



# APRACA Newsletter

*Acknowledged leader in rural and agricultural finance* | Vol. 3 Issue 1



*Participants of RFCD Conference, Bangkok, 23-25 March, 2016*

## Asia-Pacific RFCD Conference responded to SDIG

Looking at the gains and body of knowledge on rural finance and community development (RFCD) in the region, APRACA through the IFAD grant FinServAccess Project conducted the regional conference on 23-25 March 2016 at Avani Hotel, Bangkok, Thailand to enable exchange of strategic approaches and experiences between and among APRACA members and partners. The conference theme focused on Responding to People-Centred and Innovative Financial Approaches towards Sustainable Development and Inclusive Growth (SDIG). A total of 153 participants came from APRACA 12 member countries, Bangladesh, Cambodia, China, India, Indonesia, Lao PDR, Malaysia, Nepal, Sri Lanka, the Philippines, Thailand, and Vietnam including the United Nations – ESCAP, Capital Development Fund (CDF), Food and Agriculture Organization (FAO), International fund for Agricultural Development (IFAD), and international organizations like the Alliance of Financial Inclusion (AFI), GIZ-ASEAN and the INCOFIN.

There were four (4) plenary, nine (9) thematic and four (4) open sessions conducted highlighting the emerging trends, innovations and modalities in rural finance, climate change, environment and natural resource management, sustainable finance and dynamic development for rural people and communities, and application of knowledge management in agriculture and environment business and entrepreneurship.

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Based on the key points and messages raised during the conference the following were identified which APRACA together with its partners should address and work more. These are the 1.) Access to financial services is important which enable poor and marginal people to manage risk and take benefit of opportunities; 2.) The availability of financial services for poor households also affects the ability of countries to achieve the Sustainable Development Goals; 3.) It is clear that we will not be successful in achieving our poverty reduction objective unless innovative financial approaches address the rural poverty and community-based development; 4.) Improving financial services as a tool for the rural poor is a continual process, and one that requires extensive policy dialogue as well as partnerships among the stakeholders; 5.) Efficient and judicious use of information and communication technology proved to be beneficial to improve the outreach of rural financial products & services; 6.) Climate change will pose greater risks in the variability of agricultural production and provision of innovative rural and agricultural financial product and services may support the smallholder to manage these shocks; 7.) To build a stable and reliable economic policy and environment, we need to emphasize community based economic development through efficient financial system which will promote economic growth; and

8.) Despite tremendous success in raising outreach and impact of rural finance delivery as well as attaining viability of rural financial institutions, many challenges still prevail such as exorbitant fixed and transaction costs, tough lending requirements, seasonality and high exposure to risks inherent in agriculture.

In view of these, several areas were identified to be properly addressed by working together on rural finance and community development which include the need to respond to emerging perspectives especially in modifying innovations in rural finance, improve efficiency in delivery channels will support sustainable development goals, capacity building of institutions and the key players and stakeholders of communities need fast tracking, knowledge management process need to be strengthened, improve networking among the stakeholders, advocacy for the Pro-poor rural finance policies.

The conference ended with a field/cultural visit to the Royal Project in Phetchaburi and Amphawa Floating Market showcasing vibrant agricultural best production and marketing practices of quality Thailand products advocated and promoted in the whole country through the sufficiency economic philosophy of His Royal Highness, King Bhumibol Adulyadej.

## ■ The 1<sup>st</sup> meeting of Steering Committee for the 5<sup>th</sup> World Congress



*APRACA SG attending the 5<sup>th</sup> WC Steering Committee at Credit Agricole Senegal SA Head Office in Dakar, Senegal*



