



# **Study of Value Chain Finance for Coffee and Cocoa in Cameroon**

Report to UNCTAD

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*The views expressed in this paper are those of the authors and do not necessarily  
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# CONTENTS LIST

GLOSSARY AND RATES OF EXCHANGE.....	iv
SUMMARY .....	0
1. INTRODUCTION.....	2
2. HISTORICAL TRENDS IN COCOA AND COFFEE.....	4
2.1 Cocoa: supply, demand and prices .....	4
2.2 Coffee: supply, demand and prices.....	5
2.3 Liberalization and its impacts.....	7
2.4 The re-launch programme and related projects in the marketing and finance area .....	10
3. COCOA MARKETING.....	13
3.1 Internal and export marketing .....	13
3.2 The involvement of producer organizations (POs) .....	14
3.3 Strategic issues.....	18
4. COFFEE MARKETING .....	20
4.1 Internal and export marketing .....	20
4.2 The involvement of producer organizations (POs) .....	20
4.3 Strategic issues.....	24
5. CROSS-CUTTING ASPECTS.....	26
5.1 Financing the market chain.....	26
5.2 The approach to development of producer organizations (POs).....	26
5.3 The microfinance sector.....	29
5.4 Collateral management services.....	33
6. A BUSINESS FINANCE MODEL WITH SPECIAL FOCUS ON SMALLHOLDERS .....	35
7. OTHER PROPOSALS.....	38
REFERENCES.....	41
ANNEX 1: TERMS OF REFERENCE FOR INTERNATIONAL CONSULTANT.....	42
ANNEX 2 : LIST OF PERSONS MET .....	43

ANNEX 3: ADVANCES IN TANZANIA'S COFFEE PROCESSING AND MARKETING ..... 47

ANNEX 4: TIPS ON LEGAL ASPECTS OF WAREHOUSE RECEIPTING ..... 53

## GLOSSARY AND RATES OF EXCHANGE

APC	Attestation de prise en charge = non-negotiable warehouse receipt
CamCCUL	Cameroon Co-operative Credit Union League Ltd
CCCo	Coffee Curing Company (Tanzania)
CEMAC	Economic Community of Central African States
CFC	Common Fund for Commodities
CICC	Inter-Professional Council for Cocoa and Coffee (in English terminology = Cocoa and Coffee Trades Confederation)
CONAPROCAM	Confédération Nationale des Producteurs de Cacao du Cameroun
CRMG	Commodity Risk Management Group
CTA	Technical Centre for Agricultural and Rural Cooperation ACP-EU, Wageningen, Netherlands
CVECA	Caisse Villageoise d'Epargne et de Crédit Autogérée = self-managed village savings and credit bank
FBG	farmer business group, Tanzania
FEUGICAPAL	Fédération des Union de GIC des Producteurs Agropastoraux du Littoral, Nyanon
FIFFA	First Investment for Financial Assistance (microfinance institution)
FUCAMB	Fédération des Unions des Cacaoculteurs de Mbangasina
GIC	Common Interest Group, Cameroon
LAFCOOP	Limbe Area Farmers Cooperative Organisation
MCA	Moshi Coffee Auction
MFI	Microfinance institution
ICCO	International Cocoa Organisation
ICO	International Coffee Organisation
NWCA	Northwest Cooperative Association Ltd
ONCC	Office National de Café et Cacao = National Coffee and Cocoa Board
ONCPB	Office National de Commercialisation des Produits de Bases = National Commodity Marketing Board
PACICC	The CICC Support Programme
PO	Producer organisation
PS	Primary (cooperative) society
SOWEDA	South-West Development Authority
UCCAL	Central Union of Cooperatives Societies of the Littoral
UCCAO	Central Union of Agricultural Cooperative Societies of the West
UNCTAD	United Nations Conference on Trade & Development, based in Geneva
WLD	Warehouse Licensing Division, of the Ministry of Trade, Tanzania
WRS	Warehouse receipt system
<b>Rates of exchange</b>	29 June 2010: Fcfa 524 = US\$ 1; Fcfa 656 = Euro 1; Fcfa 789 = £ 1

## SUMMARY

UNCTAD commissioned this study under the All ACP Agricultural Commodities Programme (AAACP), in order to identify ways of improving value chain finance in Cameroon's coffee and cocoa sub-sectors, and to formulate proposals for a business finance model with special focus on smallholders. The authors reviewed the value chains for each commodity, and then examined cross-cutting topics, namely financing arrangements, producer organizations (POs), microfinance institutions (MFIs) and collateral management.

Cameroonian producers are fully exposed to the vagaries of international markets for cocoa and coffee, with periods of low price where production is sometimes unprofitable. This was particularly the case with Robusta coffee from 2001 to 2005 as producers felt the full impact of production increases in Vietnam, Indonesia and Brazil. Past experience shows that it is difficult for Cameroon to shield itself from these price swings, but it can do much to ensure that farmers are more productive and resilient in the face of such events.

As currently organized, coffee and cocoa value chains insufficiently reward farmers for the production of good quality product and fail to play their full role in enhancing productivity, which is currently far below potential. The lack of regional and community nurseries is an important problem, but even more constraining is producers' lack of financial wherewithal with which to invest in inputs, labour, replanting and fixed assets for production, and often causing them sell prematurely. They can do much to tackle these problems by organizing high performing POs, to source inputs and bulk outputs for the market, at the same time linking their operations closely with MFIs and banks. In this way strong POs can be an anchor for financial service provision.

The authors find that there is, in principle, a good case for *public support for the development of such MFI- or bank-linked POs*. It would focus mainly on cocoa, and prioritise Central and Southern regions where there is scope for around a six-fold yield increase. Collaborating MFIs and banks would first focus on the most secured transactions (e.g. short term pre-financing against stocks during procurement) and building of member savings, and from there move on to financing production. The approach should support the emergence of high-performing POs, taking account of guidelines suggested in Section 5.2 of this report. As the initiative extends to seasonal and multi-annual financing, it will be helpful to institute a refinancing mechanism to increase the availability of funds and reduce the cost of borrowing, making it more competitive with the international finance accessed by multinationals that currently dominate rural procurement. However such an arrangement requires careful consideration, as there is a significant risk it could degenerate into a loss-making and unsustainable social support mechanism. Technical and financial support needs to be channelled selectively to "show-case" MFI/PO operations and away from those that do not perform.

The initiative would be implemented through a radically revamped version of the ONCC's "Cleaning up Internal Cocoa and Coffee Marketing". Three refinancing options should be investigated with a view to selecting the best, namely: Central Bank refinancing of MFIs; an

international line of credit guaranteed by the State or; an agricultural bank with international investors. The project should be carefully structured to ensure managerial excellence and autonomy. ***Hence our first business finance option is a strengthened and revamped version of the “Cleaning up” project, including a refinancing component and governance changes that will provide the necessary management autonomy.***

Some parts of the country, notably the West and North-West, have older cooperative structures with impressive warehousing and processing plant for coffee, but which remain underutilised due to a fall in production and a burden of old debts which makes it difficult for them to raise capital and secure raw material. It is suggested that these cooperatives approach the problem by following Tanzania’s successful experience with ***service centre companies*** which provide one-stop processing, grading and collateral management service to cooperatives and the public in general. If such companies can be established in Cameroon, unburdened by past debt and focusing exclusively on service provision, they can attract business and bank support in the form of inventory financing against issue of warehouse receipts. As in Tanzania, they can provide fresh stimulus to POs, including primary cooperative societies and village-based organisations seeking to market directly to end buyers. ***If the cooperative structures wish to go down the service centre route, Government and donors should be prepared to assist with feasibility studies and business plans, investment promotion and technical assistance to set up the companies.***

Cameroonian exporters have for long used collateral management services to access pre-export financing, against the issue of non-negotiable warehouse receipts (*attestation de prise en charge*). These services are most important to local exporters that operate independently of multinationals that have tended to dominate export trade and local procurement since the 1990s. Unfortunately some collateral managers have occasionally resorted to issuing warehouse receipts for non-existent stocks (known colloquially as *attestations de complaisance*) in order to ease their clients’ cash flow, a practice which has tarnished the reputation of the instrument with local banks, contributing to their disengagement from direct financing of exports, except as channels for funds from overseas banks.

