



Natural
Resources
Institute

FINAL CONSULTANCY REPORT

***COLLATERAL MANAGEMENT
AND
WAREHOUSE RECEIPTS:
TOOLS FOR RURAL DEVELOPMENT
IN SENEGAL ?***

Report to USAID, Senegal

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ACRONYMS

CoC	Chamber of Commerce
CM	Collateral Management
CMS	Crédit Mutuel du Sénégal
CNCAS	Caisse Nationale de Crédit Agricole du Sénégal
CNIA	Comité National Interprofessionnelle de l'Arachide
CSA	Commissariat à la Sécurité Alimentaire
IP	Identity preserved storage (as opposed to commingled storage)
OPS	Opérateurs Privés de Stockage (d'arachides)
OS	Opérateurs Semenciers (d'arachides)
UNIS	Union Nationale Interprofessionnelle de la Semence
WR	Warehouse receipt

SUMMARY

The author discusses important considerations in setting up warehouse receipt/collateral management (WR/CM) systems to assist agricultural development in the African context, particularly in up-country locations where no such services currently exist. He identifies as the first priority the finding of service providers who can engender widespread trust among financial institutions and are at the same time financially viable.

Three cases are identified which are susceptible to the use of targeted WR/CM services:

- (a) The rice of the Senegal River valley. In this case it is recommended that the scope for WR/CM services should be investigated in the context of a rescue plan for the Richard Toll rice mill.
- (b) Oilseed peanuts, in the event that SONACOS can no longer rely on unsecured loans from its existing consortium of bankers, and/or it wants its private suppliers (*mandataires*) to store at primary collection points, and;
- (c) Peanut seed multiplication, which needs a tailor-made system linking collateral management with seed certification.

Apart from these cases, it will be very difficult to justify the provision of such targeted services, given the limited volume of marketed production and the level of seasonal price variability for the main crops. WR/CM services might however be provided by general warehousing companies (*Magasins généraux*) which store a variety of agricultural and non-agricultural commodities, including imported rice and other consumer goods. It is suggested that this opportunity is investigated by Commissariat de Sécurité Alimentaire (CSA), which has an important stock of warehouses and well-trained staff, currently underutilized, and which might be put to fuller use for the benefit of the country.

An action plan is outlined which will allow CSA to explore and test the concept at limited cost. Full-scale implementation could go ahead if the concept is validated both on paper and through pilot-scale implementation. If this rural WR/CM service provision model is shown to be financially viable, it will be welcomed by the Senegalese banking and microfinance community, and will contribute to employment creation outside of the major urban areas. It could also be emulated in other countries of the Region.

It is moreover recommended that CNIA give careful consideration to the consultant's suggestions for the peanut seed business. These include the development of a unified and highly rigorous inspection service involving both seed certification and collateral management of seed stocks handled by *opérateurs semenciers*. The objectives of such a change will be to enhance lending security, and to eliminate duplication of functions while reducing overall monitoring and inspection costs.

INTRODUCTION

Background to the assignment

The consultant is experienced in the development of warehouse receipt systems for agriculture in Africa, having started with a review of a Malian scheme in 1992. He was contracted after speaking at the USAID-sponsored microfinance conference in February, 2000, in Bamako, Mali, with a view to identifying opportunities for warehouse receipt systems in Senegal.

The scope of work (SOW) for the study is shown in Appendix 1. The client's main focus was on grains (millet, sorghum and maize), but not exclusively so. In view of the relatively modest quantities of locally-produced grain marketed in Senegal, it was necessary to examine the scope for systems which would not be exclusively grain-based. Also apparent in the terms of reference is the client's wish to make full use of existing storage infrastructure in producing areas, including a range of grain stores built with USAID funds in the 1970s and 1980s.

The consultant spent three weeks in Senegal between November and December 2000, after which he presented to interested stakeholders a preliminary report which was subsequently discussed at a workshop in Dakar, organised by the local consulting company Synergies, on 26 March 2001. This report was drafted after the workshop, and a brief visit to the rice producing area of the Senegal valley.

Appendix 2 presents a list of people met during the visit and Appendix 3 a record of the workshop discussions.

Definitions

It is necessary to define what we mean by warehouse receipt systems, and thereby the potential scope of the study. We may define the following variants:

Public warehousing systems, warehouses open to the public on an all-comers basis, issuing negotiable and non-negotiable warehouse receipts. Such warehouses are often regulated, either by a Government authority or a private body such as a commodity exchange. We can identify two major variants:

- Specialist warehouses licensed to handle specific agricultural commodities. They are usually run by trading companies, which store their own stock and the stock of third parties, and can issue warehouse receipts against both – such as grain elevators in the American Midwest.
- General warehousing companies, storing all kinds of commodities whether agricultural or non-agricultural – known as *Magasins Généraux* under French legislation.

Collateral management systems. Collateral management involves managing stocks and ensuring their security on behalf of a bank. It does not operate under any particular regulatory regime, or involve the provision of facilities to the public in general. There are two main variants:

- where a collateral manager (typically an inspection company or a freight-forwarder) takes physical control of the warehouse and manages the stock under a tripartite collateral management agreement (CMA) between the bank, the borrower and the collateral management company. The collateral manager issues non-negotiable warehouse receipts directly to the bank, which holds them as documentary evidence of its lien (*gage* in French). This system is widely practiced in Africa in and around the ports, but is little developed in up-country areas.
- where the borrower manages its stock in his own warehouse, and another organization inspects the goods on behalf of the financier, both with regard to quantity and quality of goods in stock. In this case the collateral management function is split between the borrower and the inspection agency. Due to the relative lack of security, such arrangements are less usual.

Dual key arrangements. In this case the bank lends against stock in a warehouse which can only be accessed by the borrower in presence of a bank representative, because the bank holds one of the keys required to gain access.

We shall henceforth refer to our subject matter as warehouse receipts/collateral management (WR/CM) for short. The reader also needs to be aware of a few other terms, as follows:

- Inventory credit = financing against warehouse receipts or collaterally managed stock
- Negotiable warehouse receipt (US) = warrant (UK) = *récépissé* -warrant (Fr)
- Collateral management (where this involves dispossession of the goods by a collateral manager) = *tierce détention*. In the same vein collateral manager = *tiers détenteur*
- Field warehousing = where a collateral manager manages stock in premises ceded by the borrower
- Advance rate = the percentage of the market value of the commodity that a financier decides to advance against it in storage. The rate can be varied according to the perceived risks involved - indeed it is the financier's main means of managing price risks.

Where warehouse receipts and collateral management are used

WR/CM should be seen as a tool to improve the marketing of durable (i.e. non-perishable) commodities, both agricultural and non-agricultural. They can be used to facilitate commodity-collateralised finance, as well as trading in the commodity. Well-graded commodities represented by warehouse receipts may be sold by description in-warehouse or ex-warehouse, without the need for sampling; this may lead to a reduction of transaction costs and the tightening of commodity chains.

WR/CM is a means of financing both transactions and storage of commodities. The following examples can be given:

- (a) a farmer or a group of farmers use warehouse receipt finance to store grain until a better price can be obtained – essentially a form of risk-taking, because prices do not invariably rise in proportion to the costs involved;
- (b) a processor uses it to finance annual stocks required, i.e. to hedge against price risks;
- (c) an exporter who gains pre-export finance against warehouse receipts under the terms of their documentary credits, and this assists them in procuring the stock they require, and;
- (d) an importer who wishes to finance large consignments of imported commodities, such as a 15,000 ton shipment of rice for which he can only afford to pay gradually. The importer is able to withdraw the commodity as he reimburses the bank.

KEY CONSIDERATIONS AFFECTING THE VIABILITY OF WR/CM SYSTEMS IN AFRICA

Trust, scale and the policy/institutional environment are critical considerations in this kind of business.

Trust. Trust is the touchstone of WR/CM systems. Not surprisingly, it is easier to gain the trust of depositors, i.e. farmers, traders, processors, who wish to borrow against the commodity, than it is that of the financial institutions who lend against them. Indeed the most challenging task in the development of WR/CM systems is getting the banks on board. Trust is endowed by the following means:

- The reputation of the warehouse operator. Outside of the Republic of South Africa, few local firms enjoy the necessary trust to handle third party stocks of agricultural products. This explains the prevalence of multinational inspection and freight forwarding companies in this business; trust is endowed by the companies' international standing. In Latin American countries, banks have often dealt with this problem by forming their own warehousing subsidiaries – known as General Warehousing Companies (Magasins Généraux in French).
- Warehouse licensing schemes, which certify those companies fit to issue warehouse receipts – particularly prevalent in the Americas.
- Guarantees against non-performance. The first source of reassurance is the company's financial standing with regard to liquidity and capital adequacy, as certified by a public accountant. In addition the company may have some sort of professional liability insurance or be bonded so as to protect depositors' or lenders' interests in the event of negligence or bankruptcy (this is in addition to insurance cover against fire and allied risks which is mandatory in this kind of business).

Scale. There are large economies of scale in running warehouses, above all at the level of management and supervision. The managerial overheads for a 10,000 ton capacity warehouse site is not ten times those for a 1,000 ton site. This explains why most

WR/CM services in Africa are concentrated around ports. It also makes a strong case for targeting services at all-comers rather than at particular beneficiaries, e.g. small farmers; the larger the client base, the more quickly a warehouse operator can break even. If a country decides to establish a warehouse certification and inspection program, there are likewise large economies of scale. In Ohio State, a system handling 14 million tons of maize and soybeans is licensed and inspected at a cost of about US 6 cents per ton; the estimated cost for a 200,000 ton program in an African country (including a small market information service) is 50 cents per ton.

The other main consideration is the policy, macroeconomic and institutional environment. High inflation or high real interest rates are an impediment to the development of WR/CM schemes involving the seasonal storage of commodities, as is governmental proclivity for ad hoc interventions in the market. An example of the latter is where Government suddenly introduces a large quantity of food aid, or it eliminates a large import duty on maize on food security grounds, undermining the position of farmers and traders who have been storing with inventory credit (this happened in Ghana in 1997).