The 1<sup>st</sup> Steering Committee for the 5<sup>th</sup> World Congress on Rural and Agricultural Finance (5WC) was held at Credit Agricole Senegal SA Head office, Dakar, Senegal, on 25-26 January 2016. The meeting was all Secretary Generals. The purpose of the meeting is to discuss on the organizing of the 5WC. The Steering Committee confirmed and approved that the theme of the 5<sup>th</sup> World Congress is **THE CONTRIBUTION OF AGRICULTURAL AND AGRIFOOD INDUSTRIES TO SUSTAINABLE DEVELOPMENT** which will

be held on Friday **25 November 2016** at the **hotel Radisson Blu**, Dakar, Senegal with 275 to 325 participants expected to join the congress. Regarding the presentation style, there will be 5 roundtables for each RACA. Each roundtable comprises 1 moderator and 3 speakers. Each of those 4 persons has 10 minutes to speak. The Topic of presentation for APRACA is **"Innovations and Technologies in Rural Finance"**. The Congress will be convened in French, English and Spanish. A simultaneous



translation of the presentations during the conference will be assured. The slides on the screen can be either in French, English or Spanish. Participation fee was set at USD 500. For 2016, the Chairmen and Secretaries general will also pay the inscription fee. Each association will pay the inscription fee for their invited guests and speakers. Each delegate will pay individually the hotel room in his/her selected hotel. AFRACA will propose a selection of hotel of different price levels with negotiated rates for the congress participants. AFRACA might relay on the experience and the contact network of the local agency CTA in Dakar. Transfer from Airport to and from hotel and hotel to conference venue will be provided by AFRACA. Field visit is optional. There will be 2 options; the visit to Goree Island and the visit to farmer project.

## ■ SG's visits to NBC and Hattha Kaksekar

In an effort to strengthen relationship and cooperation with its existing member institutions and to expand APRACA network SG together with Dr. Marlow Aquino visited National Bank of Cambodia (NBC). Warmly welcomed by Mr. Kim Vada, Assistant Governor of NBC, SG has discussed with NBC on collaboration and cooperation between and amongst APRACA and its member institutions and possibilities in expanding APRACA network in Cambodia. SG also visited Hattha Kaksekar Ltd. (HKL) one of the leading Microfinance in Cambodia with July 2014 remarkable rating: Grade "A-", Outlook: "Stable". Good performance and good management of Risk by Planet Rating, the Microfinance Institutional Rating. Congratulations! SG also congratulated Mr. Hout Ieng Tong, President and CEO of HKL on his appointment as the new President of Cambodia Microfinance Association (CMA). He also expressed his gratitude to HKL for granting permission to use HKL meeting room for APRACA activity.

## ■ ACLEDA Bank Plc, CREDIT, and SAMBAT Finance

On 12 February 2016, SG and Dr. Marlowe also visited ACLEDA Bank Plc., the largest Cambodian Bank with 2014 stunning performance as its asset rose 32.805. Loans grew 35.82%. Shareholders' equity increased 22.21% over the previous year despite the sluggish global and regional economy. The Bank has officially started business operations abroad to include the Lao PDR, and the Republic of the Union of Myanmar. The Bank agreed to cooperate with APRACA in terms of knowledge sharing but it has no interest in joining membership of APRACA. On the same day, we also visited CREDIT, one of the deposits taking microfinance in Cambodia. This bank is now seeking merger investor and/or shareholders as it is expanding its operations nationwide. We have discussed on the benefits/advantages of being membership of APRACA. We also encouraged it to join APRACA. The visit to SAMBAT Finance, one of fast growing microfinance institution in Cambodia was warmly welcomed by Mr. Davis Khem, Chief Operating

Officer. SAMBAT Finance has a dedicated team of experienced professionals who understand the challenges and needs of its customers and have developed solutions and products to serve them. We were impressed with its management and modernized office.

## ■ Visit to ASA, Bangladesh

On February 2016, SG and Dr. Marlowe Aquino paid their visit to ASA, one of the leading microfinance institutions in Bangladesh and prominent Bank in Bangladesh and the best managed MFI in the world. They were warmly welcomed by Md. Shafiqul Haque Choudhury, the founder and President of ASA and Md. Fayzer Rahman, Executive Vice President of ASA. Through its innovative, cost-effective and sustainable microfinance approach, it achieved the status of the most efficient MFI in the world in 2007 as selected by Forbes magazine, USA. Besides, ASA won the "Banking at the bottom of the pyramid" award arranged by the Financial Times, London and International Finance Cooperation (IFC) 2008. Beyond Bangladesh, ASA has been providing technical assistance in India, Pakistan, Sri Lanka, Myanmar, Cambodia, the Philippines, Nigeria, Ghana, Kenya, Tanzania and Uganda to widen outreach of microfinance. ASA has actively participated and strongly supported APRACA activities. The visit was to strengthen relationship and cooperation and discuss further cooperation and enrichment of APRACA's tasks.



