By storing their goods in a reliable warehouse until the price for the good increases due to scarcity, farmers may access funds before they sell the goods by using them as collateral. MFIs have a strong incentive to offer warehouse receipt financing because it reduces their risk. Loans are issued based on collateral that has a high commercial value and that can be quickly liquidated. A good warehouse system and careful monitoring ensure that warehousing will be a success both for the producer and the MFI.

Nuts and Bolts of Warehouse Receipts

Warehouse receipts refer to the practice of depositing a finished good or agricultural product in a warehouse and receiving a receipt certifying deposit of the good. The receipt can then be used as collateral. Three parties are involved in the transaction: the farmer, who takes his goods to the warehouse; the warehouse operator, who classifies the goods and determines their value; and the bank or MFI, who issues a loan based on the receipt issued by the warehouse operator.

Types of Warehouses

- **Public Warehouse**- A warehouse open to anyone on a non-qualifying basis.

- **Field Warehouse**- Warehouses managed on the premises of another business.

- **Dual-key Warehouse**- Both the bank and depositor have keys to the warehouse, and both keys are required for access to the facility.

- **Self-managed/Single-key Warehouse**- Depositors have complete control over warehouse.

- **Trading Warehouse**- The Warehouse operator trades the stored commodity on the depositor’s behalf.

Advantages and Disadvantages of Warehouse Receipts

For the MFI- MFIs gain from warehouse receipts by decreasing their risk, by reducing seasonal price variability, and by increasing liquidity. The drawbacks to warehousing include decreased profitability due to more stable prices and the burden of the cost of working with or establishing a warehouse.

For the Entrepreneur- Entrepreneurs gain from warehousing by increasing profitability, price transparency, and food stability. The drawbacks for entrepreneurs are the increased tendency towards speculation associated with warehousing, the shortage of small-scale drying or
preservation technologies for agricultural products, an unreliable supply or shortage of storage chemicals, and the costs associated with transporting goods to the warehouse.

**Key Requirements to Ensure a Successful System**

Several factors contribute to a successful warehouse receipts program:

1. Build discipline and trust in the warehouse
2. Operate on a large scale
3. Understand that appropriate product pricing is critical for the MFI
4. Advocate for appropriate regulation and supervision of the sector

**Key Lessons for MFIs**

MFIs need to be more involved in the system than simply giving loans based on the collateral presented. Additionally, MFIs need an understanding of annual price cycles to know the real value of a stored product at a given moment. Buyers for the product should be identified early. The MFI should ensure that the farmer is handling the product appropriately. They should manage risk by taking in stocks only over a specified period and within strict price guidelines, and they should formulate a detailed sales agreement. Clear and complete internal communication is a necessity throughout the process.

**Lessons from the Experience of Rural Niger**

The experience of warehouse financing in Niger provides the following insights:

- It was difficult for the bank to meet scheduled appointments in rural areas because it was difficult to contact the bank in the even that a producer could not make an appointment.
- Dispersion of producers in rural areas makes assessing goods more difficult.
- Despite the use of warehouse receipts, the obligatory savings amount that is part of this program is quite high and has a significant impact on the usefulness of the loan.

**Conclusion**

Warehouse receipt financing has clear advantages for both producers and MFIs. Inventory credit schemes, however, are not for everyone. Individual producers need to be educated on the market’s behavior and given adequate tools to ensure that profits are not lost by speculative activities. Through careful product development, MFIs can create an inventory credit system that works smoothly and profitably.