In Senegal, the policy, macroeconomic and institutional environment is generally favorable for the introduction of WR/CM systems. There is financial and monetary stability, and interest rates are low and relatively predictable, as are the spreads between deposit and lending rates. Ad hoc intervention does not appear to be a major feature. There is a very small food security reserve, but procurement has virtually ceased. The responsible agency (the *Commissariat de Sécurité Alimentaire*) concentrates on price and food security monitoring and its ethos is generally non-interventionist.

A notable feature of the institutional environment is Senegal's strength in the area of telecommunications, which makes it easier to introduce systems of control in geographically remote areas.

Taking account of these factors, **the first priority for a promoter of WR/CM systems is to find service providers who attract widespread trust among financial institutions and are financially viable.** This should come before all other considerations, such as the regional or commodity focus. Once one has developed a model, which meets these fundamental criteria, it should be possible to extend the geographical and commodity spread.

WAREHOUSING INFRASTRUCTURE IN AREAS OF AGRICULTURAL PRODUCTION

Most warehousing capacity is located in and around Dakar, where there exists a rising demand to service the needs of the country and transit trade. There is also significant storage capacity (i.e. in excess of 30,000 tons) in Kaolack, left over from the days when the town was a thriving port. It is under the control of the Chamber of Commerce which

leases it out to companies including Novacen and SDV, but there is still some unutilized capacity.

Outside the ports, the CSA is probably the largest warehouse owner. It has 64 warehouses spread around the country with a total capacity of 84,000 tons, and built by German Aid (KFA) and USAID. The largest concentrations are Thies (12,000 tons), Djourbel (8,000 tons) and Kaolack (6,000 tons). In the Senegal River valley there is 11,000 tons of capacity spread around 8 sites. Capacity is fairly limited in the Casamance and concentrated in the Kolda area.

Stores located in Thies, Djourbel and Kaolack seemed to be in moderate to good condition, and while there were significant number of cracks and other problems, some money is spent on rehabilitation. Storage management appears to be very professional, with regard to store hygiene, stacking and stock control.

CSA's roles include the monitoring of basic food prices and food security indicators around the country, the storage and handling of food aid from the World Food Program and various other bodies, and managing what is left of its own Food Security Reserve. No grains are currently being procured for the Reserve, which is now largely inoperative. CSA indicated that about 25-30% of its storage capacity is utilized. The heaviest utilization is in the area of the Senegal River valley, mainly for holding emergency aid, and one warehouse is rented out to the flour milling company, Grands Moulins de Dakar. The author estimates that average utilization for Thies, Djourbel and Kaolack can not be more than 25%, and utilization of the secondary storage centers in the peanut basin is much lower.

There are also about 300 *Seccos Semenciers*, sheds built of galvanized iron, originally for the parastatal ONCAD, specifically for holding seed stocks - the typical covered floor space is about 150 sq. m.

WR/CM EXPERIENCES TO DATE IN SENEGAL

As noted above, collateral management is mainly carried out with imported commodities, including rice, maize, metal reinforcing rods, edible oils and wood. Most of the volume is in rice, and according to one estimate 300,000 tons out of annual imports of about 730,000 tons are collaterally managed in and around the port of Dakar. Collateral management costs around FCFA 1,000 per ton-month and the warehousing itself FCFA 500 per ton-month, making for all-in storage costs of FCFA 1,500 per ton-month. The players in the market include the international inspection companies Bureau Veritas and SGS, and the freight forwarders SDV and Transsenne. In most African countries, the business is restricted to European based companies, but unusually (and creditably) a Senegalese company (Transsenne) has a large share of the market.

Various freight forwarders also provide storage services in the Dakar area, as does SOCFROID cold store with frozen fish.

Activities outside Dakar are almost non-existent, though SDV is reported to do some "prestation de service" in the port of Kaolack (the exact nature of this was not determined).

Apart from that there have been three small inventory credit programs with millet during the last five years:

- a) A program organized by the micro-finance organization CMS through its local caisses in Sine Saloum and Tambacounda - see Box 1.
- b) A group of SME processors' under the auspices of the Program for Promotion of Local Cereals, and with CNCAS acting as lender.
- c) Kaolack Chamber of Commerce (CoC) program, 1997 and 1998, supported by the Primature using resources from the Common Counterpart Fund. The program continued for two years and 98% of the funds were reported to have been repaid; notwithstanding this the program was discontinued.
- d) The storage of maize in Tambacounda Region, where the cotton parastatal SODITEFEX acted as collateral manager.

BOX 1: CMS INVENTORY CREDIT PROJECT WITH MILLET

With a view to preventing its members over-selling their millet at low prices before the harvest, CMS authorized its local caisses in Sine Saloum and Tambacounda regions to store the crop and lend against it. Loans were up to FCFA 50,000 per member. Grain was stored on an identify-preserved (IP) basis by the caisse managers under dual key arrangements in which a representative of the local authority held one of the keys. According to CMS staff, the program worked successfully for two years but was suspended after an unsuccessful year in 1998/99 when there were significant losses. The following problems were reported:

- a) The millet price did not rise as expected but fell heavily throughout the storage period - see Figure 1.
- b) Poor grain handling and storage. The grain was accepted on the basis of the member's declaration and not weighed. Pest control was inadequate, leading to storage losses. This may reflect the lack of an independent collateral manager who could be held responsible for the losses.
- c) A high advance rate. Originally only 75% of the value of the crop were advanced, but this was increased to 100% in the last year. There was no margin to cover the speculative price risk.
- d) A legal interpretation of the OHADA Law, according to which the operation could be challenged on the grounds that there was no tiers détenteur and no insurance cover – CMS has self-insured the operation based on a charge of 5% of the value of loan, over and above the 2% interest rate charge, and that there had to be two witnesses to the transaction who could read.

The first three projects have been discontinued, and while CoC Kaolack reports 98% repayment, the other two have experienced significant defaults. The following explanations can be advanced:

- The projects have assumed a regularly high level of seasonal price instability but this has not been borne out by practical experience in the last five seasons – see figures for Kaolack in Figure 1. Appendix 4 shows that under conservative assumption concerning costs, the returns to seasonal storage is highly variable, and that it would only have been reasonably profitable in two out of these five years. In one year storage would have been highly unprofitable.
- The relatively high level of price stability over these years may be due to the following: (a) high levels of on-farm storage of millet on the sheaf in Sahelian countries (a system associated with low storage losses) and farmers selling in small quantities through weekly markets. Hence farmers are already carrying out an effective adhoc price stabilization system of their own¹; (b) the impact of international trade. Senegal is a coastal country with a convertible currency and when coarse grain prices rise above a certain level traders can quickly access imports, both through the port of Dakar and from neighbouring countries.
- The CoC program in Kaolac was designed to meet Government concerns re price stability, but paid less attention to the requirements of traders who were being asked to store. They could only withdraw stocks at a time authorized by the CoC, and could not use them flexibly as required for transactional purposes.
- A tendency to fix high advance rates, with borrowers reluctant or unable to accept the “down side” when prices do not move in the direction they expect. This seems to explain why borrowers have defaulted on both CMS and CNCAS in their respective projects.
- Insufficient independent checks, both regarding lending decisions and storage management (in the CMS case).

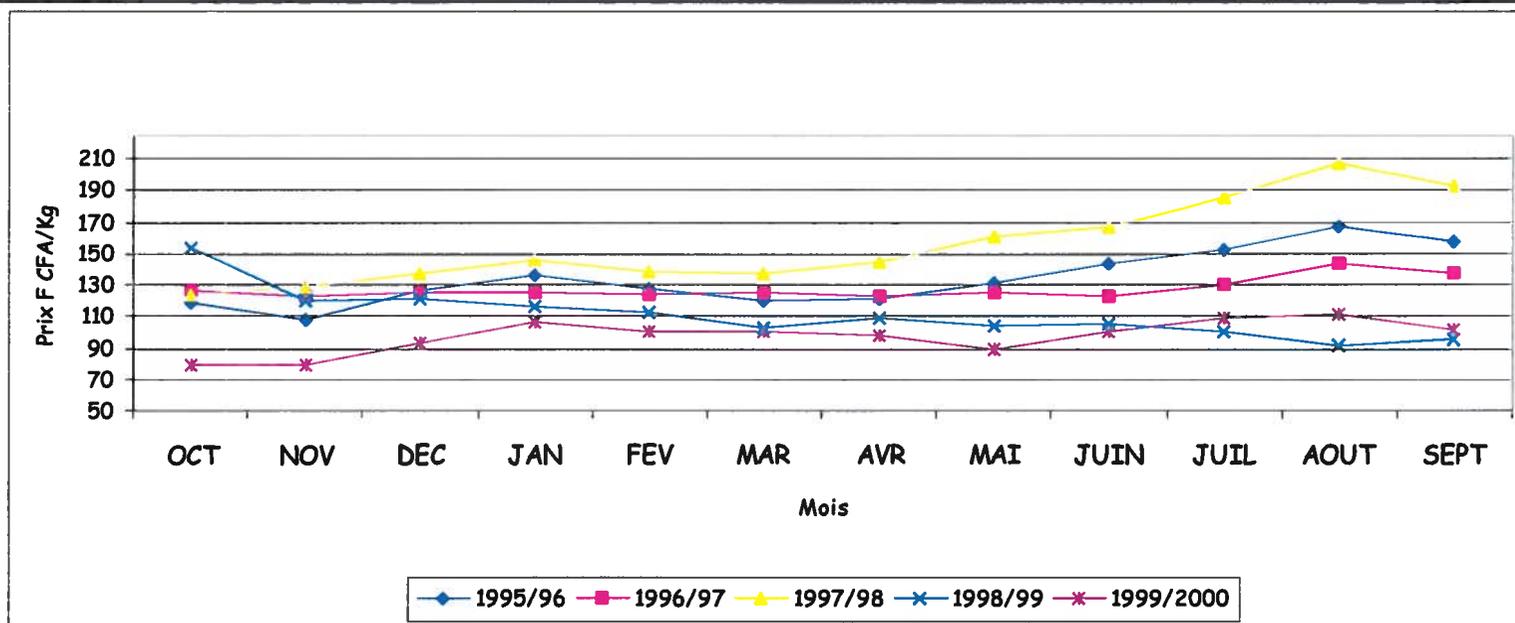
Given the low level of average returns to seasonal storage, and the very high risks involved, institutionally-sponsored inventory credit programs targeted at particular groups of users (e.g. small farmers) are not to be recommended with millet and sorghum. The risks are likely too high, particularly where small farmers are involved.