*SG was presenting APRACA emblem to Md. Shafiqul Haque Choudhury, the founder and President of ASA Bank, Bangladesh during his visit on 27 February 2016*



*Jamal Mustafa, Director (Training, Education, Research), ASA University is presenting ASA University Publication to APRACA Secretary General*

# Activities of IFAD Grant Project “FinServAccess Project”

## ■ APRACA supports Cambodia National Microfinance Summit

As part of its continuing service in enhancing and strengthening institutional partnerships within the Asia-Pacific region, the Asia-Pacific Rural and Agricultural Credit Association (APRACA) participated in the National Summit on Development of Microfinance Sector in Cambodia on March 14-15, 2016 held at the Peace Palace and City Hall – Diamond Island, Phnom Penh.

Dr. Marlowe U. Aquino, IFAD-APRACA FinServAccess Project Manager shared the initiatives and experiences of APRACA based on the best practices and cases generated and developed by its members. These were pursued by APRACA and its members by supporting the enhancement and development of the microfinance sector for the different key players/stakeholders in the region.

- *Promotion of efficient and effective rural finance systems.* With the emerging global trends and conditions especially with the impacts caused by climate change, APRACA has been responsive to its members and partners by strengthening rural finance framework, policies and systems through South-South cooperation and inter-country learning platform.
- *Broadened access to rural financial services.* This particular area is strongly developed through innovations and strategic development planning and implementation applying the key principles of knowledge sharing and professional exchange in improving access to finance especially for rural farmers, fishers, entrepreneurs and others stakeholders.
- *Established a mechanism for systematic exchange of information on sustainable rural and agricultural finance services.* APRACA's efforts to disseminate knowledge (technologies – products, services, processes and systems) is a continuing process with the use of information and communication technology (ICT), knowledge products are viewed and reviewed for wider reach and readership across the world.
- *Encouraged inter-country studies and research.* APRACA conducts researches through commissioned agreement to research and development institutions in various thematic areas towards assessment of rural finance services, capacity of institutions and key players and most especially the beneficiaries and receipts of development programs describing the condition, scenarios, constraints and concerns, challenges and directions of APRACA and its partners need to do in the coming years.
- *Provided capacity building and consultancy services.* Through its affiliate agencies, the Center for Training and Research in Agricultural Banking (CENTRAB) and Consulting Services (ACS) complement the efforts and programs by providing professional trainings, conferences, exposure study visits and learning route,

professional exchange, and consultancy work in various fields and thematic areas.

- *Publish articles and scientific literatures.* Through the pool of network knowledge resources, APRACA continuously provides an avenue for latest research work and experiences to be published and circulated. These are done by professional experts and practitioners in the field. With this service, there is a better avenue for dissemination, circulation and distribution of research results between and among APRACA members, its partners and the general public.

Noting the changing and challenging conditions in the region from the technical dynamism, social and economic growth and political situation of member countries, APRACA is growing and evolving more as responsive and dynamic to the needs of its members. The challenges led to the development and formulation of tailor-fit activities especially training programs/courses and exposure study visits that highlights the best practices of institutions. As APRACA network continue to work together, it will surely result to a stronger and efficient microfinance sector that is responsive to the rural people, small to medium enterprises and communities willing to be a part of the community of interest and community of practice of rural finance and development with the strong support of government and non-government organizations in the country, region and global as a whole.

## ■ FSAP conducts IW in target countries

As the IFAD-APRACA FinServAccess Project comes to a close, three integration workshops (IW) were conducted in the target countries to determine the extent of knowledge acquisition and sharing of lessons learnt and experiences by the different institutional partners with the stakeholders in various aspects of rural finance, agricultural and rural development. The organized integration workshops were attended by the project implementers and partners in Bangladesh on 26-28 January 2016 at Rigs Inn Hotel Dhaka; Nepal on 2-4 February 2016 at Hotel Manang, Thamel, Kathmandu; and Cambodia on 10-12 February 2016 at Tonnel Bassac II, Phnom Penh, respectively.

