

SYSTEM OF WAREHOUSE RECEIPTS

**Increased revenues
generated by Your work**



Transparent market



Safe storing



Access to finances

Advantages:

1. Uniform and well regulated system of storing of commodities.
2. Protection of depositors, ensuring of the quality and quantity of deposited commodities.
3. Represents basis for use of warehouse receipts, which are treated as official certificates of ownership over commodities and can be used for obtaining of short term credits.
4. Improvement of whole infrastructure on the market of agricultural products and attracting of more investments.
5. Represents basis for development of the market of financial derivatives.

Structure of the system

Legislation:

Adequate legislation is the first step in creation of a functional system of warehouse receipts. Although the legislation is essential for all participants of the system, financial institutions are especially interested in all aspects of this legislation. Financial institutions must have high level of confidence in the safety/security of the system before entering into any form of crediting based on this system. Banks usually feel safe if they perceive the presence of strong legislation protecting the interest of depositors in public warehouses in the procedure of collateralization of credit based on warehouse receipt, legal basis which enables claiming of deposited commodities, as well as easy transfer of warehouse receipt.

Integrity of the system is guaranteed by developed mechanisms for control and supervision of public warehouses. The best system of control is development of so called specialized state inspection service responsible for issuing of permits, implementation of legislation and inspectoral supervision of public warehouses. By forming of such special agency one of the main principles enabling protection of this system is created. Forming of well structured and efficient agency contributes to establishing of confidence in depositors, warehouse operators and financial institutions in regard to the system. Such agencies have important role as source of information about real situation on the market, they enable banks to receive necessary data in order to subsequently define the conditions of crediting.

Financial guarantees:

Financial guarantees used in this system have double role. Their purpose of financial guarantees is to cover potential losses of depositors in public warehouses in case of bankruptcy, theft or fraud, and as such, they represent the key components of the system on which banks base their confidence for crediting based on deposited commodities. There are two main approaches to forming of the system of financial guarantees – request for bill of exchange or guarantee letter issued on name of authorized warehouse, or forming of indemnity fund.

Crediting based on the system of warehouse receipts

Establishing of the system of warehouse receipts is important contribution to solving of problem relating to access to credits in agriculture. As all components of this system are established and harmonized, we become witnesses of the increase of confidence of financial institutions towards this type of crediting. Banks gradually begin to increase the value rate of the commodities they accept as collateral (initial levels are usually from 55 to 65%, but they reach even 75-85%), and start to compete for new clients. For agricultural producers, obtaining of this type of credit is becoming usual practice, since the load of paper work is significantly reduced, and they can get the desired financial means very quickly. As banks acquire experience in giving credits on the basis of deposit in commodities, new, more complex tendencies occur relating to trade in financial derivatives on international level.

Successful examples in the region

In Bulgaria, this program started in year 1998. Complexity of this system consisted of development of legislation, by-laws, development of inspection service and promotion of this system to wide public. Year 2000. was the first year when this system was successfully used. Capacity of 250 000 MT which was offered by 22 authorized warehouses to depositors increased very quickly, so today in Bulgaria there are 47 authorized warehouses with total storage capacity of 500 000 MT. In the last five years, financial institutions have disbursed 70 million dollars of credit based on this system. Hungary has also developed a very good system. Legislation was adopted in year 1996 and it included numerous commodities such as wine, sugar, fertilizer and cigarettes. Hungarian agrarian policy was directed towards exports, and in this way the government wanted to find the way to provide assistance primarily in export of grains. Subsidies, as well as support which was provided by Hungarian government for export was sufficient incentive for traders of agricultural products to accept and utilize all advantages of this system. Numerous banks (over 10) are included in the system of public warehouses, and the system of warehouse receipts offers also the service of storing in customs warehouses for commodities intended for import, i.e. export.

In Slovakia, Law on Warehouse Receipts was adopted in April 1998. Currently this system is supported strongly by the government. There are several banks which are included in the system, but the most significant role has the Agricultural Bank which finances warehouse receipts system in cooperation with EBRD and SFMR. In case of such trilateral contract, SFMR covers the risk of changes of the exchange rate of Slovak currency. There are 60 authorized warehouses, and based on this system in average 55 million dollars are placed on the market.

In year 2002. EBRD and USAID initiated the implementation of the system of warehouse receipts in Kazakhstan. The entire legislation, including accompanying by-laws were developed. Since year 2002 the system is in use, several banks enable financing based on warehouse receipts, and an indemnity fund of mixed state-private ownership has been established. 15 warehouses are members of the fund. EBRD has enabled credit line for local commercial banks in the value of 55 million dollars. In 2003., total crediting based on this system amounted to 22 million dollars.

Ukraine also entered into the development of the system of warehouse receipts in 2002. with assistance from EBRD and USAID. Presently, all necessary components of the system have been established with the exception of the compensation fund. There are over 60 authorized warehouses which have issued first warehouse receipts subsequent to the 2004 harvest. Ukraine has also developed the central electronic register, and the amount of money placed on the market based on this system, by international and local financial institutions is 500 million dollars.

Development of the system of warehouse receipts is currently ongoing process in Russia, Romania, Moldova and Turkey.



What is the system of warehouse receipts?

The concept of this system is based on the use of authorized warehouses which are defined as public warehouses. Authorized warehouse, capable of maintaining high level of technical and financial performance, is entitled to store commodities belonging to third parties and to issue warehouse receipt on the basis of deposited commodities. Issuing of licenses in accordance with the law, as well as inspectoral supervision, enable security and safety to the depositor that the commodities deposited will be stored and available at all times. In order for authorized warehouse to be successful, it should be located in production regions, important trade centers or near import-export terminals. Financial institutions accepting the warehouse receipt as collateral are confident in the high level of liquidity of deposited commodities and based on warehouse receipt they are entitled to realize their claims before other creditors. Advantages for the banks which participate in this system is high level of collateral protection enabled through high quality warehouse management, but also through controls by the inspection service. This system enables the banks to have access to larger market with reduced risk. Successful system of warehouse receipts is based on legislation enabling the inspection services to control freely main elements of this system.

Presence of a uniform, clear and safe system for obtaining of licenses enables confidence and security regarding functioning of this system.

Legislation should determine clear definitions for every participant of this system: warehouse managers, depositors and creditors. The legislation includes clearly defined rules of storing, rights and obligations of warehouse and depositor, description and acceptance of collateral, as well as definition of the procedure of transfer of receipts.