More sophisticated traders with access to good market information networks, or farmers with a unusually entrepreneurial outlook, may however be able to use such facilities opportunistically, in years where they have reason to expect price increases. If such players enjoy access to good market information, they may swing the odds in their favour. Likewise processors may also use such facilities as a means of hedging against possible price increases and locking in raw material costs for a season. However, banks or microfinance institutions will need to set advance rates prudently, and be prepared where necessary to foreclose speedily on the borrower and auction unsold stock.

¹ A stark contrast can be seen with maize farmers' practices in the transitional zone in Ghana. Maize is produced as a cash crop and farmers experience very significant storage problems. Average real price increases in excess of 100% were experienced over the period 1985 to 1995.

FIGURE 1: AVERAGE MONTHLY RETAIL PRICES FOR MILLET, KAOLACK MARKET

CAMPAGNE	OCT	NOV	DEC	JAN	FEV	MAR	AVR	MAI	JUIN	JUIL	AOUT	SEPT	MOYENNE
1995/96	119	108	126	137	128	120	121	131	143	152	168	158	136
1996/97	126	123	125	125	124	125	123	125	123	130	144	138	129
1997/98	124	129	137	147	139	138	145	161	167	186	208	193	155
1998/99	153	120	121	117	113	103	109	104	105	100	92	95	100
1999/2000	80	80	94	106	100	100	98	90	100	109	111	101	103



The consultant was unable to obtain full details about the distinctive experience with maize at Tambacounda (which he only learned of at the final workshop), but it is worth pointing out that CMS considers it a success. Two conclusions may be drawn from this experience:

- That the presence of an overseeing body like SODITEFEX may make collateral management systems a viable proposition, in situations where they would otherwise not work. In the same way, SONACOS might provide collateral management services for its peanut suppliers.
- That collateral management is likely to be more profitable with crops such as maize, where production is geographically concentrated and largely produced for the market, unlike the case with millet and sorghum.

REVIEW OF POTENTIAL WITH MAIN COMMODITIES

Peanuts

The peanut industry is potentially the largest user of collateral management services. While there has been some dispute over the volume of production of peanuts, even according to more conservative estimates by CIRAD in 1997, annual production has never been less than 350,000 tons during the 1990s. Unlike the case with millet, the other major crop, most production is marketed, either for crushing, as seed or as edible peanuts (*arachide de bouche*), on officially recognized and “parallel” markets. The largest crop occurred in 1999/2000 – 828,000 tons according to official figures - thanks to another year of high rainfall, and just over half this volume was procured by SONACOS for crushing. A similarly large crop is expected in 2000/2001.

	1990/1	1991/2	1992/3	1993/4	1994/5	1995/6	1996/7	1997/8	1998/9	1999/2000
Official figures	679	697	551	605	678	791	628	525	570	828
CIRAD Estimates	540	608	359	482	501	540
Official procurement	230	355	121	208	239	258	96	172	285	417
Official marketing as seed	26	34	42	30	26	36	47	70

... not available/not obtained during the mission
Source: CNIA reports, Freud et al. (1997), SONAGRAINES, FAOSTAT

We shall analyze the scope for collateral management and warehouse receipt services in the following three uses: (a) officially procured production for oilseed crushing and edible use; (b) seed production, and; (c) the non-official or “parallel” market.

The scope for collateral management of **officially procured peanut production** is reviewed in Appendix 5. SONACOS is presently being financed by a consortium of banks which does not require pledges of stock-in-trade, but this situation may change in the near future, creating two opportunities for WR/CM services. Firstly, existing

collateral managers could manage raw material and finished product (cake and oil) at the oil mills. At the same time, collateral management services could be provided at collection points, to private suppliers (*mandataires*) wishing to take advantage of SONACOS' *carreaux usine* scheme, which involves their delivering directly to the mills. However this second option can only be implemented if SONACOS decides to raise its procurement prices during the season, in such a way as to encourage its private suppliers (*mandataires*) to store at the procurement points and deliver gradually to the mills.

Seed production and distribution has been the leading constraint on the development of the peanut industry, so the success of Senegal's plans to privatize its seed distribution process is of absolutely crucial importance. This in turn depends on the effective collateral management of seed purchased with the CNCAS loans, and avoiding problems of default and seed quality which have affected previous programs (PAS and the Program Intérimaire). In Appendix 6, the consultant analyses the issues and suggests some ways in which the system might be strengthened, and risks minimized, i.e.:

- to institute a **unified and highly professional inspection and technical support service**, avoiding the duplication of effort and resources implicit in current plans. It should work to standard procedures, and be concerned with both the quality of seed and its collateral management on behalf of financing banks.
- requiring the OS to put up **additional physical collateral** in addition to the 10% cash contribution currently required
- To require **legal action against defaulters**, even where the legal costs are disproportionate to the sums involved, with a view to setting strong precedents
- Require the OS to subscribe to an **indemnity fund** to cover eventual defaults by UNIS members.

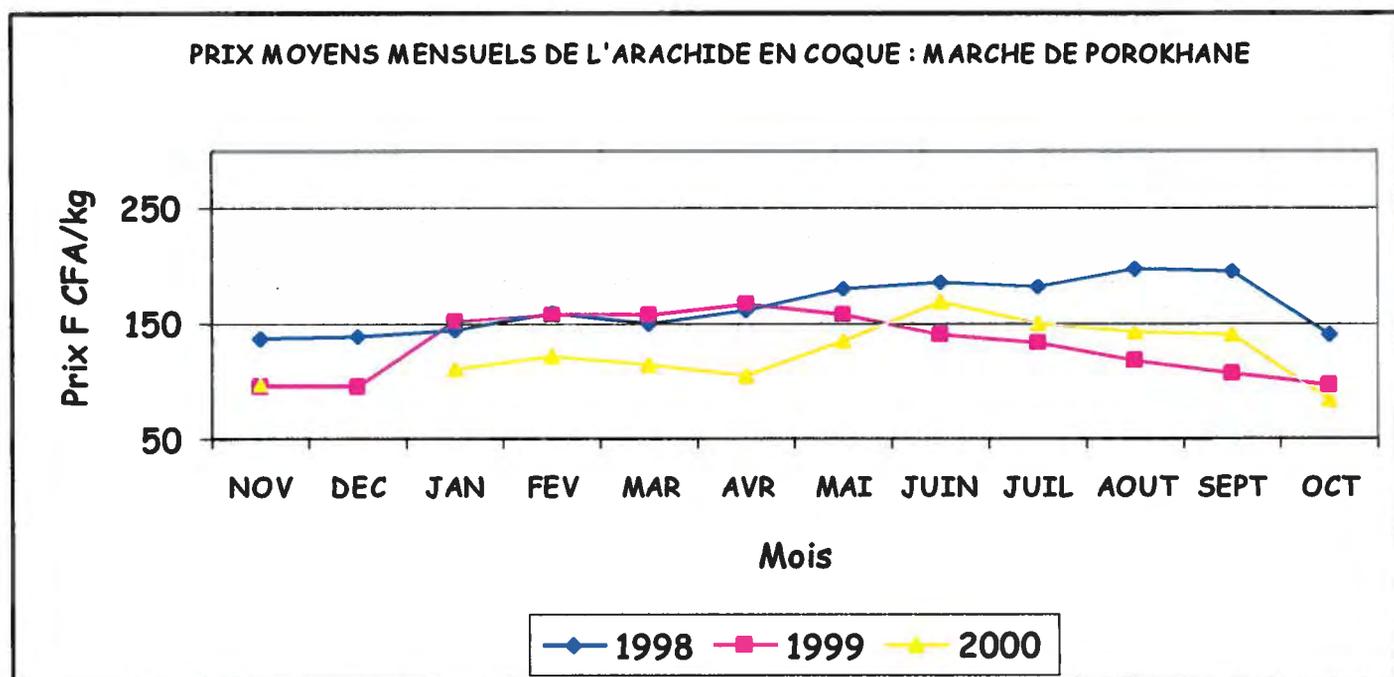
These suggestions are directed to the Comité National Interprofessionnel de l'Arachide (CNIA), which is responsible for Peanut sub-sector policies, and the Union Nationale Interprofessionnelle des Semences (UNIS), which represents seed distributors and producers.

The **parallel or private trade** is centered at Touba where large quantities are converted artisanally into peanut butter, oil and groundnut cake, traded as shelled peanuts, or sold back to farmers as (uncertified) seed. There is considerable inter-seasonal storage and traders make use of every available space for this purpose. It is difficult to estimate the size of the private peanut market, but the above-mentioned CIRAD report estimated the quantity retained for local consumption and sold on the private market at around 70,000 tons. This did not include the quantity sold to the private market and subsequently resold to the official market.

Traders typically finance storage out of their own capital and with capital borrowed on a profit-sharing arrangement from larger trader/financiers. There are very significant seasonal price variations, though the pattern has varied greatly over the last few years (see Figure 2). Traders can at times make substantial returns, e.g. by bulking up supplies before SONACOS comes on the market, or by storing for the lean season (around August) in years of shortage, but by carrying out such activities they erode the speculative margins and tend to bring about price stability.

These characteristics suggest the private peanut trade may be able to use a few thousand tons per annum of WR/CM services. However, in the absence of any practical experience this cannot be established with any certainty. There are various unknowns, notably whether traders will accept handing over control of their commodity, whether they will pay storage charges, and whether Mouride traders will work with non-Islamic banks or find other ways of financing their stocks. Notably, one group of Mouride investors is seeking to develop storage systems for local crops in the main surplus areas, including the rice schemes of the north.

FIGURE 2: AVERAGE IN-SHELL PEANUT PRICES, 1997/98 TO 1999/2000



Coarse grains: millet, sorghum and corn

The volume of coarse grains marketed varies widely from year to year, according to the state of the harvest. Based on expert opinion, an estimated 15-20% of maize and sorghum, and 40% of maize production, are on average marketed. This gives a total marketed surplus of between 120,000 tons and 150,000 tons per year. Surplus producing areas include Sine-Saloum, Tambacounda and Casamance, and the grain flows mainly to Greater Accra and deficit areas in the north of the country. As with peanuts, Touba is an important staging point in selling to northern areas.