Specifically, the objectives include 1.) to share the lessons learned particularly knowledge products and services of the FinServAccess thematic areas for policy development, pilot testing and exchange; 2.) to identify issues and concerns together with possible collaborative areas to link support structure and mechanisms for better project implementation including monitoring and evaluation, and 3.) to develop a sustainability plan for future activities highlighting the gains and lessons acquired during the implementation of FinServAccess and other IFAD-investment projects through capacity building, program planning and knowledge exchange.

The different workshop outputs were consolidated to be packaged and presented to the upcoming 67<sup>th</sup> APRACA Executive Committee Meeting and the 20<sup>th</sup> APRACA General Assembly to be held on 15-17 September 2016 in Kathmandu, Nepal.



### Bangladesh FSAP Integration Workshop

The activity was co-organized by the Bangladesh Bank and the IFAD Bangladesh country office with a total of 35 participants coming from Bangladesh Development Donor Agencies (3), Bangladesh Bank (5), ASA Bangladesh (4), PKSF (4), BRAC (5), Microcredit Regulatory Authority (3), AVRDC-WVC South Asia (2), PROOFS Bangladesh/ICCO (1), Chan Development Settlement Project (1), and SOJAG (7). The participants shared their experiences in the operation of rural finance and agricultural development particularly on agricultural value chain finance, risk management, green finance, women empowerment, and institutional capacity building.

The identified areas for further collaboration and continued activities to be implemented by the APRACA institutional partners include enhancement of risk management activities for clients, intensification of more pro-poor client oriented policy development, formulation of comprehensive human resource development plan including facilitation of applied capacity building activities like trainings and exposure study visits especially for mid-level management officers, continuous conduct of research and development activities that will improve the financial operation of institutions and its clients, and expand partnerships across countries that will mainstream south-south cooperation among APRACA members and other Rural and Agricultural Credit Associations across the world.



*Dr. Antonio Acedo of AVRDC-WVC South Asia sharing their experiences in working with rural women farmers to the Bangladesh IW participants in Dhaka*

### Nepal FSAP Integration Workshop

The activity focused on the operationalization of institutional partnership among and between key players in the country. It was attended by the 20 participants coming from Nepal Rastra Bank (3), Agricultural Development Bank (5), IFAD-HVAP (3), SKBBL (2), Nepal Development Partners (3), Ministry of Agriculture (2), and Farmer Entrepreneurs (2). The workshop was divided into three activities; presentations and sharing of experiences, formulation of next level activities and the evaluation of the implementation of the FinServAccess Project in the country.

Based on the workshop outputs, Nepal was satisfied with the implementation of the different activities of the FinServAccess Project. Specifically, the shared lessons learnt and experiences on the best innovations and strategies used by other countries in

enhancing rural finance and agricultural development lead to a good platform in strengthening the development for rural clientele. In addition, strengthening local partnership supportive to the rural development was identified as the main focus of strategic approaches with the improvement of policies particularly on support mechanism in agricultural production, processing, post production and marketing, agricultural financing with lower interest rates including more appropriate agricultural insurance scheme and services and the delivery of appropriate technologies especially suitable for high mountain and marginalized areas.

Nepal participants further recommended to work closely with APRACA especially with local and international partners in bringing agricultural development more competitive within the South Asian sub-region through quality and available commodities and resource delivery with stronger provision of financial support. In addition, Nepali financial organizations to tap the services of the Ministry of Agriculture and Rural Development on a higher level of productivity, profitability and security for its people and their communities.



*One of the groups during integration workshop discussing ways to improve the rural finance and agricultural development condition in Nepal*

### Cambodia FSAP integration Workshop

Cambodia's integration workshop focused on the development and institutionalization of more relevant policies in implementing development projects which require appropriate technical and financial support delivery services especially in agriculture and rural sectors. It was pointed out by the participants that technical support coming from national government agencies should be provided and must play a crucial role in the whole operation of an effective financial environment in the country.