***In view of this, and prospective benefits in other commodity chains, Government and the Inter-Professional Council for Cocoa and Coffee (CICC) should approach the banking sector with a view to establishing a rigorous regulatory function for commercial warehousing and collateral management services.*** They should make a formal approach to the Cameroon Bankers’ Association, offer it domestic technical assistance, and ask aid donors to directly assist its efforts. Other trade associations, e.g. for Forwarders, may also contribute to this effort.

These recommendations were well received at the workshop on Financing the Coffee and Cocoa Sectors in Cameroon (5-6 October, 2010). Their implementation will require considerable determination on the part of the Cameroonian Government, notably ONCC. It is recommended to appoint someone full time with responsibility for coordinating activities and ensuring that they are carried through to conclusion.

# 1. INTRODUCTION

Data from the National Statistical Institute (INS) show that cocoa and coffee make an important contribution to the Cameroonian economy, particularly cocoa, production of which has grown during a decade of decline in output and earnings from coffee. In 2005, the two commodities provided direct employment 269,000 and 113,000 people respectively, i.e. 4.5% and 1.9% of total primary sector employment. In 2008, two sub-sectors accounted for 12% and 1.9% respectively of primary sector value added. Cocoa contributed 11.4% of Cameroon's total export revenue and a hefty 20% of its non-petroleum exports. Coffee contributed 1.9% and 3.3% respectively.

This assignment arose from the Cameroonian Government's wish to improve the performance of cocoa and coffee markets which it believes to have performed poorly since liberalization in the early 1990s, particularly with regard to the quality of product exported and its price on the international market. Partial solutions to these problems might be found through warehousing arrangements which provided both for quality control and the financing of inventories. The study was jointly carried out by Jonathan Coulter, an international consultant in with extensive experience in the subject matter, and Pierre Etoa Abena, the Technical Adviser at the National Coffee and Cocoa Board (ONCC), who in 2009 participated in a CTA-sponsored study tour on warehouse receipt system involving visits to South Africa and Tanzania (Onumah and Temu, 2009).

The authors were required to analyze the feasibility of establishing "a business finance model" to improve value chain finance for the coffee/cocoa sector in Cameroon with a special focus on smallholders, and upon confirmation of this, propose a design for the model". Terms of reference are shown in Annex 1. The assignment was funded by the European Union under the All ACP Agricultural Commodities Program (AAACP) which has supported various complementary initiatives, notably the development of a strategic plan for the coffee sub-sector and a pilot project for production of fully-washed coffee at village pulperies.

The study involved a mixture of desk and fieldwork. Between June 28<sup>th</sup> and July 14<sup>th</sup> 2010, the authors visited leading producing regions of Cameroon, including South-West, Littoral, West, North-West, Central Region, the capital (Yaoundé) and the port city of Douala, holding a series of meetings with key stakeholders and informants. The report starts with a historical review of cocoa and coffee since the period of State control to present (Section 2), and then discusses the marketing of cocoa and coffee at present (Sections 3 and 4). This is followed by cross-cutting topics common to both commodities, namely financing arrangements, producer organisations, the microfinance sector and collateral management (Section 5). Lastly there is a discussion of a business finance model (Section 6), and further proposals (Section 7).

Annex 2 shows the people met during the visit, and this can be read in conjunction with the map below. Annex 3 discusses Tanzania's achievements with warehouse receipting and

centralised village coffee pulperies, experiences that are very relevant to Cameroon and which are referred to from time to time in the main text.

The authors presented their findings to stakeholders in a workshop on Financing the Coffee and Cocoa Sectors in Cameroon, on 5-6 October 2010.

**FIGURE 1: MAP OF CAMEROON SHOWING MAIN COCOA AND COFFEE-PRODUCING REGIONS**

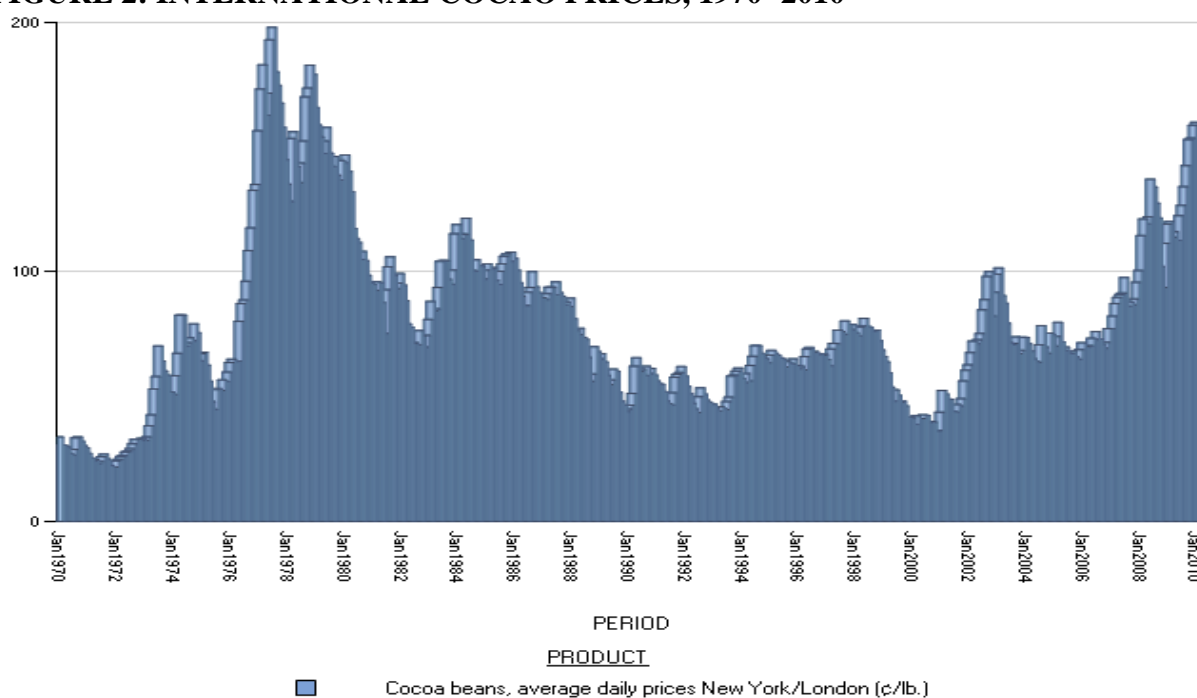


## 2. HISTORICAL TRENDS IN COCOA AND COFFEE

### 2.1 Cocoa: supply, demand and prices

International demand for cocoa has shown healthy growth over the last forty years, from around 1.5 million to nearly 4 million tones. Meanwhile prices show some evidence of a long-term cyclical trend with relatively brief periods of very high prices, reaching up to US\$ 4,000 per tone and heavy plantings, followed by prolonged periods of relatively low prices, mainly in the range of \$1,000 - \$1,500 per ton, in which many farmers lose interest. There was a period of very high prices in the late 70s and early 80s, and another is occurring at the moment, spurred by a situation of underinvestment, high taxes, low production in the leading producing country, Côte d'Ivoire (which accounts for around 40% of global output), and accentuated by international commodity speculation<sup>1</sup>. The July London cocoa contract expired at a peak of £2,725 a ton (approx \$4,188), its highest since September 1977. There was a major dip around the year 2000, with New York prices reaching a low of \$714 in November 2000<sup>2</sup>, followed by a recovery leading to the current end-of-decade price spiral.

**FIGURE 2: INTERNATIONAL COCOA PRICES, 1970- 2010**



<sup>1</sup> Beyond the effects of the structural deficit in production, the large increase in prices is also attributed to the speculative move undertaken by a London-based hedge fund, Armajaro, specializing in commodity trading, which has purchased around 250,000 tons of cocoa. This transaction - worth around £650 million (about US\$1 billion) amounts to around 25% of total cocoa stocks available in Western Europe (according to estimates from the International Cocoa Organization - ICCO) and equal to about 7 per cent of annual global production.

<sup>2</sup> the second position Cocoa contract at ICE Futures US (New York Board of Trade)

As regards Cameroon, official figures show production to have stagnated within the range of 98,000 to 134,000 tons per annum from 1990 to 2002, but then to have trended up sharply, reaching a figure of 205,000 tons in 2009. The south-western region adjacent to the Nigerian border dominated Cameroonian production in the 1980s and (while regional statistics are lacking), is estimated to still account for about 40% of the total. Production has been growing rapidly in other regions, notably the centre which now produces a similar volume to the South-West. The east and the south account for the remainder.