Farmers typically sell millet and sorghum in very small amounts, sometimes often a few kilos at a time, and sales are greatest before and after the official peanut procurement season. As indicated above, there may be a market WR/CM services among the more sophisticated traders, or the most entrepreneurial farmers, who wish to store opportunistically to take advantage of seasonal price swings, or processors who wish to lock in a procurement price. Given the dispersal of producing areas, it is unlikely that more than 5% of the estimated surplus, i.e. 6,000 to 7,500 tons, would be stored annually.

Rice

The domestic market for milled rice is about 850,000 tons per year, including re-exports, of which about 730,000 is imported and 120,000 is local rice, mainly from irrigation schemes in the Senegal river valley and from South of the country. Most of the Southern rice is locally consumed, so marketing is a much more critical issue in the North. It is most unlikely that the quantity of local rice marketed outside immediate producing areas is more than 60,000 tons.

The problems associated with marketing Valley rice and its loss of market to imported rice since liberalization of imports have received much attention in the recent past. Marketing of rice is now largely the responsibility of the cooperatives operating within the rice schemes, and their warehouses which could be used for collateral management of stocks.

While the most popular imported types consisted of broken rice, they are of highly uniform size and appearance. Valley Rice, while also largely broken, is by contrast highly heterogeneous. Once the farmer organizations and millers have addressed these problems it should be possible to structure an efficient marketing system involving collateral management of stocks entering the marketing chain – much as it works with the system of imports.

Appendix 7 briefly reviews the marketing of the Senegal Valley rice. The industry has been plagued by quality problems – notably the lack of accurate grading – but industry representatives now claim this has been resolved and that there is agreement on a formula which will provide acceptable protection to imported rice. Apart from quality issues, the industry is being badly affected by a major cash flow problem which could potentially be addressed by instituting a system of collateral management through the marketing chain. However, it is only worth doing this if a key precondition is first addressed: the rice mill at Richard Toll needs to be rehabilitated, and supported by proper financial and managerial inputs.

Given past problems and the present policy issues surrounding the importation of Pakistani rice, prospective financiers are understandably cautious in supporting the Valley rice industry. However there are special reasons why they might consider supporting the rehabilitation of the rice mill at Richard Toll:

- After years of chronic mismanagement, it is now being handed over to private operators (i.e. the farmers) who are open to outside advice and investment
- The rice mill is a key bottleneck preventing the recovery of an industry which, despite cash flow problems and international competition, is « a going concern » resting on a major physical and organisational infrastructure
- The necessary investment in rehabilitating the mill, while significant, is likely to be negligible compared to past investment in rice production – an investment now threatened by the processing bottleneck
- Other commercial mills lack the capacity to handle the prospective marketable volumes (upwards of 25,000 tonnes of paddy per annum)
- Notwithstanding competitive problems, the Valley has a massive market on its doorstep. Moreover, with the flattening of yield growth in the major producing countries, World prices are likely to strengthen over the medium term.

It is therefore suggested that a small group of international institutions, including investment affiliates like the IFC, study the case for a rescue package. This should include: (a) market research (MR) into consumer and trade preferences, to be carried out by an internationally accredited MR agency; (b) an assessment of the costs of rehabilitation, and; (c) a business plan.

A part of the business plan would involve collateral management arrangements starting from the paddy warehouses in the field through to the finished products or even distributors' stocks of white rice. Paddy might be collaterally managed in the field by setting up an inspection system, coupled with an indemnity fund to which farmers' organisations and rural middlemen would be required to subscribe, and which would compensate the bankers in the event of default. Alternatively a single collateral manager might take direct responsibility right the way through the chain.

Cashews

Well-informed trade sources indicate that domestic production of raw cashew nuts is 4,000 to 5,000 tons per annum, compared to about 75,000 tons per annum in Guinea-Bissau. Most of these nuts are exported unprocessed to the State of Kerala, in India, for decortication and sale on the international market. In view of the better international freight connections from Dakar, a small part of the Guinea-Bissau crop is exported via Dakar. International inspection companies are already involved in the export trade, and in Guinea-Bissau they provide collateral management services in support of pre-export financing.

Cashews are mainly produced in the Casamance, but there is also significant production in Fatick Region near Sokone, the result of a German-sponsored project, and there is a group of 15 GIEs at Passy concerned with marketing. There are a number of buyers and prices are buoyant. Nonetheless, there might be scope for some more upstream collateral management services within the market chain in either Casamance or Fatick, and some Zuiginchor banks have indicated their approval in principle to this proposition. The needs for such services first need to be established through a commodity systems study. The Département des Eaux et Forêts is working on a sector study in the Casamance, and this should be available at the time when this final report appears.

Other commodities

Various domestically consumed commodities could be investigated to determine if there is a strong seasonal price pattern and scope for inventory credit involving seasonal storage. Dried fish is an obvious choice, while baobab fruit (*pin de singe*) and neré were suggested by local interviewees.

The author has not investigated Senegal's substantial cotton industry (output 35,000 tons per annum of seed cotton). However, given that the industry is vertically organized through the parastatal, SODETIFEX, collateral management services will probably not be needed, as in the case of SONACOS. If SODETIFEX does need collateral management services, it will probably get existing Dakar-based service providers to collaterally manage stocks at ginery sites. We also reported earlier that SODETIFEX has successfully acted as collateral manager for maize producers.

The United States cotton industry has a long-established well-functioning warehouse receipts program, which brings together all the major players, including merchants, co-operatives, gineries, warehouses, banks, the commodity exchange (NYBOT), and USDA. The system recently turned electronic, giving rise to a major reduction in operating costs. It might find applications in Francophone Africa, particularly in those countries which have gone furthest to liberalize their cotton industries (not the case with Senegal).

Implications for development of WR/CM systems

The above analysis shows that there is strong potential for WR/CM services targeted at crushing peanuts, peanut seeds and rice. With the exception of the SODETIFEX experience with maize, it is difficult to envisage specialist services targeted exclusively at the other agricultural products such as millet, sorghum and cashew. These diverse commodities are marketed in small and dispersed amounts, such that the cost of service provision is likely to far exceed the expected revenues, particularly if the capital costs of the warehouses are considered. We therefore suggest the creation of a public warehousing company (*magasin général*) which could store a range of food and non-food products.

LEGAL ISSUES

The key requirement of legal frameworks affecting warehouse receipts is that depositors' and lenders' security interests be perfected, vis a vis challenges by previous holders and other creditors, including those which arise upon death or bankruptcy of the depositor or the warehouse operator. This is discussed in a legal appendix of the book by Coulter and Shepherd (FAO Agricultural Services Bulletin No. 120). The consultant is not a lawyer, and can give no assurance as to terminology or interpretations. The following are his own preliminary findings based on some discussions with lawyers at the BCEAO and certain other sources of information.

The existing legal framework appears to provide adequate support to standard collateral management agreements involving the importation of merchandise. The parties to the agreement are normally well known to each other. However, this does not guarantee that the system will work well with a system of public warehouses working with a multitude of depositors. Some of these depositors may not be well known to the warehouse operator or to the banks to whom they are seeking finance mainly on the strength of the collateral itself

West African lawyers sometimes refer to legislation regarding *Magasins Généraux* which is a store open to deposits of a wide range of goods (ranging from commodities to manufactured goods) deposited by manufacturers, traders, farmers or artisans, and entitled to issue *récépissés-warrants*, which are securities allowing the holder to either borrow against the merchandise or transfer them by endorsement. The opening of a magasin général is subject to its licensing (*agrément*) by public authority². The author is familiar with these companies in Latin America and Eastern Europe, where laws are often modeled on 19th century French precedents, but knows of no example in Francophone Africa. One of the leading Dakar-based collateral managers had no knowledge of the Law, so it is possible that the law is already defunct (*en desuétude*).

Of major significance is the Uniform Act Regarding the Organization of Sureties, of 17 April 1997, the so-called OHADA Law, which is applicable throughout the UEMOA states. It lays out some general principles regarding secured lending, including lending against “sûretés mobilières”, which appear to be applicable to WR/CM.

The practice of *tierce détention* involves *le gage*, i.e. the goods being pledged to someone who takes possession either directly or through an agent. In contrast to previous legal codes, *tierce détention* does not involve *nantissement*, because the latter explicitly does not involve physical *dépossession*. Various aspects of the law seem to be favourable to the use of warehouse receipts:

- The gage must be constituted in writing (*dûment enregistré*), as per Article 49, but this does not appear to require that the public be given notice. Public registration may be unwieldy with WR systems.
- The “*droit de rétention*” re-enforces the lien (*gage*), allowing the warehouseman to withhold an asset upon which bills are still outstanding. It reinforces the warehouseman’s lien.
- With regard to the seniority of creditors, or “*classement au regard de la distribution de prix*”, the Law gives high priority to the beneficiary of the *gage*³.
- It facilitates the rapid seizure and auctioning of the goods subject to *gage*⁴.

² Probably the Ministry of Trade. This was the case with the *agrément des tiers détenteurs* under the PRMC trade-financing program in Mali in the 1980s.

³ According to Article 149, “si la vente provient des biens meubles, le prix est distribué comme suit et par ordre de priorité: Créanciers de frais de justice; créanciers de frais engagés pour la conservation du bien; créanciers de salaires superprivilégiés; créanciers gagistes selon la date de constitution de leur gage; créanciers garantis par un nantissement ou un privilège soumis à publicité - -; autres. Very few parties enjoy seniority over the holder of a gage.

⁴ With regard to default by the debtor, Article 56, item 1 specifies: “- - le créancier gagiste muni d’un titre exécutoire (*qui constate sa créance*) peut faire procéder à la vente forcée de la chose gagnée, huit jours après une sommation faite au débiteur - -”. Le recours au juge n’est donc pas obligatoire.

- A favourable legal code does not guarantee favourable treatment by the courts, and there may be problems arising from differences in interpretation of the law between different West African countries, or contradictions arising from pre-existing national laws. However the Cour Commune de Justice et d'Arbitrage in Abidjan will be the court of last resort, and is expected to be well staffed in accordance to the importance of its mission.

Above all, the legal code needs to guarantee that cases never reach the courts, and that holders of warehouse receipts can exercise their rights at little cost and before the value of the commodity has fallen.