The activities provided by APRACA particularly the FinServAccess Project helped the different members and client to be more responsive to the needs of their clientele. However, specific aspects must be provided especially in the areas of agricultural insurance and risk management, application of ICT-based banking, enhanced microfinance services and expanded green financing.

Based on these identified areas, Cambodia APRACA members strongly recommended to come up with a more responsive programs that will strengthen institutional partnerships not only

outside the country but must be built-in among national government and non-government agencies like the Ministry of Agriculture, Fisheries and Forestry, Ministry of Economics and Finance, Ministry of Commerce, and the Cambodian Microfinance Association. In support to this, Cambodia financial sector should build up policies focused on financial education, information and communication technology application and risk management like 1.) better clients' awareness on credits & non-credit products and products terms and conditions; 2.) clear guideline in each institution for having the credit discipline before/during/after loan approval process; 3.) alternative pledged collateral with proper inventory; 4.) better policies, procedure and practices to capacitate staff within the MFI; 5.) build awareness of new technology to each MFI to ensure fast service, transparency, accountability and risk prevention; 6.) create better environment between regulators, local authority and MFI; and 7.) available and proper micro insurance for agriculture in order to protect clientele, MFI and its partners. Aside from these, technical support agencies should work in parallel with the financial sector by providing appropriate agriculture and fisheries technologies for utilization and application, improve marketing system and provide necessary infrastructure like irrigation system, farm-to-market roads and post-harvest facilities for farming and fishing communities



*Cambodian finance officers discussing issues and concerns related to the development of the agriculture and rural sectors during the integration workshop in Phnom Penh*

## Activities of IFAD Grant Project "RuFBeP"

### Phase-2 of RuFBeP Project: Pilot testing of Rural Finance products and services

The following activities were undertaken in the Phase 2 of the IFAD-APRACA project on "Documenting Global Best Practices on Sustainable Models of Pro-Poor Rural Financial Services in Developing Countries" (termed as RuFBeP Project) during the period of January 2016 till March 2016:

#### **Philippines:**

The phase 2 of the pilot testing of rural finance best practices (RuFBeP project) is being led by the Agricultural Credit Policy Council (ACPC) of the Philippines in collaboration with Philippine Crop Insurance Corporation (PCIC) and Agricultural Guarantee Fund Pool (AGFP). The implementing partners are Fruits and Seeds MPC in Benguet province (Buguias municipality) and Bukidnon Cooperative Bank in Bukidnon province (Malaybalay municipality). There are one set of 100 farmers growing vegetables and another set of 100 farmers growing corn are participating in each of the location respectively. Out of the four cases of best practices documented in the Philippines during the Phase-1 of the RuFBeP Project, it has been decided by the country working group that ACPC will lead the pilot testing of financial inclusion through the establishment of Micro-banking offices (MBOs) and other banking offices (OBOs) and development of micro insurance to cover the poor population in the rural and urban areas. The initial idea of pilot testing of Agricultural Value Chain Finance has been dropped due to budget, time constraints and closure of NLDC which was the implementing partner for the programme.

Baseline survey was conducted during December 2015 which covered a total of 68 farmer respondents (30 farmer respondents in Benguet, 38 in Bukidnon). Respondents interviewed are

engaged in corn and upland vegetables (e.g. cabbage, potato, carrots, lettuce, etc.) production. According to the survey it was found that the average farm holdings of farmer respondents from the provinces of Benguet and Bukidnon are 1.5 hectares and 2.0 hectares, respectively. It was observed that 91% of the respondents have experienced availing loans for any purpose and from any source, while 9% have not yet availed of any loans. Majority of the respondents (82%) have availed of loans or still have outstanding/unpaid loan balances, for the past 12 months, which they used for agricultural production. Crops produced by most of the sample farmers are sold to traders or they themselves sell their products in trading posts. ACPC will conduct capacity building activities for the farmers in the identified sites in collaboration with the partner institutions which are currently lined up and expected to be completed in the first quarter of 2016.

