



GCX WAREHOUSE RECEIPT





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WHAT IS GCX ?

- The Ghana Commodity Exchange (GCX) brings together buyers and sellers of commodities (agricultural, Minerals, Petroleum etc.) to trade under Rules approved by the Securities and Exchange Commission (SEC) Ghana.
- GCX guarantees Quality, Quantity, Prompt payment and Delivery of commodities traded



GCX ECOSYSTEM



Securities Industry Act, 2016 (ACT 929)

SECURITIES AND EXCHANGE COMMISSION

GCX Rules

GCX

Market Arbitration system

Market & Price dissimulation

GCX Trading Platform/price discovery

Data recovery Center Trade from office, farms, homes etc

Clearing & Settlement

GCX Certified Warehouses/regional, district & community level

GCX Settlement Bank/CDS

EXCHANGE MEMBERS

- Certified traders (broking)
- Certified traders (non-broking)
- Clearing members



Cleaning, drying, grading, re-bagging services

Electronic Warehouse issuance and financing





GCX CURRENT STATUS

- Six warehouses (Tamale, Wenchi, Ejura X3, Kumasi)
- 65 members (buyer, sellers and brokers)
- 2 banks sign MOU
- Off takers with capacity to buy (Weinco,etc)
- New Office & Trading Platform almost ready
- Provider of WRS/GCX identified
- Auction traded over 6000minibags
- Contracts designed
- Capacity building of market Actors commence(40 trained)
- 90% of staff signed





WHAT IS A WAREHOUSE RECEIPT?

- A warehouse receipt is a financial instrument which certifies that a certain quantity and quality of a commodity has been deposited in a very secure warehouse.
- In other words, the warehouse receipt serves as a title to an underlying commodity deposited in a warehouse.





WHAT IS A WAREHOUSE RECEIPT SYSTEM?

- **STORAGE** - A system that provides farmers, traders, processors and aggregators with reliable public storage facilities.
- **ACCESS TO CREDIT** - A system that provides a financing system to depositors of commodities in public warehouses using securely stored goods as loan collateral against a receipt certifying the deposit of goods of a particular quantity, quality and grade.
- **ACCESS TO MARKET** - A system that provides depositors a marketing platform to market their commodities using warehouse receipts





ELEMENTS OF A WELL-DEVELOPED WRS

- An enabling legal and regulatory framework; (LAW)
- A regulatory and supervisory agency;(SEC)
- Licensed and supervised public warehouses;(GSA)
- Insurance and financial performance guarantees;
- Banks familiar with the use of warehouse receipts and willing to be partners.
- A stable and predictable market and policy environment that preserves the incentives for private storage and financing.





WHAT IS GCX WHR?

- Represents physically-stored commodity at an GCX certified warehouse.
- In Electronic form, issued by GCX Collateral manager
- States product quality, quantity, grade, and ownership
- All receipts guarantee for quantity and quality and performance
 - Recognized under the Securities Industry Act, 2016 Act 929 as a security
 - Represents stored commodity and can be used to source credit backed by the commodity.
 - Negotiable meaning that can be passed on without physically moving goods
 - Can be split into any sizes for trading purposes





WHAT IS GCX WHR?

- Has a validity period after which the commodity must be re-certified (*Nine (9) months for grains*).
- May be pledged for loan under warehouse receipts rules and regulations





WHY THE GCX WRS ?

- **Storage**

- Commodities are stored in secured warehouses under the control of the GCX

- **Access to credit**

- Required collateral are commodity evidenced by the receipt and in the custody of the GCX management under agreement

- **Facilitates liquidity (Access to Market)**

- Can be traded through GCX platform across Ghana/WA





WHO ARE THE USERS?

- **GCX Members**

- Trading Members, Broking Members, Associate Members, Institutional Members and Clearing Members

- **Depositors** of commodity such as Farmer Co-operative Unions, Commercial Farmers, etc

- Barriers to small holder farmers
 - Min lot size amount
 - Distance to an GCX Warehouse
- Small farmers holder will need to come via Co-op Unions or Societies
- Trade through brokers





WHICH COMMODITIES?