In view of the above findings, a legal study may be required to establish:

- what previous legislation is still applicable to CM/WR in the Region, and how;
- whether the OHADA law concerning gages is fully applicable;
- all other matters pertinent to the operation of a system of warehouse receipts in Senegal, and;
- whether new legislation or regulations are required for efficient functioning (under most foreseeable circumstances), and what they should specify.

The study should be commissioned if and when there is a decision to act on the recommendations in the next section.

RECOMMENDATIONS

1. Develop rural service provision, making use of CSA's facilities and skills

CSA has a large stock of warehouses spread around the country, and staff skilled in grain handling and stock control, which are presently only being utilized to a limited degree. Potentially, this could give CSA, or rather an autonomous service provider supported by CSA, a market niche in the provision of warehousing and collateral management services beyond the range of existing Dakar-based companies in this field. Given depositors' and banks' apprehension about the possible effects of State control, the service provider(s) would need to be private or semi-private in character, and have a mainly non-Governmental Board of Directors. CSA would need to cede full control of the warehouses to the provider. The consultant has identified other parties who might consider participating in such a venture.

CSA could bring this about without sacrificing its existing mission. Price and food security monitoring would continue as at present, using its existing management structure. The new service provider would handle CSA and food aid stocks on a fee-paying basis, in addition to other commodities. To compensate for any shortage of storage capacity at the existing CSA sites, the service provider would lease private capacity.

The only problem is that existing food aid business and prospective volumes of agricultural commodities are too small to make this concept pay, except possibly in the case of the Senegal valley rice industry - once the product and the marketing system have been modified to compete with the emerging market. The only way in

which a-CSA backed service provider (or providers) could break even is by handling a range of commodities including not only local crops, but also other food and non-food items distributed in the interior of Senegal. The latter items include commodities such as rice, flour, soaps, gas, building materials etc., indeed any commodity which can be safely handled and stored on behalf of Senegalese manufacturers, importers or traders requiring storage services in the interior of the country. A study would be needed to assess market potential, though one key informant has already suggested that there would be a demand for the storage of imported rice in up-country locations (the service would be available to suppliers of local and imported rice without discrimination). It is also evident that the Grands Moulins de Dakar need up country storage and have sought to hire CSA warehouses on more than one occasion.

The service provider(s) might take the form of a *magasin général* (see previous section), or a suitable alternative. Box 2 shows some key characteristics of the model.

The following action plan is recommended:

Step 1: A Government/CSA commitment to explore the potential for such a service provider. Following this, a few of the key stakeholders should visit a country with a well-established public warehousing system. The author is willing to assist in identifying a suitable country in Latin America.

Step 2: A feasibility study for one or more pilot operations, and a legal study. The feasibility study needs to explore ways in which overheads can be kept down to levels which can be absorbed by the prospective volume of business. At the same time there should be a study of the market potential for WR/CM services for local commodities which it has not been possible to study in depth (e.g. dried fish, cashew nuts). The legal study is needed to determine whether existing Senegal and West African law fully supports the operations of the service provider, particularly regarding the security interest of depositors and lenders, and failing this, if it can be amended to produce the desired result⁵.

Given the prospective socio-economic benefits, these studies and the above-mentioned study tour should be financed out of public funds.

Step 3: If the findings of these studies are positive, a company should be identified or formed to manage the pilot operations, and CSA should cede the warehouses on agreed terms for the duration of the pilot phase. The initial investment will include a modest outlay in office equipment, vehicles and working capital, so it should be possible to structure the operation in a way which is attractive to prospective investors.

Step 4: Pilot implementation.

Step 5: Review of pilot phase, and a decision for or against full-scale implementation.

Step 6: Full-scale implementation. This will only go ahead if the concept has been validated both on paper and through pilot-scale implementation.

⁵ Existing practices of collateral management companies in Dakar suggest there will be little problem in this regard. Caution is advised however, as the general warehousing model will sometimes involve a less intimate relationship between the bank, the borrower and the collateral manager.

If proved to be financially viable, this rural WR/CM service provision model will be welcomed by the Senegalese banking and microfinance community. Through its millet scheme, CMS has already demonstrated its interest in rural service provision. ACEP has a very strong clientele among traders and is particularly supportive which increases the volume of eligible collateral against which it can lend. Positive reactions were likewise obtained from CNCAS, and from a leading bank engaged in the financing of rice imports.

The model is attractive from a developmental viewpoint because it will contribute to employment creation in trade and agriculture, outside of the major urban areas. It could also be emulated in other countries of the Region.

2. To study the case for a rescue plan for the rice marketing system in the Senegal Valley, of which one component will be a system of WR/CM

The case is discussed above and, in more detail, in Appendix 7.

3. Institute a rigorous tailor-made system of WR/CM for peanut seed

The case for a rigorous system combining monitoring of cultural practices, seed certification and collateral management of stocks is discussed briefly above and at more length in Appendix 6.

BOX 2: SUGGESTED CHARACTERISTICS OF A "MAGASIN GENERAL" TYPE SERVICE PROVIDER FOR SENEGAL

Services:

1. to run "public warehouses", with space being allocated to all-comers on a first-come- first served basis
2. to run "field warehouses", i.e. private warehouses ceded by parties interested in raising finance against stocks. In this case there is only one depositor, and the magasin général acts simply as collateral manager.
2. to issue warehouse receipts which can be used to raise finance with banks and financial institutions. Given the scale of commodity trade in Senegal, non-negotiable warehouse receipts are more appropriate, at least in the early stages.

To avoid conflict-of-interest situations, the company would not be able to trade in commodities in its own right. Some public warehouse operators, e.g. North American grain elevators, are allowed to trade and store for third parties as well as trading in their own right, but they are subject to a strict form of regulation which would not be cost-effective in this case. The company will need a reputation for incorruptibility, and this will be easier when it is not involved in commodity trade itself.

Commodities handled:

Local crops, e.g. coarse grains, rice, peanuts

Other raw or manufactured food items, e.g. imported rice, flour, canned food

Non-food items, e.g. soap, gas, building materials, auto parts

Food aid goods currently handled by CSA

Physical facilities:

Warehouses ceded by CSA

Rented warehouses opened for public usage

Field warehouses set up in premises of borrowers and depositors

Miscellaneous rules and operating procedures:

Open access to public warehouses, on a non-discriminatory basis

Warehouses to post operating rules and charges to be seen by prospective users

Storage generally on an *identity-preserved basis*, probably charging per sq. meter or cu meter of warehouse space occupied.

Rules as to which commodities may be stored in proximity with one another

Rules allowing the Magasin Général and the bank to seize and auction merchandise, either to ensure store hygiene or to exercise their liens in the event of unpaid storage fees and/or debts

Etc.

Providing comfort to depositors and banks:

A simple form of Government oversight requiring the Magasin Général to annually meet minimum capital adequacy requirements (certified by a public accountant), insurance cover against fire and allied risks, and bonding to protect depositors against bankruptcy and professional negligence. Partial bond coverage, e.g. 10% to 20% of the prospective storage value, will keep costs down. The chance of things going drastically wrong on all sites at once is minimal. The bond ensures that Government oversight is complemented by regular inspection by an insurance company.

Suggested investors and stakeholders in the enterprise

CSA, existing collateral management companies (e.g. Transsene , SDV), microfinance institutions (ACEP, CMS), banks (e.g. CNCAS, Citibank and Ecobank), rice co-operatives, West Africa Corporation and other private investors, and the NGO community.

APPENDIX 1: SCOPE OF WORK

1. PURPOSE

The purpose of the consultancy is to conduct a study to assess the feasibility of warehouse receipts financing systems to present the methodology to potential users in a workshop in Dakar.

2. BACKGROUND

Access to financial services is a common problem that Senegalese producers face, particularly small producers. Due to the lack of collateral from small borrowers, commercial banks are reluctant to provide them with loans or credit services. As for micro-finance institutions (MFIs), though they require and accept collaterals, they do not own warehouses that permit them to accept grains or cereals as collaterals to guarantee loans to producers.

It appears that considerable storage capacity exists in Senegal. For example, USAID/Senegal helped build a set of small 400 metric ton warehouses throughout the country, but mostly in the Peanut Basin. In addition, the 1980-1983 P.L. 480 Title III program funded some 30 regional warehouses of 1000MT capacity each. Despite those important infrastructures, Senegalese producers are still facing storage and conservation problems and, therefore, sell their production at low prices, as they do not want to opt for keeping their harvest at home until they become degraded and lost.

Warehouse receipts financing systems could represent an alternative tool to financial services to small grains/cereals producers in rural areas of Senegal.

3. CONTRACTOR'S RESPONSIBILITIES

The Contractor shall perform the following tasks:

- (1) Identify the constraints faced by producers, such as, but not limited to:
 - Transportation problem;
 - Proximity of warehouses and storage conditions; (3 days)
 - Assess financial institutions and commercial banks interest and willingness to implement a warehouse receipt financing system; (3 days)
- (2) Assess producers, investors and private banks' interest in a system of commodity warehouse financing and possible windows of opportunity within existing regulations to permit the establishment of warehouse receipt financing (6 days);
- (3) As most of the warehouses are government-owned, examine possible ways for the private sector (banks, MFIs, private businesses) to rent and manage those warehouses (3 days);
- (4) Recommend necessary actions to induce an enabling environment to the warehouse receipts financing system (5 days);
- (5) Conduct a half-day workshop to present the findings of the study to potential users in Dakar.

4. OUTPUT

- (1) The findings and the recommendations of the study shall help USAID/Senegal, the GOS and other donors make a decision on the timeliness of implementing a warehouse receipts financing model in Senegal as well as better understand the merits of developing a system of agricultural warehousing in Senegal;
- (2) The proposed system shall enable small producers obtain access to the financial resources needed to secure their needs during the gap period (période de soudure), thus reducing the risk of selling their products at low prices;
- (3) Shall help determine the interest of commercial banks and established MFIs to participate in such a system;
- (4) The study shall examine how grading of commodities might be carried out in Senegal.

5. REPORTING SCHEDULE

The Contractor shall submit to USAID/Senegal a preliminary written report presenting his/her findings and recommendations as to the most suitable warehouse receipts financing model, as well as an alternative model, within approximately 28 days after the signature of the contract. This preliminary report shall be submitted in English in 5 copies.