#### **Indonesia:**

The Indonesian country working group led by Bank Indonesia decided to pilot test three best practices of financial service provisions best fitted to the criteria set by RuFBeP project of IFAD are: (a) LKMA Pincuran Bonjo - This is a collateral free lending product for the rural areas, (b) BMT UGT Sidogiri - This loan will serve the customers from micro and small enterprises who are considered not feasible in getting loans from commercial banks, and (c) Cooperative Mina Samudera: This is a group lending unit focuses on serving financial needs of small businesses by women. The baseline survey has been conducted in Central Celebes and West Nusa Tenggara. Each village is selected as the pilot location for the project based on the recommendation from the Indonesia's Country Working Group. Those two villages are:



(1) Sausu Gandasari Village, Sausu District, Parigi Moutong Regency, Central Celebes Province. The village is one of the implementation areas for Project Rural Empowerment and Agricultural Development Programme (READ) and (2) Sekotong Barat Village, Sekotong District, West Lombok Regency, West Nusa Tenggara Province. The village is one of the implementation areas for Project Coastal Community Development Project (CCDP)

Generally the potential MFIs in Sausu Gandasari village are registered as cooperative with legal entity and are active in reporting their progress to the Local Cooperative Department. Characters of cooperatives at project site are not much different between one another. The location of financial Institutions particularly microfinance institutions (MFI) in Sekotong village is relatively far from the location of fishing communities. Some people in some villages have to travel a distance of 7 to 15 km to apply for loans to cooperatives. Based on the key success factors identified by the Country Working Group, the baseline point indicators that would best capture the goals of the program. The baseline point indicators would be able to identify the current situation in the selected study areas and, later, measure the impact of the program. It was decided in the CWG meeting held in February 2016 that MICRA, Indonesia the implementing agency will be disbursing the \$15,000 capital seeds allocation to the selected MFIs as per the approved proposal from APRACA and CWG. The fund disbursement will be done once in advance of the program using "Loan Guarantee Scheme". MICRA will receive the \$15,000 of seed capital from IFAD/APRACA and act as the grant manager under the supervision of CWG. The seed capital will then be transferred to the selected MFI in each study area to support the implementation of pilot program.

## Publication:

APRACA already completed the process of review and editing of the 5 country reports and is in the process of publication. The country reports on China, India, Indonesia and Philippines are already published with ISBN Indexing and are under wider circulation within the APRACA network and other rural finance knowledge sites like FAO, World Bank, GIZ etc. The Thailand country report is expected to be published by May 2016 and the synthesis report on the global good practices in rural finance is expected to be completed by end of July 2016.



## Knowledge Series 1:

# Warehouse Receipt Finance: Emerging markets in Asia and the Pacific

Agricultural value chain actors for example the producers, traders, processors and exporters seeking access to finance for working and investment capital purposes are often unable to meet the collateral requirement of the banks. The types, quality and amounts of collateral that these small enterprises can provide often do not meet the criteria set by the bank, leaving such enterprises unable to secure their borrowing requirements. Adding to the problems are the legal restrictions and institutional shortcomings for establishing, perfecting and enforcing security interests on the assets such as land, movable assets or accounts receivables limit the acceptability of such assets as collateral. The use of stored commodities 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.

Warehouse receipt finance uses securely stored goods as loan collateral which also sometimes called "inventory credit" (e.g., in FAO, 1995). It allows clients, such as farmers, traders, processors and other actors in the value chain to deposit commodities in a secure warehouse against a receipt certifying the deposit of

goods of a particular quantity, quality and grade. The basic features of warehouse receipt finance are relatively simple and straight forward: the client deposits a certain amount of goods into a warehouse in exchange for a warehouse receipt. The warehouse receipt conveys the right to withdraw a specified amount and quality of the commodity at any time from the warehouse. The warehouse manager is liable for guaranteeing the safety and quality of the stored commodity. The warehouse receipt can then be transferred to a bank, which provides a loan equivalent to a certain percentage (generally 60-75%) of the value of the stored commodity. At maturity, the client (e.g., a farmer, trader etc.) sells the commodity to a buyer (e.g. traders, processors etc.) who then either pays the bank directly, or pays the borrower who then repays the bank. In case of default on the loan, the bank can use the warehouse receipts in its possession to take delivery of and sell the commodity stored in the warehouse, to offset the amounts it is due from the client.