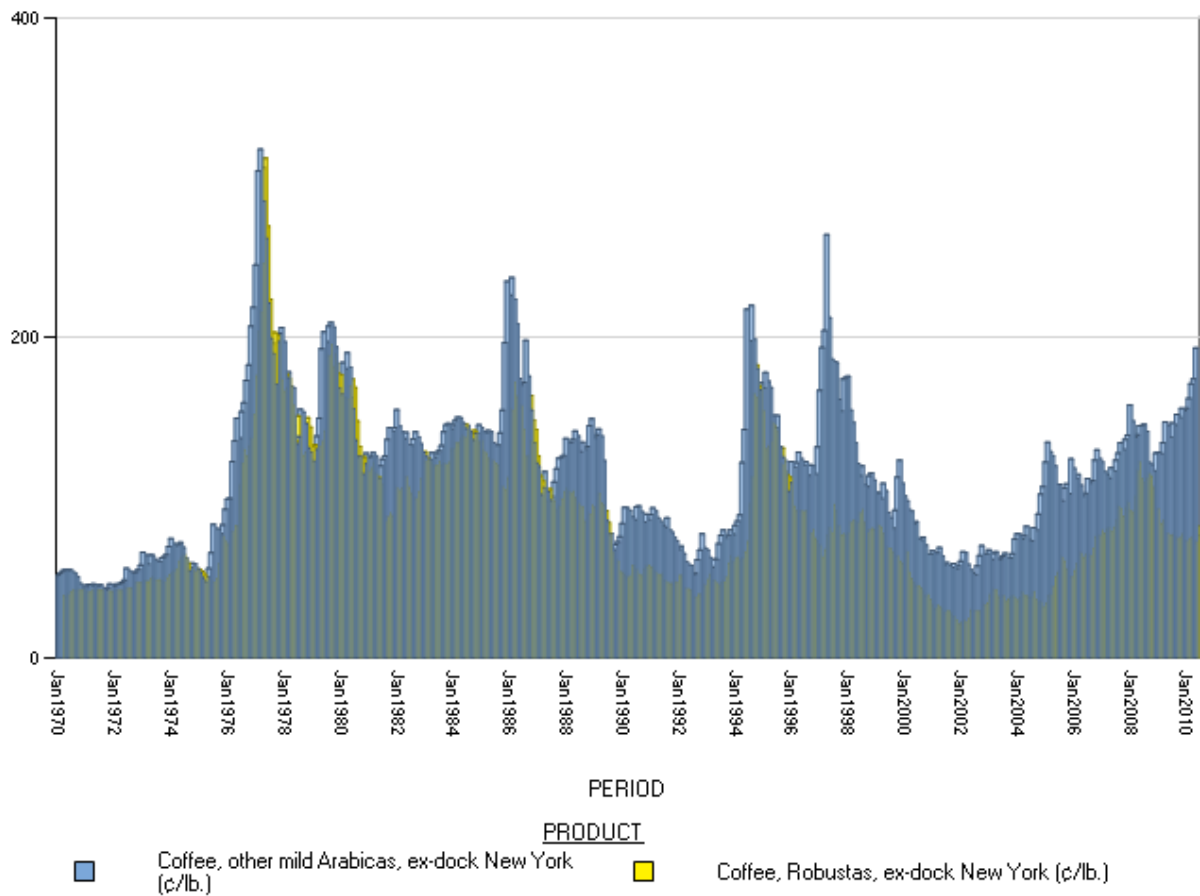
Despite production growth, Cameroonian yields remain low. Potential yields are 2 to 3 tons per ha, but despite efforts of recent years, the average level is still below 400 kg. The shortage of improved planting material is the most important constraining factor, there is insufficient spraying and fertilizer is needed to achieve good yields in the South-West Region where soils are relatively exhausted.

FAOSTAT shows yields to be significantly higher, around 380 kg/ha, in the period 2006-2008 compared to a level of around 300 kg/ha in the early 90s. Much of the improvement can be attributed to the cocoa and coffee Re-Launch Program (see Section 2.5) that started in November 2002, which involves distribution of planting material, higher planting density and spraying, while better World prices also played a part. Some increase in production has also come from increased area cultivated, notably in the Mbam Division of Central Region.

## ***2.2 Coffee: supply, demand and prices***

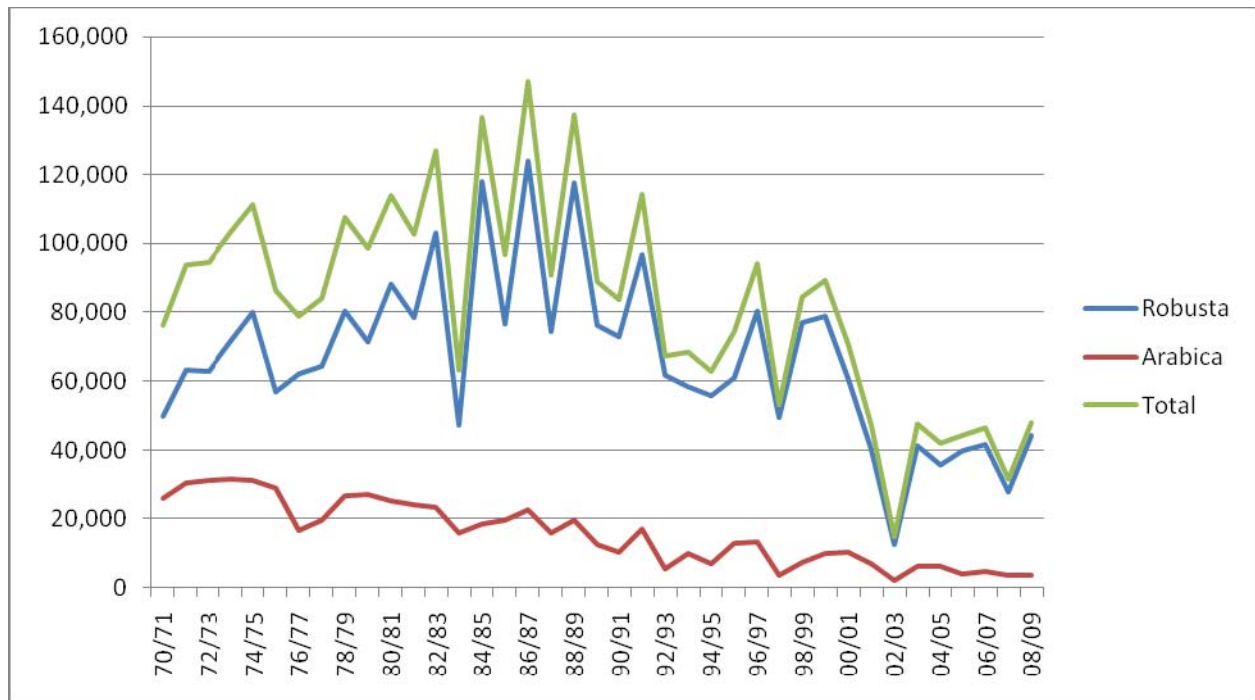
As shown in the country strategy document (ONCC and CICC, 2009) world coffee production has been tending to outpace growth in demand, particularly in the case of Robusta which accounts for about 90% of Cameroon's crop, putting long-term downward pressure on (real) prices. Prices were exceptionally low from 2001 to 2005. Higher prices later in the decade encouraged farmers to better maintain their tree stock but Robustas continue trading at massive discounts to Arabicas.

**FIGURE 3: INTERNATIONAL COFFEE PRICES 1970 – 2010 (source: UNCTAD)**



As regards Cameroon, production is currently about 40,000 tons of green coffee a year, about 90% of it Robusta concentrated in Littoral Region, and the remainder Arabica in North-Western and Western Regions. Nearly all is grown on small-scale family farms of 1 to 2 ha, often in association with other crops, and productivity is low at around at 290 kg/ha, compared to 2,200 kg/ha in Vietnam and 700 kg/ha in Indonesia, according to FAO statistics. The level of production has been declining since the late 1980s, but in the case of Arabica the decline seems to have started in the 70s. Much, of this can be attributed to poor international prices, but as the next sub-section shows, organisational factors also contributed to the problem.