The Contractor shall present, in the report, potential commercial banks and MFIs that would be interested in the launch of warehouse receipts financing system, and make recommendations on the possible involvement of these institutions.

The final report shall be due 15 days after the end of the contract in eighty (80) copies, ten (30) in English and ten (50) in French.

6. PERIOD OF PERFORMANCE

The contractor's services are required for a period of four weeks, starting o/a July 1st, 2000, and ending o/a July 31, 2000. The contractor shall be allowed to work six days per week.

APPENDIX 2: LIST OF PEOPLE MET

ACEP	Papa Ali Ndio, Adjoint au Directeur Général Ibrahima Niang, Bureau de Kaolack
Ambassade de Grande Bretagne	Momar Diop, Commercial Officer
Association des Opérateurs Privés de Stockage de l'Arachide	M. Goumballa
BCEAO Agence de Dakar	Abdoulaye Gaye, Chef du Service de Crédit El Hadji Abdoulaye Ndiaye, Chef du Service des Etudes
BCEAO, Direction des Affaires Juridiques	Elpidio Freitas, Directeur des Affaires Juridiques Alioune Blondin Beye, Fondé des Pouvoirs
Bureau Veritas	Demba Sangaré, Chef du Centre de Commerce International
Chambre de Commerce d'Industrie et d'Agriculture de Kaolack	Aroma Traoré, Secrétaire Général Mme Diakhaté
Citibank, N.A.	Michael Grossman, Directeur Général
CMS	El Hadji Moussa Dongue, Adjoint
CNIA	Mr. Sidi Gaye Alioune Blaise Mbengue, Expert Agronome Yves Gueymard, Conseiller Technique Projet d'Appui de l'Union Européenne
Caisse Nationale de Crédit Agricole	Mamadou Diouf, Directeur du Crédit et du Réseau, Dakar Malick N'Diane??, Chef de l'Agence de Kaolack Moudou Senghor, Ousmane Diop, Amadou Dieng - Touba
Commerçants Grossistes	El Hadj Faye, Djourbel M. Faye, Représentant Régional d'UNACOIS, Djourbel Amadou Niame??, Kaolack
CSA	Intendant Colonel Alioune Seck, Directeur Massaer Ndir Adjudant Major Kholé Diouf, Gérant de Complexe, Thies Moussa Adjiane, Adjoint Technique, Thies Djiby Nalla Sy, Inspecteur, Diourbel Guirane Mbodji et Amadou Ba, Magasiniers Thierno Ndao, Inspecteur Edouard Ndiaye, Adjoint Technique
DISEM/SA	Local representative, Projet Semencier de Diourbel
Dyna Entreprises	Charles May, Directeur du Project Criss Juliard, Directeur de Développement des Entreprises Ibrahima Diaw
Ecobank	Adama Diop, Account Officer, Commercial Banking
GRET, Groupe de Recherche et d'Echanges Technologiques	Cécile Broutin, Représentante au Sénégal
IDEP	Dr Matar Gaye, Coordonnateur, Analyse des Politiques Agricoles en Afrique
Min. de l'Agriculture et de l'Elevage, Unité de Politique Agricole	Jean-René Cuzon, Conseiller Technique M. Dejene
Outspan Ltd.	Ronny Lameck
Rice industry representatives	Saliou Sarr Diouf, Président de la Fédération des Périmètres Autogerés, Dagana M. Malik Sar, SAEDD M. Sow, Adjoint au Directeur, et M. Sy, Responsable Technique, Rizerie de Richard Toll Employées de l'Union des Paysans à Dagana Daniel Roche, Conseiller Technique, Centre Interprofessionnel pour la Formation aux Métiers de l'Agriculture Lamine Gueye, Consultant, Groupe Synergies
SONACOS	Mohamed El Habib Mbaye, PDG
SONAGRAINES	Modiar Fall
Synergies Audit & Conseils	Sakhir Diagne, in charge of agricultural financing study Lamine Gueye, Consultant Mme Rokhaya Gueye, Juriste-Conseil d'Entreprise
Transsene International	Ndiankou Mbengue, Directeur Général Cheikh Diop, Secrétaire Général
UNIS	Amadou Moustapha Djigo, Président Demba Ndoye, Secrétaire Permanent Opérateurs Semenciers à Nguekokh: Abdoulaye Dieng, Mbaye Dieng, Assane Dieng
USAID	Francois Faye, Bassirou Ba
US Treasury Technical Assistance Bureau	Michael P. Grifferty, Conseiller en Gestion des Titres Gouvernementaux
West African Corporation	Mame Mor Mbacké, PDG
World Bank	El Hadj Adama Touré, Spécialiste des Services Agricoles

APPENDIX 3 : RECORD OF DISCUSSIONS AT WORKSHOP ON WAREHOUSE RECEIPTS AND COLLATERAL MANAGEMENT (IN FRENCH)

Un atelier de restitution des travaux effectués par Monsieur Jonathan COULTER à l'instigation de l'USAID sur la tierce détention et la gestion des garanties s'est déroulé le 26 mars 2001 à 09 heures 30 minutes.

Cet atelier a vu la participation de :

Mr Jonathan COULTER, Consultant, Rédacteur du rapport ;
Monsieur Sakhir DIAGNE, Expert-comptable, Groupe SYNERGIES ; (849 19 19)
Monsieur Lamine GUEYE, Consultant, Groupe SYNERGIES ; (849 19 19)
Mme Rokhaya GUEYE, Juriste-Conseil d'Entreprise, Groupe SYNERGIES ; (849 19 19)
Mr Moussa SY, société WEST AFRICA CORPORATION ; (827 33 29 /820 54 27)
Mr Ndiakou MBENGUE, société TRANSSENE ; (823 02 90)
Mr Jean-René CUZON, DAPS/MAE ; (823 42 16)
Mme Léna NDIAYE FALL, DAPS/MAE ; (823 42 16)
Mr Joseph VAN METER, USAID ; (823 58 80)
Mme Olga SEDO, USAID ; (823 58 80)
Mr Bassirou BA, USAID ; (823 58 80)
Mr Massaer NDIR, PM/SGG/CSA ; (821 61 91)
Mr Mamadou DOIUF, CNCAS/DCER ; (839 36 29)
Mr El Hadji Moussa DIONGUE, CMS ; (823 14 48)
Mr Gabriel BASSENE, DISEM/DA ; (832 21 09)
Madame Fatou THIAM, DYNA ENTREPRISES ; (824 73 13)
Mr Saliou SARR, Comité Interprofessionnel de la Filière Riz (CIRIZ)-
(964 20 00/963 14 15)
Mr Sidy GAYE, PA/CMIA ; (821 03 53)
Mr Khadim GUEYE, SONACOS (849 17 37)

Après avoir remercié les participants pour leur présence à l'atelier, Mr Jonathan COULTER a organisé son intervention ainsi qu'il suit :

PRESENTATION GENERALE DU RAPPORT et DISCUSSIONS SUR LE MODELE DE MAGASIN GENERAL

1. Présentation générale du rapport

Après la présentation par Mr Jonathan COULTER des systèmes de tierce détention et de gestion des garanties, des constats relevés à l'issue de sa mission, la discussion a été ouverte.

Les participants sont intervenus pour faire part à l'assistance de leur expérience du système et l'intervention de Mr Ndiakou MBENGUE de la société TRANSSENE a été particulièrement instructive sur l'utilisation du système de tierce détention.

Dans la pratique, le système de tierce détention est très usité au Sénégal.

Il résulte de ces discussions que la confiance entre les différents partenaires est la clé de voûte pour l'efficacité du système.

Toutefois, les banquiers, en particulier Mr Mamadou DIOUF du CNCAS, ont relevé que cette confiance était certes importante mais qu'elle ne constitue pas la seule condition pour la bonne marche du système.

En effet, leur hésitation pour l'adoption du système relève du fait que les débiteurs ne jouaient pas toujours le jeu.

Il y avait très souvent une spéculation sur le prix des denrées étant sous le régime de la tierce détention.

Le débiteur qui a tendance à spéculer sur le prix du produit laisse généralement le produit chez le tiers détenteur et les frais en résultant à la charge du créancier diminuent les marges de cette dernière.

La discussion a également porté sur l'opportunité ou non d'utiliser ce système pour l'arachide car concrètement, l'entreposage de ce produit exige de grands magasins du fait du volume extrêmement important à stocker.

A l'issue de ces différentes interventions, il est apparu que ledit système permettait aux importateurs et exportateurs de stocker leurs marchandises chez le tiers détenteur et de les sortir et dédouaner progressivement grâce aux ventes effectuées.

Le tierce détention est donc un moyen de financement mais également un moyen de régulation du marché.

2. Discussions sur le modèle de magasin général.

Mr Jonathan COULTER a ensuite présenté le modèle français de magasin général utilisé dans différents pays du monde et a formulé un certain nombre de recommandations pour son implantation au Sénégal.

Les participants se sont réjouis du modèle prôné tout en admettant, dans le même sens que Mr Jonathan COULTER, qu'une étude de faisabilité du système était opportune voire nécessaire.

Ils ont pour la plupart réitéré leur disponibilité pour l'éventuelle mise en place d'une commission pour l'étude de la mise en place d'un système réglementé de la tierce détention.

Ils se sont enfin réjouis d'avoir participé à l'atelier dans la mesure où pour la première fois, les différents acteurs se sont réunis autour de la même table.

Mr Jonathan COULTER a conclu en soulignant aux participants que c'était à eux de se réunir pour trouver les voies et moyens pour la légitimité du système et que l'USAID pourra servir d'appui.

Certains participants ont déclaré être "restés sur leur faim" puisque la description du magasin général fait par Mr COULTER leur semblait trop concise.

D'autres participants sont intervenus pour dire que cette présentation justifiait une étude sur la faisabilité du système décrit dans le paysage sénégalais.

L'atelier a pris fin à 13 heures 30 minutes et les différents participants ont senti la nécessité de se revoir pour essayer de déterminer les modalités de mise en place des différentes recommandations de Mr Jonathan COULTER dans leur intérêt réciproque.

