

# Cameroon



## Warehouse Receipt System<sup>i</sup>: Making Progress in Market, Finance and Post-harvest Risk Management

### Policy Brief

#### Key messages

1. Risks linked to pest and disease attacks, post-harvest losses and commodity price fluctuations hinder the productivity and profitability of the agricultural sector activities, particularly for smallholders in Cameroon.
2. Warehousing receipt system (WRS) involves giving farmers a form of access right to a well-managed storage facility to protect commodity form losses. The system is also supported with issuing a document (receipt) that eases farmers' access to finance.
3. At the moment, no legislation exists to protect the scope of WRS in Cameroon. Activities are fraught with risks of fraud and defaults while receipts are also not negotiable.
4. More effectiveness of WRS in Cameroon could be achieved by putting in place regulations to guide the practices and capacity building programmes for actors. The WR services should be extended to rural areas of the country where most farmers reside and are in need of professionally-managed storage facilities.

#### Context

Cameroon is an agro-exporting country that is trying to overcome market failures of the trade liberalization period of 1990. Efforts are underway to modernize agriculture for enhanced market, yet a range of micro, meso, and macro-level risks are affecting the sector. The PARM Country Risk Profile for Cameroon 2016 and the preliminary findings of the Risk Assessment study identified pest and diseases, post-harvest losses and commodity/input price fluctuations the top most rated risks facing the agricultural sector. The outcomes of these risks have long-term impact on smallholder farming households' income, food and nutrition security. When managed professionally, WRS can have extensive impact to reduce these menaces. It allows farmers to access better storage facilities, better prices for their produce, and financial support for livelihoods.

#### Types of WRS in Cameroon

Warehouse receipt system (WRS) is a scheme that entitles a farmer to deposit storable commodities such as grains (e.g., cereals and pulses) in exchange for a document known as warehouse receipt (WR). The receipt is issued by a professional warehouse/collateral operator/manager to provide a proof of ownership of stated quantity and quality of commodity. The value on the receipt may or may not be negotiable. Farmers may also use the WR for their stored commodities as collateral to access finance from associated financial institutions.

In Cameroon, there is no specific WRS legislation on the management of warehouses, including their construction and the licensing of collateral managers or warehouse operators. However, financing is based on ordinary principles of contract law, while security over pledges is governed by the commercial law of the supranational OHADA Uniform Act of 2010. The Act establishes for pledged commodities to be registered in order to protect warehouse

receiving clients and partners. It also sets out commodity standards on conditioning, marketing and quality for cocoa and coffee. Based on the target group and source of financing, two main categories of WRS can be distinguished in Cameroon: the third party holding WRS and the community inventory WRS. Differences between these two systems are summarised in **Table 1**.

#### Third party holding WRS

The third party holding WRS is carried out by a collateral manager, who usually operates with warehouses belonging to borrowers or a rented facility. Borrowers involved are mostly exporters, freight forwarders and public establishments operating at port areas. Organisations/companies that are involved in third party WRS include CERTISPEC Services, Bureau VERITAS, The Société Générale de Surveillance, Expertise and LIHONGHO Commodity Traders. Their operations are concentrated in Douala, the major seaport city in Cameroon. Very few of them take the risk of conducting operations outside urban or port areas, due to the poor condition of the roads and the limited regulatory framework.

Financial instruments of the third party WRS in Cameroon have come from local commercial banks with partnerships from international agencies including the United Bank for Africa (UBA), ECOBANK, (CBC), Standard Chartered Bank Cameroon (SCBC), International Bank for Trade and Savings in Cameroon (BICEC), and Gabonese Bank for International Financing (BGFI). In general, the experiences of third party warehousing in Cameroon have not been successful. Many cases of fictitious stocks financing have been reported. Banks have sometimes mismanaged the pledged/financed stocks because of the lack of control of the operators and limited warehouse capacities.

#### Community inventory WRS

The community inventory system (known as warrantage communautaire, in French) is a decentralised scheme where farmer

organisations store their commodities in a small warehouse under the control of the group. While the stock is serving as collateral, it is secured by way of a double-padlock arrangement: the group holds the key to one lock and financial provider supporting the activity also holds the other. Operations of community WRS are supported through initiatives such as:

- Grains and agricultural inputs schemes involving cotton producers association (APCC), Credit du Sahel, SODECOTON and Islamic Development Bank.
- The Government of Cameroon and IFAD Projet d'appui au développement de la microfinance rurale (PADMIR).
- Isolated cases where CAMCCUL microfinance network funds storage of cocoa and coffee.