**FIGURE 4: PROCUREMENT OF COFFEE IN CAMEROON (tons)**  
 From *Cameroon Coffee Supply Chain Risk Assessment*, ARD, World Bank



### 2.3 Liberalization and its impacts

A State-controlled marketing system prevailed till the beginning of the 1990s. It functioned under the aegis of the National Commodity Marketing Board (ONCPB), which in Francophone areas operated as a “Caisse de Stabilisation” while in the Anglophone areas it followed the Marketing Board paradigm. In both areas coffee and cocoa were supplied through a monopsonistic structure, consisting of primary societies, regional cooperative unions, and private exporters. ONCPB allocated the players their respective quotas and buying zones. There was an official scale (*barème*) fixing the margins throughout the value chain, while the difference between the scale-determined and real export prices was attributed to ONCPB; if the difference was positive, it was turned over to ONCPB, and if negative, ONCPB reimbursed the exporters for the loss incurred. In practice, positive differences were absorbed into general Government finances, such that ONCPB could not develop its stabilization role. It became highly indebted to cooperatives, and these ended up delaying payments to farmers, for periods of three years or more. ONCPB became so indebted that coffee producers received only half the guaranteed price during the 1989-1990 crop.

In response to this situation and under the influence of structural adjustment conditions, Government policies swung towards liberalization. In mid-1991, exporters were allowed to export directly and the licensing conditions for local traders were suspended. At the same time ONCPB continued to fix all the marketing margins, and an official stabilization fund was created at the new National Coffee and Cocoa Board (ONCC) to regulate inter-annual price fluctuations. Unfortunately this system came under increasing pressure, the stabilization fund was declared bankrupt, and ONCC staff and management charges

continued to mount. In 1994/95, these first reforms were followed by another set of changes, with the abolition of the price scale and the stabilization fund.

One of the objectives of the reform was to “professionalise” the players in the cocoa and coffee subsectors. For example, traders were to get organised so as to be able to negotiate contracts with importers and financing with the banks, and to ensure compliance with international standards. Producers were to organise to bulk their produce and negotiate with traders, to control product quality and acquire inputs through tenders. The governance of the sub-sectors would mainly be the affair of ONCC and the Interprofessional Council for Cocoa and Coffee (CICC), which brings together the various private stakeholder groups organised into electoral colleges. In particular ONCC and CICC were to help build the stakeholders’ capacity to undertake their roles under the new liberalised system.

The reforms brought forth a large number of local marketing intermediaries, as well as new privately-owned coffee hullers. On the positive side, farmers found themselves getting paid on time, and with increased competition and reduced taxes, they got a higher proportion of the export prices. On the other hand, they felt the full impact of World price variability, and periods where prices did not cover costs of production, a problem which was particularly severe with coffee. Many farmers exited the business, and most diversified into a range of local food crops such as plantains, maize and groundnuts, often intercropping them with their coffee.

With an increased number of local buyers and exporters, the market became chaotic and speculative, leading to quality deterioration throughout the chain. Farmers found they could sell their Robusta crop whatever the quality and tended to sell their cherries in dry form instead of getting them hulled first; they gained little through attention to quality and reducing moisture<sup>3</sup>. According to the Manager of UCCAL (the Littoral Union) these problems persist with farmers failing to spray and tend their trees, there being a large increase in the percentage of insect-damaged beans and a fall in the yield of larger beans (screen 18-20 and 16-18); farmers moreover loose out through the loss of second payments (*ristournes*) they obtained with the cooperative system, and buyers cheat on weights when bagging.

In the case of cocoa farmers often failed to ferment and dry their crop properly, and local traders mixed crop of different quality. Quality remains an important issue affecting the export price of Cameroonian cocoa, which is also affected by the poor delivery performance of some exporters (a secondary factor). According to an international trade source, Cameroonian cocoa is discounted by varying amounts compared to Ghana, the premium supply source, due to quality defects, along with a combination of other considerations, i.e. fat percentage, and Ghana’s centralised export marketing system which attracts buyer interest. Ghana cocoa was being quoted £145 over Cameroon for shipment in January, a high figure, but a premium of £100 would not be atypical. If Cameroon could earn an additional £

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<sup>3</sup> Buyers are currently procuring Robusta coffee at up to 20% moisture, a level which causes increased wear and tear on hullers

50 per ton by cleaning up its quality, it would earn an additional Fcfa 7.9 billion (£ 10 million) per annum for a crop of 200,000 tones.

The cooperatives, already damaged by the payment delays of the 1980s, lost most of their market share as a result of intense competition from a host of informal intermediaries, who often went from door to door. Their position was often exacerbated by losses arising from adverse price movements; farmers would no longer accept partial payment on delivery of the crop and a second payment after it had been marketed. Cooperatives had to pay the full price and this exposed them to large speculative risks – and ensuing losses and increase in their debt burden.

Spurred on by new Government rules, farmers started organizing into Common Interest Groups (GICs) for the purpose of accessing markets and services, and these often formed unions and federations (of unions) to obtain greater leverage. However the development of these organisations was patchy and did not match the official plans for sector governance, whereby all producers would be quickly represented in a national “College” (the National Producers’ Council or CNP) which would represent producers within the CICC and negotiate with other groups on their behalf. Many farmers have joined GICs but the number is still only a minority of producers; they are now represented in CICC through the CNP.

Some parties perceive that CICC gives too much weight to well organised multinational trading interests (Inter-Réseaux, 2008), and are therefore seeking to form a national producers’ association outside the CICC framework. The short duration of this assignment did not permit the authors to analyse this issue. It is however evident that the original reform plans took insufficient account of the inherent fragility of producer organisations and the organic nature of their development. One may nurture healthy organisations but one cannot neatly programme their existence so as to fulfil a set of official plans. In the light of this it is necessary to stand back and develop a facilitative approach that will help farmers organise to their advantage, and that will build grass-roots confidence and loyalty. In Section 5.2, we make some suggestions as to how this should be done.

In the case of the export trade, the adverse impact of inexperienced buyers was relatively short-lived, as the activity soon concentrated in the hands of the more serious players; according to LMC International (2001) there were 300 coffee exporters in the mid 90s but by 1997/98 the number had fallen to 50, and ten of these accounted for over 70% of the volume<sup>4</sup>.

Significantly four of the five largest operators were foreign, while local companies found it increasingly difficult to access finance. The availability of collateral management services partially addressed this problem; exporters were able to access pre-export financing at low (LIBOR-related) cost, by using green clause letters of credit, which allowed for the release of

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<sup>4</sup> In 2009, there were only 25 exporters handling a much reduced volume, and the top ten accounted for 92% of the volume verified for export.

funds upon deposit of coffee in port warehouses controlled by leading inspection companies (such as SGS) and freight forwarders like SDV and SAGA. Local banks also provided credit against warehouse receipts, but have largely been absent from this activity since the banking crisis of the late 90s. This arose in large part from banks financing exporters who had taken speculative positions prior to a downturn in World market prices, and also from the failure of collateral managers who in some cases issued warehouse receipts against non-existent merchandise (see discussion in Section 5.4 below). The reluctance of local banks seems to have contributed to the dominance of the export trade by multinationals, notably Cargill, Olam, Barry-Callebaut, ADM and EDF Mann, and local companies linked to these multinationals. The financial failure of the late 90s has caused many local exporters to exit the business, though some survive either independently or supported by the multinationals through regular sales contracts and pre-export financing.

Many simply attribute the decline of coffee production, and the stagnation of cocoa until 2002, to the onset of liberalization. While aspects of the implementation certainly contributed to the decline, this view does not capture the full picture. Significantly, the cooperative supply chain was critically wounded prior to liberalization, handicapping its ability to perform properly during the post-liberalization period. As noted above delayed payments in the 80s compromised cooperatives' performance after liberalisation. Diminished farmer loyalty made farmers easy prey for alternative buyers offering cash in hand at convenient locations, and low world prices particularly for Robusta, dealt a crippling blow.

#### ***2.4 The re-launch programme and related projects in the marketing and finance area***

Government's disappointment with the progress of the liberalised system, with regard to cost competitiveness, quantity and quality of production and the transparency of markets, caused it to draw up the *Re-Launch Programme for the Coffee and Cocoa Sub-Sectors*, November 2002, involving a series of projects to be carried out by Government institutions (Ministries, ONCC, the Institute for Agricultural Research for Development (IRAD), various other government agencies), the CICC, cooperatives/POs and processing companies.