APPENDIX 4: PROFITABILITY OF STORING MILLET WITH INVENTORY CREDIT

Assumptions (values are in FCFA per kg)											
In Case (a), the grain is put into store in December and January, and taken out and sold in August and September											
In Case (b), the grain is put into store in March and April, and taken out and sold in August and September											
Prices are assumed to be as shown for Kaolack in Table 1 of the main text											
Other assumptions are as follows:											
				Case (a)	Case (b)						
Additional handling costs to/from store				3	3	FCFA/kg					
Storage + collateral management charges				1.5	1.5	FCFA/kg-month					
No. of months of storage				9	5	months					
Advance rate on loan				60%	60%	of market value of grain at time of storage					
Arrangement fee				1%	1%	of loan value					
Interest rate				1%	1%	per month					
Minimum acceptable return on equity				1.5%	1.5%	per month					
Physical losses				1%	1%	of volume of grain stored					
Calculation of net revenue (FCFA)											
Case (a)											
Year	Purch. price (av. Kaolack Dec-Jan)	Sale price (av. Kaolack Aug-Sept)	Margin	% increase	Costs				Total costs	Net revenue	
					Handling	Storage + CM	Financial	Physical loss			
1995/96	131.5	163.0	31.5	24%	3	13.5	7.9	1.6	26.0	5.5	
1996/97	125.0	141.0	16.0	13%	3	13.5	7.5	1.4	25.4	-9.4	
1997/98	142.0	200.5	58.5	41%	3	13.5	8.5	2.0	27.0	31.5	
1998/99	119.0	93.5	-25.5	-21%	3	13.5	7.1	0.9	24.6	-50.1	
1999/00	100.0	106.0	6.0	6%	3	13.5	6.0	1.1	23.6	-17.6	
Average										-8.0	
Case (b)											
Year	Purch. price (av. Kaolac Mar-Apr)	Sale price (av. Kaolac Aug-Sept)	Margin	% increase	Costs				Total costs	Net revenue	
					Handling	Storage + CM	Financial	Physical loss			
1995/96	120.5	163.0	42.5	35%	3	7.5	4.3	1.6	16.5	26.0	
1996/97	124.0	141.0	17.0	14%	3	7.5	4.5	1.4	16.4	0.6	
1997/98	141.5	200.5	59.0	42%	3	7.5	5.1	2.0	17.6	41.4	
1998/99	108.5	93.5	-15.0	-14%	3	7.5	3.9	0.9	15.3	-30.3	
1999/00	99.0	106.0	7.0	7%	3	7.5	3.6	1.1	15.1	-8.1	
Average										5.9	
Calculation of return on depositor's equity capital (FCFA)											
Case (a)											
Year	Purchase price	Loan portion 60%	Depositor's investment in grain	Bag cost (est.)	Half "total costs"	Depositor's average investment	Net revenue	Return on equity portion	Average monthly return on equity	"Reasonably profitable" years*	
1995/96	131.5	78.9	52.6	3	13.0	68.6	5.5	8%	0.9%		
1996/97	125.0	75.0	50.0	3	12.7	65.7	-9.4	-14%	-1.6%		
1997/98	142.0	85.2	56.8	3	13.5	73.3	31.5	43%	4.8%	+	
1998/99	119.0	71.4	47.6	3	12.3	62.9	-50.1	-80%	-8.8%		
1999/00	100.0	60.0	40.0	3	11.8	54.8	-17.6	-32%	-3.6%		
Average									-1.7%		
Calculation of return on depositor's equity capital (FCFA)											
Case (b)											

Year	Purchase price	Loan portion 60%	Depositor's investment in grain	Bag cost (est.)	Half "total costs"	Depositor's average investment	Net revenue	Return on equity portion	Average monthly return on equity	"Reasonably profitable" years*
1995/96	120.5	72.3	48.2	3	8.2	59.4	26.0	44%	8.8%	+
1996/97	124.0	74.4	49.6	3	8.2	60.8	0.6	1%	0.2%	
1997/98	141.5	84.9	56.6	3	8.8	68.4	41.4	61%	12.1%	+
1998/99	108.5	65.1	43.4	3	7.7	54.1	-30.3	-56%	-11.2%	
1999/00	99.0	59.4	39.6	3	7.6	50.2	-8.1	-16%	-3.2%	
Average									1.3%	
* "reasonably profitable means return on equity exceeding 1.5% per month										

Commentary on the assumptions and calculations

Returns to storage of millet have been calculated over 5 and 9 month periods using a proper system of collateral management, and assuming a similar charge to that quoted above for large scale operations in Dakar, FCFA 1,500 per ton-month for collateral management and storage charges together. These charges are on low side for relatively small-scale rural operations. Collateral management companies in Dakar quoted FCFA 3,333 per ton-month for a relatively small scale project involving 300 tons of local cereals to be stored in Dakar (source: GRET).

It is assumed that the party storing gets a 60% loan against the value of the grain. Hence his equity (own capital) input is 40% of the value of the grain plus the additional storage and handling charges. The interest rate is assumed to be 1% per month over the storage period, half the rate charged in the CMS project. The minimum acceptable return on the depositor's equity is assumed to be somewhat higher, 1.5% per month.

It is found that the returns are highly variable from year to year, and the activity is generally more profitable over the five month period. Storing for five months would only have been reasonably profitable, i.e. giving returns on depositor's equity over 1.5% per month, in two out of the five years shown (1995/96, 1997/98), and very heavy losses would have been experienced in one year (1998/99).

APPENDIX 5: POTENTIAL COLLATERAL MANAGEMENT FOR OILSEED PEANUT MARKETING

The main user of peanuts is the parastatal oilseed crusher, SONACOS, which is supplied mainly by its wholly-owned subsidiary, SONAGRAINES. SONAGRAINES procures from farmers at its rural collection points (there being about 1,000 spread around the country). It does this by financing its *mandataires*, which include *opérateurs privés de stockage (OPS)* and *co-operatives* belonging to the national co-operative union, UNCAS, who buy on SONAGRAINES behalf at these points. SONAGRAINES advances the OPS sufficient funds for one or two weeks' supplies, topping up these funds as the peanuts are delivered at its collection points.

SONACOS is seeking to get out of the procurement business and to buy from the *mandataires* on a delivered-to-plant (*carreau usine*) basis, and for this purpose has instituted a pilot initiative involving the delivery of 40,000 tons. The OPS stand to gain as they will get an extra margin to cover the initial cost, while SONACOS will gain by not having to bear the cost of theft, weight shortfalls, financing and other costs. It is moreover planned for SONAGRAINES to be relieved of its existing function of supplying seed on credit, in the 2000/2001 season, and from this we may infer that SONAGRAINES will be gradually replaced by:

- Mandataires in the area of procurement
- commercial seed suppliers (*opérateurs sémeuriers*) in the area of seed, and
- the Agricultural Development Bank (CNCAS) or other financial institutions with regard to credit.

As regards its current financing arrangement, SONACOS raises operating funds through a syndicated loan involving the following banks: CNCAS, BICIS, Société Générale, Crédit Lyonnais and CBAO. Banks are given comfort to continue lending by the existence of export contracts and prospective cash flow, by the strength of SONACOS' balance sheet, and by the fact that the GOS is behind SONACOS. While the high level of outstanding farmer debt to SONAGRAINES – about FCFA 30 billion – is a source of apprehension, detracting from SONACOS' balance sheet position, its processing operations are profitable, aided by the fact that it is the only company refining imported oils⁶. Until recently SONACOS had no need to mortgage or pledge any specific assets to the bank, but this situation could change at any moment, creating an opportunity for WR/CR services at the mills and warehouses. Similar considerations apply to NOVASEN, which is the leading company involved in the supply of peanuts for direct human consumption.

Such arrangements might be appropriate for the OPS supplying SONACOS, were these to engage in seasonal storage. However, this would require SONACOS to end its pan-seasonal pricing arrangements. It would have to pay the OPS premiums depending on when they deliver the peanuts, and these premiums would need to cover:

⁶ Its established capacity, and the 25% differential between the duty on refined oils vis a vis crude oils, appear to explain its strength in this area.

- (a) OPS' additional storage costs, including allowance for losses, and investments in storage infrastructure and tarpaulins, and;
- (b) Additional financing costs – at approx. 2% annum more than SONACOS would have to pay.

Mr. Mbaye, CEO of SONACOS, indicated that neither SONACOS nor the OPS would at present be interested in such an arrangement. SONACOS had sufficient storage capacity and tarpaulins to handle raw material supplies, and OPS would seek to turn around their capital as quickly as possible, and avoid investment in storage. Mr. Goumballa, President of the Association of OPS, confirmed this picture. In the event that these parties revisit the matter, SONACOS could explore other possibility with the banks, for example the alternative of SONACOS/SONAGRAINES providing collateral management to the OPS at the collection points.

APPENDIX 6: COLLATERAL MANAGEMENT SERVICES IN THE DEVELOPMENT OF PEANUT SEED PRODUCTION

The most frequently quoted source of failure in the Senegalese peanut industry is poor performance in the area of seed production and distribution. The research organization, ISRA, has never met its targets for base seed production, leaving the industry dependent on grains “skimmed” from the commercial crop and sold back to the farmers, often on credit. Yields have consequently been unsatisfactory and the edible peanut industry has withered. Overcoming these problems is therefore of absolutely crucial importance.

CNIA’s bold strategy for re-launching the peanut sub-sector involves the quantitative and qualitative renewal of the seedstock, and complete privatization of the seed distribution. Seed producers and distributors (*opérateurs semenciers* or OS) are being organized into a trade association (UNIS), which is to provide technical assistance and training, and channel financial assistance from the CNCAS. Since the beginning of the *Projet Autonome Semencier* (PAS) in 1990/91, many *seccos* (seed storage depots) have been turned over to OS, and with the ending of SONAGRAINES seed distribution role in 2000/2001, they are all to be turned over. UNIS already has 140 members in charge of 204 *seccos*, and expects the number of *seccos* to rise to 280 next year. Members marketed 7,800 tons of seed in the last season, and are planning 20,000 tons in 2000/2001. The role of the OS is to contract with local farmers for the multiplication of base seed, and then hold the stock for sale for further multiplication (from Base seed to N1, or N1 to N2), or commercial oilseed production (in the case of N2 seed) in the following season. The storage period averages about four months. The OS must employ a seed quality agent (often the owner himself) trained in quality management.