The PADMIR project, which was based in the Central, Western and Far North regions, aimed to improve access to financial services for about 62,000 small rural producers through a network of 260 microfinance institutions. Also, the APCC, Credit du Sahel and SODECOTON projects are successful in providing finance to support agricultural production and inputs like fungicides, herbicides and fertilizers to cereal farmers. The Government of Cameroon is yet to launch a WRS initiative with the World Bank, to target food crops like cassava, maize and sorghum, with the aim of transforming their production from subsistence to commercial agriculture driven by market demand. In spite of these efforts in the WRS in Cameroon, security in warehouse management and collateral operations are sustained by trust and peer pressure.

**Table 1: Differences between the two WRS in Cameroon**

Third party WRS	Community inventory WRS
Warehouses are operated by collateral a manager	Carried out by organised producer groups.
Clients are mostly exporters, freight forwarders and public.	Targets small-holders farmers.
Activities are based in Douala, where the main seaport is located.	Activities spans through central, western, and northern Cameroon.
Finance by partnerships between local commercial banks and international agencies	Financed through donor and governments supports.

## Contributions to Agricultural Risk Management

**Manage input price risks:** The market pricing for inputs in many African countries including Cameroon is poorly developed, and dominated by informal channels. With WRS, operators are able to import fertilizers, phytosanitary products and certified seeds, and supply them to client farmers. This makes it easier for farmers to secure input for production. For instance, the ONCC has negotiated an equity fund of about € 30m to be channelled into inputs supply to rural farmers through warehouse receipts. SEDECOTON/APCC initiatives have been successful in providing agricultural inputs to farmers.

**Reduce commodity market price risks:** The seasonality of farm production and lack of storage facilities among smallholder farmers are factors contributing to fluctuations in inter-annual and, more particularly, intra-annual commodity prices in Cameroon. Community-based warehousing activities provide a potential for farmers to secure a safer year round storage for commodities. In the process, they keep commodities for months after harvest and sell later when production is out of season to benefit higher prices, more stable returns, increased incomes and well-being. This arbitrage can contribute to

smoothen price changes, reducing affordability and access constraints to consumers.

**Avoid post-harvest losses:** The traditional handling of commodities produced after harvest causes pest and disease attacks both on-farm and off-farm. Warehousing system provides farmers with a storage facility managed by a warehouse operator. The commodities are taken through proper drying and packaging for storage in well-managed warehouses where goods are persistently checked against damp weather, pest and disease attacks and theft.

**Access financial packages:** Credit and insurance facilities are crucial forms of buffer to smallholder agricultural farmers of cocoa, coffee, and cotton (in particular) against anticipated and unanticipated risks. The collateral component of the warehousing ensures that farmers can use receipts to access loans from participating financial institutions. It also assures farmers of safety against fire, theft and some major catastrophes, thus a good source of insurance.

## Recommendations

**Enact regulation to govern the entire warehouse system.** WRS laws, applicable degrees and regulations should be drafted and enacted to enhance protection for agents and clients in the systems. The management standards of warehouses, including the construction of facilities, capacity development, and licenses should be a key policy area to ensure professionalism in warehousing and quality of commodities. The supervisory activities of the ONCC should be reviewed to ensure best practices. Warehouse receipts should also be made negotiable. Financial activities should be scrutinized and recorded to reduce insolvency, fraud and defaults.

**Extend warehouse receipting following the example of the northern areas.** The IFAD funded PADMIR project, in northern Cameroon has been successful but with limited reach. It should serve as a learning platform for future projects. Prospective extension projects should be preceded by a national inventory of warehouses and silos supported by technical experts. New activities should also be initiated through the Government of Cameroon/World Bank PIDMA supported project, for the beneficiary farmers to manage price risks and product quality.

**Develop capacity building programme** for banks, MFIs, and producer groups, and relevant stakeholders in the WRS.

**Work with existing micro finance institutions** like the Micro Finance and Development (MIFED), which benefits technical and financial support from the European Union, International Bank for Trade and Savings Cameroon through the Caisse Villageoises d'Epargne for Crédit Agricole (CVECA) and PADMIR. This will ensure optimal reach of WRS to rural farmers and greater proximity in monitoring WRS schemes.

<sup>1</sup> Policy brief developed by **Balikiu Osman** for the Platform for Agricultural Risk Management (PARM). The information is based on "Study on Appropriate Warehousing and Collateral Management Systems in in Sub-Saharan Africa" conducted by J. Coulter, Consulting Ltd and Sullivan & Worcester, UK LLP. The subject countries are Burkina Faso, Niger, Senegal, Ghana, Cote d'Ivoire, Madagascar, Cameroon, Mozambique, and Uganda. The full reports were co-published by the Agence Française de Développement (AFD), Technical Centre for Agricultural and Rural Cooperation (CTA) and International Fund for Agricultural Development (IFAD) / PARM.