In the area of production, considerable resources have been devoted to the renewal of planting material, spraying and the provision of fertiliser (mainly for coffee). Production targets were set as follows for 2010 – 2015: cocoa 200,000 tons, Robusta coffee 120,000 tons and Arabica 100,000 tons. The cocoa target has already been achieved, but it will be very difficult to achieve the coffee targets. However the high demand for seedlings in recent years suggests that Arabica will trend up from 2012. In Robusta areas however, farmers are often planting cocoa which they see as a better alternative. Demand for planting material is very high for cocoa, but there is acute scarcity of supply. It is presently distributed through highly subsidised system, and there is a pressing need to develop a more effective system of seed multiplication and distribution, and to bring forth farmer-entrepreneurs capable of using these and other inputs to good effect.

On the marketing side, significant effort has been devoted to the revision of regulations (*textes*), and to market information, but less progress has been made in other areas, including collateral management and local processing. In the next few paragraphs we briefly describe some of the most important projects in the marketing and finance area. Not all of them were conceived as part of the Re-Launch Programme, but all are closely related to its objectives.

**Project on the Improvement of Cocoa Marketing and Trade in Liberalizing Cocoa-Producing Countries, in Cameroon, Côte d’Ivoire and Nigeria (project ICCO/CFC/11).**

The project was supported by CFC and ICCO and implemented between 2000 and 2005. The Project Completion Report (ICCO, 2007) shows that the project sought to promote warehouse receipting in up-country areas of the target countries, among various other improvements. In the case of Cameroon, it produced a range of outputs including a census of warehouses, detailed procedures for up-country collateral management, training programs for warehouse keepers, a detailed manual on warehousing and collateralization, two software programs (REGINE and SENAC) to be used by collateral managers and bankers, a comprehensive tripartite agreement and a legal text for organizing the profession of collateral manager (pending publication). Except for the warehouses currently shown on the ONCC website, we do not know the whereabouts of these documents.

The Project encountered quite serious implementation problems, and the Completion Report draws rather adverse conclusions as to the viability of warehouse receipting. Local stakeholders, and notably banks, were reluctant to become fully active in the project due to negative experiences in the past, notably fraud, and some parties resisted change as they wanted to continue benefiting from a lack of transparency and efficiency in the market channels. The authors of the report go on to raise a more fundamental concern, that neither traders nor cooperatives (key target groups) were interested in keeping stocks up country for the implementation of structured financing transactions.

They explain that a cooperative storing cocoa up-country would not only be tying money up in the cocoa, but would run a substantial price risk. The situation would only change if the cooperative became an exporter itself, in which case it would need pre-export financing of stocks and the ability to hedge price risks.

Cooperatives were however interested in obtaining funds with which they could pre-finance their purchases from farmers, i.e. a very short-term form of inventory credit which helps them bulk up product but not to take speculative positions. This is certainly a priority, continually stressed by POs we encountered<sup>5</sup>, and we take it up later in our proposals. The same logic presumably applies in the case of a private trader though the Report does not discuss this possibility.

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<sup>5</sup> The point is echoed in a report by Inter-Réseaux, 2008 (Section 3.1) which says “the time between delivery to the grassroots PO by the member and effective payment is often rather long; - - - This constraint remains the major strong point of the ‘coxeurs/speculators’ and explain in part the low volumes of products that are exchanged in the organised markets”.

The *Project for the Cleaning up Internal Cocoa and Coffee Marketing* is based at ONCC, and started in January 2009, and will last for six years. It has a budget of Fcfa 4.187 billion (about US\$8 million). It seeks to optimize producer revenues, by providing the main production areas with storage and market infrastructure, establishing a system of pre-financing against stocks deposited in the warehouses, systematizing quality control at producer level, and ensuring a strict calendar of periodic (normally weekly) auctions where farmers will sell their produce.

The project builds upon existing efforts of POs, notably Central Region cocoa-producing POs affiliated to the Cameroon National Confederation of Cocoa Producers (CONAPROCAM). The first two years of the project is a pilot with the aim of supporting around 500 POs, and in excess of 50,000 producers in the marketing of around 30,000 tons of products per annum, after which it is to be extended to the rest of the country. The project has started building warehouses for POs<sup>6</sup>, and it is intended that they will enter into partnership with local MFIs who will provide farmers with very short-term inventory credit, against warehoused stock, so that they do not need to sell them to informal traders and exporters' agents at low prices. So far project staff has worked with POs and local authorities to organize auction calendars in three cocoa producing Divisions, and has been advocating in favour of PO-MFI partnership. However it is not clear that this has so far added much to what farmers are already achieving through their own efforts.

The *Project for Strengthening and Modernising the Cocoa and Coffee Information System*, lasts for four years, has a budget of Fcfa 2 billion (about US\$ 3.8 million), and is also based at ONCC. It builds upon an existing market information system (the SIF) and seeks to help farmers redress information asymmetry and increase their ability to negotiate with buyers. A network of information hubs is to be established, 30 during the project, disseminating through conventional media, internet, SMS and voicemail, and FAX. A virtual market (using a bulletin board) is also envisaged.

The World Bank is working with ONCC to implement *a Fully-Washed Coffee Pilot Project*. The aim is to test the viability of producing fully washed Arabica and Robusta in Cameroon using Latin American ecological pulping equipment on a village scale, i.e. in the range of 20 to 50 tons of green coffee per annum. The project is being pioneered by Café Africa of Geneva, and the technology allows for the production of reliably high quality, avoiding a range of defects noted in existing Cameroonian products. Prior experience in Tanzania (see Annex 3) leaves little doubt about the technical and organizational viability of this approach with Arabica, but it is a relatively new departure with Robusta. Notwithstanding, the large price margin between Arabica and Robusta in World markets, and experience with washed Robusta from India, Uganda and DR Congo suggests the Robusta operation in Cameroon may prove highly profitable (Café Africa, 2009). Given very low yields, it is doubtful that the introduction of fully-washed technology can by itself reverse the downward trend in

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<sup>6</sup> The North and the West of the country is relatively well endowed with warehouses – some are standing idle – but the newer GIC-based structures in the Centre and the East of the country are largely lacking

production, and for this reason the project is to focus on radically increasing agricultural productivity, by introducing new planting material, improving cultural practices and access to inputs. It is believed that the village washing stations will give new impetus for group activity in this area and basis for provide a basis for the provision of support services.

A leading international buyer of Cameroonian coffee (OLAM) and the DE Foundation are supporting a *Project for the Promotion of Sustainable Arabica* in Kumbo District of North-West Province. Like the World Bank initiative it will focus on raising agricultural productivity, but it has not provided for centralized washing facilities. OLAM will provide in-kind support, notably in assuring a reliable and economical source of fertilizer and in marketing the crop. Significantly both the World Bank and the OLAM/DE projects involve linking OPs to named international buyers.

The numerous organisations and projects involved in the Re-Launch Programme is a matter of concern to some parties who feel that there is a need for better coordination and to minimise overlap.

### **3. COCOA MARKETING**

#### ***3.1 Internal and export marketing***

Internal marketing is handled by a combination of exporters, the single significant country processor (SIC Cacaos, a subsidiary of Barry-Callebaut), agents of these companies, independent traders and POs. The main activities include collecting and handling the cocoa beans up-country and their transport to the port.

Exporters/processor have set up their own internal purchasing organization to purchase directly from farmers at or close to farm gate. They also employ agents to purchase cocoa directly from farmers or village markets for delivery to the buyers' warehouses. Many buyers acting on their own account, often merchants engaged in other businesses, collect small amounts of cocoa from several sub-collectors ("field-collectors", who are often themselves cocoa farmers), as well as directly from farmers, in order to build a large shipment for consignment to the exporter.

Cocoa and coffee buyers are required to have signed a statement of existence and hold a trader's card issued by the Cocoa and Coffee Trades Confederation, known as Cocoa and Coffee Inter-Professional Council (CICC). There are various other regulatory requirements governing internal marketing, aimed at strengthening the relative bargaining power of farmers vis-à-vis buyers. Purchases at origin are supposed to take place on organized markets, at the initiative of producers and their groupings, in conjunction with buyers and the competent administrative authorities. Night-time or door-to-door purchases are prohibited. In practice, these restrictions are widely evaded. Buyers convey the produce to the exporter's buying points in the cocoa-producing areas, or directly to the exporter's warehouse in Douala. Low-quality (residual) beans unsuitable for export are sold at a discount to the agents of the local processing company.