Purchase and storage of seed is financed by CNCAS, and the European Union has made available a guarantee fund to underwrite 50% of the risk involved. OS are required to put up cash collateral of 10% of the value of the loan. The main collateral is the seed stock itself which has been purchased with the loan, **so effective management of this collateral in terms of quantity and quality is of vital importance to the privatized seed supply system, and to the entire peanut industry.** The main collateral manager in this case is the OS him/herself, who is fully responsible before the bank. However, three forms of backup are being instituted to assist in this function:

- (a) seed quality certification by the Ministry of Agriculture seed service (DISEM/SA);
- (b) performance monitoring by four regionally-based UNIS staff, focusing mainly on quantity, and;
- (c) institutional support to the Bank by CNIA.

The performance of these backup systems will be of vital importance, given the considerable risks involved, given that the borrower is holding his own stock, and secondly, the advance rate (90%) is very high by the standards of most inventory lending.

Experience with the seed sub-sector over the last decade leaves room for some anxiety as to how it will perform in its fully privatized state. A guidance note⁷ by CNIA refers to the following problems:

- weaknesses in DISEM/SA's performance. It is described as *un service qui s'acquitte difficilement de sa mission* (P14). Its performance had improved, but was still affected by inadequate resources and organization, and it the failure to implement the new system of delegated quality control (i.e. making use of the quality agents). Consequently quality of stocks is often short of requirements.
- Poor repayment performance by OS under the PAS (P.27)
- Poor selection of seed producers in more recent irrigated production, lack of control of the quantity collected, and lack of adequate guarantees and documentation to satisfy CNCAS eligibility requirements (P.40).
- Insufficient transparency and ethical shortcomings in relations between producers and OS.
- Poor storage practices, resulting from the state of the Seccos and inadequate pest control.
- Past practice of the CNCA of supporting OS supplying uncertified seed, supplied by all-comers.

The degree to which these problems existed and still exist is a matter for debate. For example, one party questioned the PAS repayment figures quoted in the CNIA report. At the same time, UNIS indicated that it had weeded out the *mauvais payeurs*, and was only admitting new operators after checking out references on the ground. Regardless of the outcome of such arguments, the following observations suggest there is scope for improving the system of collateral management as presently structured:

1. UNIS monitoring staff have no inspection manuals or protocols;
2. No defaulting operator has yet been sued through the courts, and;
3. The low level of equity contribution – many OS could put up vehicles, animals or buildings

As presently conceived by the CNCAS, the oversight function will be carried out by a tripartite committee of CNCAS, UNIS and CNIA. Their most important job is to make sure that the final tranche of lending to the OS is not disbursed until it has been confirmed that the other tranches have been invested in seed. The Bank prefers the committee approach as it is unwilling to take the word of a single inspector. There are doubtless good reasons for such caution, but a committee approach is nevertheless likely to prove cumbersome and slow – particularly when each UNIS monitor has to cover 60 operators in a small amount of time. One could envisage a much more efficient system which would involve a form of “one-stop shopping” whereby a single inspector:

- checks out new applicants against standard eligibility requirements
- provides technical support to the OS
- monitors quantity, quality and financial aspects, in the field and at the premises of the OS, making unannounced visits for this purpose, and;

⁷ CNIA (1999) Programme Semencier; Note d'Orientation

- has sufficient authority on his/her own to cause a loan to be recalled, or the operator to be subjected to UNIS' disciplinary procedure.

Due to historical and cultural factors, this may not be possible in the near term, but the industry needs a "game-plan" to get there.

In a short visit and without intimate knowledge of the sub-sector, the author does not attempt a full analysis or propose comprehensive solutions. He acknowledges the CNIA and UNIS' substantial progress in structuring a new privatized system, and suggests some possible ways of dealing with issues which were brought to his attention. These are:

- a unified and highly professional inspection service working to standard procedures, as indicated above. This might be based at any one of the three institutions mentioned (DISEM/SA, UNIS or CNIA); the important thing is that it should be rigorous, autonomous and completely free from political intervention or partiality. After an initial start-up period the service should be funded through user-fees, reinforcing its autonomy and independence from political patronage.
- additional physical guarantees from the OS
- legal action against delinquent debtors, even where the legal costs are disproportionate to the sums involved, with a view to setting strong precedents
- get the OS to subscribe to an indemnity fund to cover defaults. The existence of such a fund would reinforce discipline within UNIS, and encourages tight screening of applicants. As the fund grows it would gradually replace the EU guarantee fund, and subsequently CNCAS' 50% guarantee, on a sliding basis. Eventually the OS could cover all risks with the indemnity fund, placing them in a favourable position to negotiate lending terms.

It is moreover suggested that the international community backs up stakeholders' efforts with technical assistance or traineeships, and such financial resources as are needed for start-up.

APPENDIX 7: SENEGAL VALLEY RICE

How rice marketing works at present. Rice grower organisations affiliated to the Fédération des Perimetres Autogerés (FEPA) collect paddy from their members as repayment in kind for CNCAS loans, and deliver it to their local union stores. The unions then deliver the paddy to the large SAED-owned rice mill in Richard Toll, which uses the final sales revenue to repay CNCAS. After several years of being out of service this mill (nominal capacity of 6 tonnes of paddy per hour), has been turned over to the Union to manage on a trial basis, with a view to outright purchase in the future.

Notably the mill only collects rice in repayment of loans – individual farmers do not voluntarily *choose* to market but prefer to sell it locally, usually after getting it milled at a local Engleberg-type huller (*décortiqueuse*). The price obtained is invariably lower, but payment is immediate.

A few rice grower organisations have their own relatively small mills. Port Gendarme growers' group has two one-pass rubber roller mills with a capacity of about 0.75 tonnes each.

Potential for WR/CM. It can potentially play a major role in speeding the flow of cash through the system, and thereby make it possible to sell more rice at the higher large mill prices. At the same time it will help farmers' organisations to remain creditworthy at times when rice sales are slow, and thereby allow them to engage in off-season production.

This is particularly significant as local mills, and particularly those of SAED, have since 1994 experienced difficulty in selling white rice in competition with the imported product at the prices expected by the rice producers. Most of the crop harvested in 1999 remains unsold, and debts to CNCAS unsettled; this has caused CNCAS to hold back on financing new crops – particularly the off-season crop – and has encouraged farmers to sell rice at low prices to obtain cash. WR/CM could be used to collateralise marketable stock and allow CNCAS to continue funding producers. This can potentially improve the prices obtained by farmers, and encourage them to market more of their rice through this channel. This is likely to lead to greatly increased production in the Valley.

All this presupposes that the rice mill itself is working properly and the Union can sort out its marketing problems.

Necessary preconditions. The problem of competing with imported rice is being handled by: (a) improving the grading of white rice at the mill, and; (b) signing an agreement with the importers concerning quotas. Under the quota arrangement (awaiting ratification by Government), importers will be required to buy a certain quantity of local rice every time they import. A sliding surtax on imported rice will be abolished in favour of a specific tax per tonne, and this will be used for a fund to support the rice industry. FEPA believes that the two measures will eliminate all rice marketing problems, taking the view that local rice suffers no other competitive handicaps.

Views about the competitive position of Valley rice seem to be closely related to the negotiating positions - of the farmers on the one hand, and the importing trade on the other. *It might be helpful to commission some independent market research* to confirm or otherwise the positions taken by these two groups. Such research might also help local industry, by providing information on varietal and grading preferences that can be incorporated into industry development plans and grading standards.

The main problem however is that even if farmers can compete price-wise, the mill is itself in a very poor condition, and requires major inputs of capital and management. The following was noted:

Civil works:

- Major deterioration, including missing roofs and floors on some warehouses, cracks in walls etc.
- Leaking roofs, broken windows, lack of protection against entry of birds

Plant:

- Capacity of 3.5 tonnes of paddy per hour while designed for 6 tph. (plant manufactured by Schule, installed in 1982 was second on the site)
- Many items of equipment either out of use (e.g. some rice polishing machines) or deteriorated (milling discs)
- Makeshift and flimsy repairs are evident
- Rice husks are wasted, despite the fact that the original plant of 1948 had a boiler to burn them

Hygiene and quality control:

- Very poor plant hygiene and absence of pest control. Stacking of white rice against walls does not permit fumigation
- No quality control laboratory

Product quality:

- A high out-turn in broken rice. Bagged rice is now being passed back through a grading machine, after being bagged, with a view to improving the out-turn in whole rice

Marketing:

- No sales force – most sales currently involve agreements with women's groups rather than regular commercial intermediaries
- Lack of branding and variety in packaging and presentation

A major investment is needed to rehabilitate the plant. FEPA estimates the requirements to be cfa 280 million i.e. US\$ 400,000, but this requires confirmation. The author believes that the eventual figure could be greater. *There also needs to be inputs on the management and marketing side,* which FEPA would welcome.

Implications for the international community. Given past problems and the present policy issues surrounding the importation of Pakistani rice, donors are understandably cautious in supporting the Valley rice industry. However there are special reasons why they may consider supporting the rehabilitation of the rice mill at Richard Toll:

- After years of chronic mismanagement, it is now being handed over to private operators (i.e. the farmers) who are open to outside advice and investment

- The rice mill is a bottleneck preventing the recovery of an industry which, despite international competition, is a going concern backed up by a major physical and organisational infrastructure
- The necessary investment in rehabilitating the mill, while significant, is likely to be negligible compared to past investment in rice production – an investment now threatened by the processing bottleneck
- Other commercial mills lack the capacity to handle the prospective marketable volumes (upwards of 25,000 tonnes of paddy per annum)
- Notwithstanding competitive problems, the Valley has a massive market on its doorstep. Moreover, with the moderation in the growth of yields in the major producing countries, World prices are likely to strengthen over the medium term.

It is therefore suggested that a small group of international institutions, including investment affiliates like the IFC, get together to study the case for a rescue package. This should include with: (a) market research (MR) into consumer and trade preferences, to be carried out by an internationally accredited MR agency; (b) an assessment of the costs of rehabilitation, and; (c) a full business plan. A part of the business plan would involve collateral management arrangements starting from the paddy warehouses in the field through to the finished products or even distributors' stocks of white rice. Paddy might be collaterally managed in the field by inspection, coupled to an indemnity fund to which beneficiary organisations would subscribe. The fund would compensate the banks in the event of default. Alternatively a single collateral manager might take direct responsibility for the stocks right the way through the chain.

