange for the deposit. The receipts provided to the farmer act as a certificate of deposit detailing the amount and quality of grain deposited.

The value of the deposit is determined according to the prevailing market price. The receipt is, in effect, a negotiable instrument reflecting the inherent value of the deposit. **Ownership of the grain does not change hands**; grain remains of the property of the receipt holder, until its sale is brokered by the warehouse, or the grain is withdrawn from the warehouse.

<sup>1</sup> AFEX estimates that about 33% of a farmer's yield is lost due to bad post-harvest management practices. Key informant interview (KII), AFEX, September 2017.

<sup>2</sup> Propcom Mai-karfi, EWRS Market Strategy Paper, February 2016.

The attraction of the system **for the farmers** includes:

- the quality assurance of their harvest, often not taken into consideration in local markets;
- safe storage facilities to which they would not normally have access;
- access to their own grain, should they wish, through a receipting system; and
- the opportunity to sell grain outside of the harvest season, where a glut often leads to depressed prices, to a wider range of buyers.



The attractions **for the buyers** include:

- the opportunity to purchase quality assured grain;
- purchasing volumes of grain in one place with one transaction; and
- only having to interact with a single facilitator, the warehousing company, who sells on behalf of the small holder farmer

Electronic warehousing receipt systems (EWRS) take this initiative one step further, allowing farmers trade their grain deposits electronically. An electronic system removes the need for physical receipts allowing farmers to access and trade their grain through an electronic platform using an enabled device (phone, tablet or computer).

An EWRS provides the depositor with updates of the amount of their grain in storage, and can provide real time updates of the value of their grain, based on current prices. In providing up to date prices, farmers have greater control over the timing of their sales, allowing them to participate in a wider marketplace, instead of forcing them to participate in the thin, local markets where they are price takers.

## THE RISKS

While warehousing companies guard against such matters, as a commercial operation, fraud is a constant threat. In this instance, fraud might include the falsification of receipts or identities. Other weaknesses of the process include: farmers losing physical receipts; hacking of electronic systems; effectively falsifying certificates of ownership; and a sometimes-cumbersome administrative system which can delay transactions.

## THE OPPORTUNITY

Farmers currently need to sell their deposited grain to fund purchases. An opportunity exists for the EWRS to act as a guarantor of value of their issued (electronic) receipts, allowing farmers the opportunity to swap out certificates (or partial certificates) for goods and services.

## THE CHALLENGE

In the current regulatory environment receipts cannot be treated as negotiable instruments, and only through individual contractual arrangements can warehouses reach agreement with the providers of goods and services. One warehousing company currently has a contractual relationship with an input supplier, where the latter recognises the value of the receipts and accepts this value as security for input loans.

## CONCLUDING REMARKS

Awarding warehouse receipts negotiable instrument status would open up opportunities for farmers participating in the warehousing schemes to on sell their grain to a wider range of potential buyers, increasing the farmers' returns, encouraging greater productivity.<sup>3</sup> Greater liquidity of negotiable instruments in the northern Nigerian economies, would have a massively stimulating effect on these markets, consumers and buyers.

Foundational legislation regulating this potential exchange has been in circulation in Nigeria for some time.<sup>4</sup>

## FURTHER READING

1. Höllinger, F. (et al), *The use of warehouse receipt finance in agriculture in transition countries*, FAO, 2009.
2. Onumah, G., "Implementing Warehouse Receipt Systems in Africa Potential and Challenges" Paper prepared for the Fourth African Agricultural Markets Program Policy Symposium, organised by the Alliance for Commodity Trade in Eastern and Southern Africa (ACTESA) of the Common Market for Eastern and Southern Africa (COMESA). September 6-7, 2010, Lilongwe, Malawi.
3. Shalendra, M.S. (et al), "Issues Limiting the Progress in Negotiable Warehouse Receipt (NWR) Financing in India", *Agricultural Economics Research Review*, Vol. 29 (No. 1), January-June 2016, pp 53-59.
4. *Warehouse Finance and Warehouse Receipt Systems - A Guide for Financial Institutions in Emerging Economies*, IFC, 2013.
5. Wehling, P. (et al), *Designing warehouse receipt legislation: Regulatory options and recent trends*, FAO, 2015

<sup>3</sup> WYG, Independent Evaluation for Promoting Pro-Poor Opportunities in Commodities and Service Markets (Propcom) Maikarfi Programme, Northern Nigeria, Evaluation Report – Electronic Warehousing Receipt Intervention, October 2017.

<sup>4</sup> The Federal Senate accepted a report for the consideration of a Bill to establish a Warehouse Regulatory Authority in May 2017. Nigerian National Assembly documents, Available at <https://qoo.gl/gKrw9w>.

This briefing note was edited and designed in collaboration with the Research Retold team at [researchretold.com](http://researchretold.com).