- Commodities with the biggest price variability between harvest season (low) and lean seasons (high)
- Carry cost must be $<$ price difference
- 4 crops targeted (2018 – 2020)
 - **Maize**
 - **Beans**
 - **Soya**
 - **Rice**





WHAT IS GCX WRF?

- Short-term loan against stored inventory
- Allows producers to delay selling at harvest time to get better price
- Allows traders to buy & store more inventory
- GCX WHR will be used as collateral
- Borrower Pledges WHR
- GCX settles the loan value to the bank and surplus to borrower in the event that the WHR is traded





WHY GCX WHR?

- Current small amount of Financing for Supply-side Trade Finance
 - Approximately 10% of secured loans disbursed
- Existing Agricultural loan finance disadvantages:
 - Assets as collateral required
 - Audited accounts required
 - Recovery rate could be low





WHY GCX WHR?

- Benefits of GCX WHR Financing

- Borrower stores in GCX certified warehouse under management of a collateral manager
- Warehouse receipts guaranteed for quantity and quality
- Bank gets low cost and high liquidity collateral
- New crop of business customers for Banks





LOAN DURATION

- Depends on the bank
- Commodity WHR Expiry
 - Soya=9months
 - Beans=9months
 - Maize=9months
 - Rice=9months
- Hence expected Loan duration is ≤ 4 months





WHICH BANKS?

- All banks in Ghana are welcome
- Interest rates must be affordable to farmers (targeting $\leq 20\%$ p.a)
- Gives a return of approximately 14% to farmers after passing through GCX warehousing, financing and trading system





PLEDGING PROCESS

- Borrower Stores Commodity in GCX WH and obtains a GCX WR
- Borrower presents GCX WR to partner Bank and completes Loan Application
- Bank verifies authenticity of receipt with the GCX CD
- Bank submits completed GCX Pledge Form to GCX CD
- GCX CD puts a 'no sale' block on pledged receipt in the GCX system
- Bank underwrites loan using among other things Market Data from GCX as input
- Legal title remains with the pledgee until loan is paid or bank starts foreclosure processes upon default





WHEN LOAN MATURES

- Depositor sells commodity to repay loan amount
- In the event that the depositor is unable to sell the commodity
 - Bank may instruct a broker to sell WHR on the Exchange OR
 - Withdraw the commodity from GCX WH and sell it somewhere else
 - Bank's loss covered through loan guarantees (if any)
- Bank recovers the loan amount plus interest and other charges and pays the balance to the borrower





FORECLOSURE PROCESS (In the event of a default)

- Bank instructs GCX to lift 'no sale' condition after default
- GCX verifies that consent of pledgee has been reasonably obtained before 'un blocking' pledged receipt
- GCX marks the WHR as tradable
- WHR is traded on the GCX platform
- After sale, Loan value, interest and charges deducted and Bank settled
- Sale Surplus goes to Borrower's Pay-out acct





WAY FORWARD

- Integrate Banks with GCX systems to allow viewing and verification of receipts
- Draft WHR Financing Manual
- Get Rules on WR financing approved by SEC
- Passage of Warehouse Receipts System legislation and the Borrowers and Lenders Bill
- Build capacity of the bank staff and all other stakeholders





PHASES

- Phase 1
 - Maize, Beans, Rice and Soya
- Phase 2
 - Other Grain Warehouses





TIMELINES

- WHR Design/development/training of Users
 - Jan 2018 through to September 2018
- Acceptance System Testing (with WHs)
 - October 2018
- Phase 1 Go-Live November 2018
- Phase 2 Go live WHR financing : planned for December 2019





CHALLENGES TO GCX WR FINANCING PROGRAM

- Readiness of GCX certified Warehouses
- Commodity prices volatility
- <20% Minimum interest rates of financing levels

- Readiness of Banks
- Banks accepting GCX Performance Bond for Warehouse Operation
- Warehouse receipts legislation/Borrowers and Lenders Act/





THANK YOU

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