Increased interest on part of international cocoa buyers has led to major investments in warehousing, drying and conditioning facilities in Douala. The Cargill subsidiary Telcar alone has a drying facility with capacity of 60,000 tons per annum. ADM and the local Olamcam, the local Olam subsidiary, have purchased the USICAM facilities and have invested in high speed drying and the exporter Noah Nyamedjo is seeking to do likewise. Freight forwarders SOCOMAR and UTRAC provide contract drying services with their facilities. Official regulations make illegal internal purchasing and transport of cocoa at more than 8% moisture (and coffee at more than 13%), but these have proved unenforceable under the liberalized system<sup>7</sup>.

The export of cocoa beans is reserved for operators who have signed a declaration of commercial activity and hold a trader's card issued by the CICC, and make use of a range of service providers including banks, freight forwarders, inspection companies/collateral managers, stevedoring companies etc..

Traditionally, the first customers for cocoa in export markets were importers who purchased the cocoa for their own account then sold on to industry (cocoa processors and chocolate manufacturers), but over time the boundaries have become blurred. The largest processors and manufactures are now the leading international purchasers of cocoa in export markets, notably Barry-Callebaut, ADM, Cargill etc., and they have taken over much of the exporting operations within Cameroon. In 2002, the three international players were reported to have purchased 95% of Cameroon's cocoa. As also pointed out in an UNCTAD study of 2008, "the internationalization of activities at different segments of the cocoa value chain within multinational companies renders tacit or formal collusive behaviour a priori possible".<sup>8</sup>

Most Cameroon cocoa (an average of 75% between 2003/04 and 2005/06) is exported to the Netherlands, the largest cocoa-processing country worldwide. It is significant that several local exporters are dependent on the leading international players as a source of pre-export funding. The current study is relevant to this situation, in the sense that better access to warehouse receipting may help these players reduce their dependency, and help others, including POs, to enter the export trade.

### ***3.2 The involvement of producer organizations (POs)***

There has not been a complete survey of coffee and cocoa POs, and there is considerable uncertainty about the numbers of producers belonging to them. The CICC Support Program

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<sup>7</sup> Côte d'Ivoire has relaxed the requirement to 10% which seems a bit more realistic.

<sup>8</sup> A comment by an international trader, to the effect that Cameroonian cocoa is underpriced, suggests that there might be some lack of competition. However oligopolistic market structures are often fiercely competitive, and we have no evidence that collusive behaviour actually occurs.

(PACICC) estimates that around 20% of producers are organized into POs, mainly Common Interest Groups (GICs), and with regard to cocoa, but we cannot confirm this<sup>9</sup>.

A cooperative structure dominated supply prior to liberalization, particularly in the South-West. A few primary societies continue operating but at a low level. Up to 2005, South-West Development Authority (SOWEDA) was supporting cocoa producers organized into coops and GICs using World Bank funds, and working through various MFIs. The results were generally poor, and SOWEDA has moved on to support of livestock and fisheries under a World Bank project. Warehouses were built for cooperatives, but these are often empty while some have fallen into disrepair. Notwithstanding the Limbe Area Farmers Cooperative Organization (LAFCOOP) has worked in partnership with a local CamCCUL credit union to fund both its marketing of cocoa, using inventory credit, and members' input credit needs – see **Box 2**.

### **BOX 2: CREDIT PARTNERSHIP FOR COCOA IN LIMBE, SOUTH-WESTERN REGION**

Mr Fombon Raphael, Kumba Chapter Supervisor for CamCCUL, told us about an interesting operation that Limbe Area Farmers Cooperative Organization (LAFCOOP) established in 2005. LAFCOOP had experienced some management difficulties and had difficulty in raising finance for its operations. To overcome this problem it established a revolving Fcfa 10 million inventory credit arrangement with the local CamCCUL credit union. LAFCOOP used the funds to purchase cocoa from farmers, many of whom were themselves in receipt of production loans from the same credit union. At the moment of receiving the produce, LAFCOOP discounted the value of the production loans from the value paid for the cocoa, and the resulting stock was held in LAFCOOP's warehouse under a dual-key arrangement, with LAFCOOP and the credit union holding the keys. The warehouse was periodically opened in the presence of both parties, so that LAFCOOP could sell the produce to local buyers and reimburse the credit union. The arrangement provided considerable security so that the credit union could go on lending to LAFCOOP for marketing of cocoa beans, and to individual farmers, in the latter case because loans could be quickly recovered upon delivery of produce to LAFCOOP.

The Cocoa Livelihoods Project supported by the Government of Cameroon, the World Cocoa Foundation and the International Institute for Tropical Agriculture (IITA) have been supporting twelve cooperatives of the South-West and the Central Region in various areas, including raising cocoa productivity, improving quality and bulking for market in partnership with ADM, as well as support for diversification into alternative crops. The Canadian NGO SOCODEVI provided support for the institutional development of cooperatives. As regards bulking, the cooperatives marketed a total of 1,000 tons and 925 tons of beans to exporters in 2007/08 and 2008/09 respectively. The Project also linked the FIFFA network of MFIs with the cooperatives and provided them with a line of credit to support the collaborative arrangement.

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<sup>9</sup> Pourchot (undated) states as follows : OPA ont beaucoup de difficultés pour faire évoluer leur mode de fonctionnement du fait du manque de confiance et de l'attentisme d'une majorité des producteurs, ce qui pourrait expliquer que seulement 20 à 30% de la production soit mise en marché à travers les « ventes groupées » organisées par les OPA.

The project report (MINEPAT, 2009, p55-56) indicates that this helped farmers access inputs, develop income-generating activities and increase their savings, while strengthening the cooperatives and their ability to market cocoa. The report goes on to say that the provision of financial services solved the problem of distance (i.e. difficulty of access) of which rural populations used to complain. However the cooperatives have varied widely in their performance; some have had difficulty managing credit and reimbursing their loans.

It is the new generation of GICs, however, that has achieved the most impressive results in terms of bulking and marketing of cocoa, particularly in Central and Southern Region and parts of Littoral. In Central Region some 18,000 farmers organized in about 600 GICs, formed into 150 unions and 31 federations of these unions, for the purpose of marketing and access to inputs. These Federations have themselves formed a regional apex organization CONAPROCAM which has the material and technical support of the French NGO, Agriculteurs Français et Développement International (AFDI). Marketing is mainly coordinated at the level of the Federations, and in the 2009/10 harvest, these marketed a total of 7,000 tons of cocoa beans. Upon selling the crop, Federations make a deduction of Fcfa 50 – 100 to cover the cost of members' inputs in the next season and (sometimes) school fees. For the last two years the Ministry of Agriculture has provided subsidized inputs, with a revolving fund, through CONAPROCAM. At the same time CONAPROCAM is attempting to export directly, having so far made two trial shipments. We also encountered the President of the independent FEUGICAPAL Federation, based at Nyanon in Littoral Region. It has 29 unions, 115 GICs and 2,982 members and has marketed about 1,900 and 2,430 tons respectively in 2008/09 and 2009/10.

These Federations have developed the following *modus operandi* for marketing cocoa. Farmers know about cocoa quality and they strive to sell a quality product, making sure that the beans are properly fermented and dried – for example the FEUGICAPAL has a maximum moisture tolerance of 10%, and discounts each sack (circa 80 kg) by 1 kg for each percentage above 8%. Some federations negotiate the sale of cocoa privately, but the more developed ones have a system of regular auctions. The federation announces a calendar of auction days for the forthcoming season, usually once a week or fortnight, and invites major buyers to attend. Before each auction the unions work with the GICs to ascertain available supplies, check quality (*vérification*) and ensure they are ready in time, preferably at central locations, so as to facilitate collection by buyers (however, due to lack of transport and storage facilities, the sacks are often held at members' homes which is less convenient). The Federation holds the auction at its headquarters, receives payment from the winning buyer (often in two tranches) and agrees arrangements for collection. At the leading Federations the volumes sold per auction vary from 5-20 tons in the off-season up to 250 tons in the high season which lasts from October to January.