Warehouse receipt financing is used in many countries around the globe, for example, in the United States, systems for bank lending against warehouse receipts have been in existence since the mid-nineteenth century. In Latin America, financing against warehouse receipts became commonplace by the late nineteenth century. In Western Europe, it had become a fairly standard practice in the financing of internationally traded commodities far earlier. Once independent, Asian countries

replicated the warehouse receipt rules and regulations of their former colonial rulers, or relied on their own long-established legal systems, as in China and Viet Nam, for example. During the past two decades, efforts were being made to improve warehouse receipt systems in Asian and African continents with the active support from international donor organizations such as the World Bank, International Fund for Agricultural Development (IFAD), United States Agency for International Development (USAID) and other bilateral and multilateral agencies. The results so far are not so encouraging except in few countries in Asia like India and Pakistan where there is an effort by the central banks to encourage the commercial banks to increase lending through this important instrument and manage the risk of impaired collaterals. The quality of a commodity as collateral is determined by:

- its storability;
- the existence of quality certification and grades;
- market transparency;
- price volatility;
- liquidation costs;
- costs of finance;
- government policies.

Warehouse receipt finance is a risk mitigating instrument for financing many actors in the value chains which however requires an in-depth knowledge of the legal and regulatory system, and tailoring of the loan structuring and documentation to the specifics of each deal. There are legal and regulatory differences from country to country that make certain tools more or less effective. This tailoring process has costs that can easily make certain transactions unviable, and governments are advised to use internationally acceptable templates rather than trying to develop home-grown approaches. The core elements of a well-developed warehouse receipt system may be consists of the following basic requirements:

- an enabling legal and regulatory framework;
- a regulatory and supervisory agency;
- licensed and supervised public warehouses;
- insurance and financial performance guarantees;
- banks familiar with the use of warehouse receipts.

A well-developed system of licensed public/private warehouses and the use of warehouse receipts for storage and marketing of agricultural commodities provide a number of advantages for actors involved in physical and financial transactions within agricultural value chains. These benefits and advantages go beyond individual transactions because they improve the transparency and efficiency of commodity marketing and financing at large. Ownership of the commodity puts the financial institution in a stronger position in case of default or bankruptcy, because it eliminates any requirement to justify the financial institution's right to repossession should the beneficiaries – the ultimate buyers for trading or processing purposes – fail to meet their financial obligations at maturity. In commodity repo transactions, the financial institution has actual title, but usually not possession, of the commodities financed. In the absence of licensed and supervised public warehouses, the financial institution is exposed to the risks related to the warehouse operation, such as improper handling, damage or loss of the collateral, or fraud. These operating risks are normally mitigated through a highly selective choice of warehouses and close monitoring by specialist collateral managers.

Warehouse receipts are special security papers (which can be in an electronic format) issued by a warehouse operator (a warehousing company or a collateral manager) that prove that the commodity has been deposited, the ownership of the commodity, and the warehouse's obligation to deliver the commodity to the legitimate holder of the receipt. Warehouse receipts should provide the following information:

- location and amount of the commodity in storage;
- year, harvest and quality of the commodity;
- information about insurance;
- information about endorsements of the receipt;
- any other important information related to the contractual agreement between the depositor and the warehouse operator.

Understanding of warehouse receipt finance by the banks and their willingness to engage in it are critical conditions for the success of a system. Banks engaged in warehouse receipt finance often develop in-house commodity expertise that allows them to follow market trends and value the loans properly. If all the elements of a warehouse receipt system described are in place and commodity markets are functioning well, warehouse receipts constitute high-quality collateral, and banks face limited risks. However, financial institutions' confidence in extending finance against warehouse receipts has to be built gradually. Initially, banks may only be willing to lend up to 55 to 65 percent of the collateral value. As confidence in the system grows, this level may increase to 80 percent or even higher, as in the many cases where it is possible to manage the commodity price risk. At the same time, interest rates will gradually go down.

(contributed by Dr. Prasun Kumar Das, Project Manager APRACA)



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