Farmers are paid a price per kilo net of deductions, illustrated by the following example for a leading Federation.

**TABLE 1: AUCTION AT FUCAMB, MBANGASINA, 29<sup>TH</sup> JUNE, 2010**

ONCC prices for the day, obtained by SMS, for reference purposes:

- CIF Netherlands Fcfa 2,073 per kg
- FOB Douala Fcfa 1,942 per kg
- DDU exporter's store Douala Maximum Fcfa 1,800 per kg  
Minimum Fcfa 1,700 per kg

Prices paid by informal buyers (door-to-door, small quantities) on the day, also for reference purposes: Fcfa 1,300 per kg

Quantity sold at auction	12 tons of cocoa beans
Sale price at auction	Fcfa 1,510 per kg
Less deductions	Fcfa 110 per kg
• Collection charges	Fcfa 10 per kg
• FUCAMB operational expenses	Fcfa 25 per kg
• Levy for input purchase	Fcfa 75 per kg
Net price paid to the producer	Fcfa 1,400 per kg
Price received by producer, including input levy	Fcfa 1,475 per kg

**Exchange rate:** Fcfa 524/US\$

In this case the buyer paid a price of Fcfa 1,510 per kg for 12 tons of cocoa beans, while the producers received Fcfa 1,400 per kg. Of the difference of Fcfa 110 per kg, Fcfa 75 was credited to the individual farmer for the supply of inputs for the new season. Hence farmers got a real price of Fcfa 1,475 per kg, which is better than they could get from private dealers.

Notwithstanding this benefit, **Table 1** shows that there is a large margin between the Douala into-store prices announced by ONCC and the auction price at Mbangassina: between Fcfa 190 and Fcfa 290 depending upon whether one uses the maximum or minimum into-store prices. The difference is a little difficult to explain if one considers the cost of transport (not more than Fcfa 25 per kg for a full load), and the fact that POs generally supply good fermented cocoa of superior quality. We believe there are two explanations for this phenomenon:

- a) The volume sold was small. FEUGICAPAL sells volumes of the same order of magnitude as FUCAMB and had a similar experience during the off-season, selling below 20 tons per auction. However it generates much greater buyer interest in the main October-January season when the volume sold per auction may reach 250 tons. In November and December 2009, FEUGICAPAL says it was selling above the *minimum into-store price* for Douala posted by ONCC, while in January 2010 it sold above the *maximum into-store price*. Hence the margin between auction and into-store prices

depends on the season and the effort that exporters are prepared to expend on procurement.

- b) FUCAMB's product was dispersed, much of it in farmers' houses, increasing the amount of time and effort buyers had to expend in collection, and exposing them to greater risk of default and disputes over quality. In the early part of the peak harvest season (September and October), Federations often find their products discounted by 0.5 kg per sack on account of quality. We estimate FEUGICAPAL did Fcfa 70 better<sup>10</sup> in its auction of July 5<sup>th</sup>, than FUCAMB on June 29<sup>th</sup>; one cannot be sure of the explanation, but it is possibly due to superior logistics (assembling products at eight strategic locations to facilitate collection) and its very strict approach to quality control.

The more POs can perfect their image for quality and reliability of delivery against contracts, the closer they can get to into-store Douala prices on a year-round basis. If buyers are sure that upon contracting with POs, they can reliably access "good fermented cocoa beans", they should be willing to pay close to prices delivered Douala less trucking costs.

The POs need warehouses, pick-ups, equipment (notably weighing scales, moisture meters and mobile dryers), and working capital for pre-financing marketing. They have already made some headway, for example by renting available houses and warehouses, buying equipment, entering into leasing arrangements with private traders, and borrowing from local MFIs, but there is much to be done in this area. The Project for the Cleaning up of Internal Cocoa and Coffee Marketing (described above) is starting to provide support, by building warehouses for various federations.

Some interviewees spoke of local authorities (Divisions) setting up their own auctions in competition with Federations, creating confusion among buyers. This would appear to constitute an unnecessary duplication of activity.

### ***3.3 Strategic issues***

The SWOT analysis in **Box 3** below focuses on those strengths, weaknesses etc. of key importance to the sub-sector, and particularly those impinging on the crop financing, marketing and sustainability.

Cocoa producers are currently benefiting from a period of high world prices, which may continue for some time, and there is a limited amount it can do to protect itself against downswings which will eventually occur. Past stabilization schemes designed to insulate Cameroonian producers against international price fluctuations have proved unmanageable. At the same time the experience of the World Bank-backed Commodity Risk Management Group (CRMG), in trying to provide a market-based price floor for coffee, does not bode

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<sup>10</sup> This difference is calculated as follows: the auction price was Fcfa 1,540, i.e. Fcfa 30 more than in Mbangassina, but FOB prices had meanwhile fallen by Fcfa 41 (i.e. Fcfa 1,942 – 1,901), giving a total improvement of approximately Fcfa 70 per kg.

very well for Cameroonian cocoa – we discuss this in the coffee section below. The Fair Trade niche may provide price protection to certain producers.

The main implication of the SWOT is that Cameroon needs to accelerate the development of high quality POs and partnerships between POs and financial institutions (notably rural MFIs), so as to build a robust grass roots organization that allows farmers to make the best of the situation they find. Partnership should first involve gaining the confidence of the financing partners, which can best be achieved by members of POs saving with MFIs or banks, and highly secured forms of lending like inventory credit. These will help the POs gain the confidence of the MFIs, making these more willing to consider more risky production loans.

### **BOX 3: SWOT ANALYSIS FOR COCOA**

#### **Strengths**

- Abundant land for planting
- Government commitment, as demonstrated by the 2002 Re-Launch Plan
- Strength of GIC-based POs. Potential “anchor” on which financing of farmers can be structured
- Widespread networks of MFIs, with an interest in supporting GICs (see discussion in **Section 5.4**)

#### **Weaknesses**

- The liberalized internal marketing system, as currently organized, does not tend to promote the export of good quality cocoa or play a full role in productivity enhancement
- No control over World market prices
- Shortage of improved planting material
- No use of fertilizer (bio or chemical), except in Western Region

#### **Opportunities**

- Major opportunities for intensification using improved planting material, good cultural practices, spraying and using purchased inputs
- To build on early successes of GIC-based POs, to increase productivity and improve farm-gate prices
- Encourage collaborative arrangements between MFIs and POs, to finance inputs and pre-finance marketing
- Premium market niches: fair trade, ethical trade, organic, single-origin and others. Fair trade is currently very small (0.1% of world consumption) but growing fast (30% per annum), and provides producers with a price floor of circa \$1,600 per tonne (Pay, 2009)

#### **Threats**

- Periods of low market price
- POs fail to perform as expected, and loose member confidence.

## 4. COFFEE MARKETING

### 4.1 *Internal and export marketing*

Cameroon is one of the few countries in Africa that grows both robusta and arabica coffee. The robusta coffee season runs from December to November while that of arabica runs from October to September.

There is evidence of some marketing improvements in recent years. Much of the problems described in the LMC report of 2001 remain true in 2010; for example we hear of coffee being traded at up to 20% moisture content. However, the authors of this report obtained positive information about the development of POs, and the increasing sophistication of some hullers and exporters. For example, some Unions of GICs opt to sell their coffee as fair-average-quality (*tout venant*) i.e. hulled, and they are rewarded for the cleanliness, absence of mouldy and broken cherries. However, they are not rewarded on the basis of out-turn by screen size. Hullers and exporters often store farmers' crop, with financing, allowing them to sell the crop on price-to-fix terms. That is to say, farmers often like to speculate on short-term price rises and are happy to take the exporter's current price when they decide to sell; they are able to do this because the exporter provides storage and inventory credit. In a competitive market where competitive price levels are widely known, such arrangements are advantageous to producers. POs are also procuring inputs, making use of credit facilities offered by exporters. According to the information we obtained, this does not require them to accept barter terms or make any forward price commitment<sup>11</sup>. We tentatively conclude that these interactions are favourable to producers; however, it would be worth studying them in much greater depth, to assess how they are impacting on producers, and where it is possible to achieve further improvements.

International coffee traders appear to have lost much of their interest in Cameroon, now seen as a relatively minor source of supply, in contrast to the situation with cocoa. At the same time it is interesting that cooperative structures in the West and North-West (*Central Union of Agricultural Cooperative Societies of the West* – UCCAO, and the *Northwest Cooperative Association* - NWCA) emerged as dominant exporters of Arabica coffee in 2009, with 68% of the total.<sup>12</sup>

### 4.2 *The involvement of producer organizations (POs)*

ONCC estimates that collective marketing by POs results in them getting an additional F 50 to F80 per kg (US\$ 95-150 per tonne) for their coffee; however such sales count for no more than 10 to 15% of the total volume of coffee marketed by farmers<sup>13</sup>. POs consist of the main cooperative structures dating from the pre-liberalization era. GICs/Unions of GICs farmers

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<sup>11</sup> This slant is different from that of a cooperative manager who estimated that 40-50% of Robusta was sold at fixed prices in advance of the harvest, by farmers in need of ready cash

<sup>12</sup> ONCC figures based on Verification Requests

<sup>13</sup> From Project Proposal for Cleaning up Internal Cocoa and Coffee Marketing, 2009

have organized since then. GICs are not as strong as with cocoa, but some are large<sup>14</sup> and as the previous paragraph shows, they are already helping farmers with their marketing and input supplies.

In the formal cooperative sector, the main structures are UCCAO, NWCA and the *Central Union of Cooperatives Societies of the Littoral* (UCCAL), and their respective affiliates. They are important partners for Government in the implementation of the 2002 Re-Launch Programme, supplying their members with both seedlings and subsidized agrochemicals. However, their marketing activities are modest, leaving them with over-dimensioned processing and storage facilities. Indeed their operational capability has been compromised by the large fall in production since 1990 and debts arising from both the pre-liberalization and post-liberalization eras. The latter is rather complicated and includes the following cases: debts of the now liquidated ONPCB towards the unions; debts of the unions to their members; debts of farmers to the banks underwritten by the cooperative structures, and; debt to an MFI arising from financial irregularities.

UCCAO staff estimate that the Western Region is producing 5,200 tons of Arabica and 4,800 tons of Robusta, bringing the region's total output to 10,000 tons (in green coffee terms). The six UCCAO-affiliated cooperatives each have mechanical hulling and grading facilities of about 20 tons per hour, i.e. enough to process the entire crop in less than two weeks, while UCCAO has a colour sorting facility with similar capacity, as well as a centralised facility for the production of washed Arabica. UCCAO has storage capacity for around 25,000 tons of green coffee; we were unable to get exact figures for all the primary societies, but two were mentioned as having three warehouses each with combined capacities of 12,000 and 15,000 tons. Significantly UCCAO remains a leading exporter of Arabica coffee and also sells branded roasted coffee in the domestic market.

As for the output of UCCAO and its six member cooperatives, UCCAO's 50th anniversary report indicates that total production of green coffee for the last year listed (2006 or 2007 depending on the cooperative) was 766 tons, more than half of it Robusta. However the volume has clearly risen since then, with UCCAO exporting 1,644 tons of Arabica in 2009. The product flows physically through the full structure, moving from the village to the primary society and the union before being sold, incurring a scale (barème) of charges at each level (see **Table 2**).

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<sup>14</sup> One exporter spoke of dealing with unions of 60-80 GICs, with the largest GICs having 300 members.

**TABLE 2: UCCAO, SALE PRICE COMPUTATION FOR ARABICA COFFEE,  
Fcfa/ kg, 15/05/09**

Grower		750	800	700
Collection	40			
Hulling	30			
Transport to UCCAO	15			
Handling	15			
Coop administration	25	125	125	125
<b>Coopérative:</b>		<b>875</b>	<b>925</b>	<b>825</b>
Processing of FAQ coffee	30			
Sack	11			
Marking	2			
Loading	2			
Colour sorting (trriage électronique)	25			
UCCAO administration	60	130	130	130
		<b>1,005</b>	<b>1,055</b>	<b>955</b>
<b>FOBing</b>		<b>80</b>	<b>80</b>	<b>80</b>
<b>Total</b>		<b>1,085</b>	<b>1,135</b>	<b>1,035</b>
N.B.: the grower price varies according to international market prices				

However some of the cooperatives have been toll-milling for private customers, notably CAPLABAM based at Mbouda, which since 1998 has been processing Arabica coffee for OLAMCAM. Volumes have gradually declined, broadly in line with the size of the crop, from 2,000 tons of parchment coffee in the first year to 700 tons in 2009/10. CAPLABAM provides hulling services (at Fcfa 22-23/kg), conditioning (Fcfa 2.5) and blowing/polishing (Fcfa 4.5), and rents OLAMCAM a warehouse to store its product (Fcfa 300,000 per month). The operation is providing CAPLABAM with an invaluable source of income with which to pay off a past debt.

North-Western Region produces an estimated 5,000 tons of Arabica coffee, 95% of it washed. There is a three-tiered cooperative structure consisting of 43 primary societies, seven unions and the apex, NWCA, which inherited its facilities from the former marketing board of Anglophone Cameroon. Primary societies collect and weigh the parchment coffee (for which it collects Fcfa 25 per kg), the union processes, grades, sorts and bags the green coffee (Fcfa 100 per kg), and sells to overseas buyers and delivers to the port (Fcfa 207 per kg). NWCA says it has storage capacity of nearly 260,000 cubic meters, sufficient to hold nearly 155,000 tons of coffee. In practice the largest quantity of coffee it has handled in a

single year is 10,908 tons (in 1979), but by 2007/08 the volume had fallen to 896 tons, 96% of it Arabica. NWCA and its unions do not at present provide processing or storage services to non-members.

Due to the overhang of past debt, both UCCAO and NWCA have difficulty persuading the banks to finance stocks, though NWCA succeeded in securing finance against collaterally managed stock for this year.

UCCAL and its affiliate for Mounjo district (COPLACARM) processes a few hundred tons of cherries a year, mostly hulling dried Robusta cherries for sale to traders as fair average quality (*tout-venant*) without cleaning, grading or sorting. The plant is generally much older than that of NWCA and UCCAO, and sorting is manual.

Some unions, notably NWCA and UCCAO, may be able to reorganize their structures in a way which would increase their overall income while enhancing their service to coffee producers. It would involve forming regional *service centre companies* to provide an all-in-one processing, grading and warehouse receipting service along the lines of Tanzania's "Coffee Curing Companies" (see Annex 3). In addition to the processing services provided in Tanzania, these centres could also offer dry milling (i.e. hulling) services. The unions currently complain of the high cost of running hullers for short periods, so it would make sense to concentrate the activity in strategic locations with longer production runs. The short transport distances in the plateau will often make it more economical to ship dried cherries directly to the service centres rather than process them in two stages at different locations.

NWCA, UCCAO and member cooperatives could take shareholdings in the service centre companies and ownership could be opened up to other stakeholders (e.g. banks, MFIs and exporters). The important aspects of these companies are that:

- (a) as service suppliers, they would not be taking positions in the coffee market and be exposed to speculative risks;
- (b) they would be free of the cooperatives' debt overhang and therefore able to gain the confidence of the banks, who would finance depositors' against stock held by the company;
- (c) they would provide a "one-stop shop" at which customers could gain access to credit, have all their processing, grading, polishing, sorting, container stuffing and pre-export inspection done, minimizing handling costs and making the entire industry more competitive in international markets, and;
- (d) their services would be available to UCCAO, NWCA and member coops., and they could attract the custom of other POs (e.g. GICs, groups with centralized pulperies). Their superior facilities should give them a competitive edge over other processing facilities.

### 4.3 Strategic issues

The SWOT analysis in **Box 4** below focuses on those strengths, weaknesses etc. of key importance to the sub-sector, with respect to financing, marketing and sustainability.

The Cameroonian coffee industry faces a mixture of problems, some of which it can address and some that are, at best, only partially soluble. In the latter category one should cite year-to-year variations in world market prices; the country is a price taker and domestic prices reflect prices quoted for near positions in international futures markets. Attempts to mitigate fluctuations through public sector stabilization have encountered insurmountable management difficulties in Cameroon and elsewhere. At the same time attempts by the World Bank-backed Commodity Risk Management Group (CRMG), to provide African coffee producers with a price floor, backed up by options contracts on international futures markets, have not had significant impact to date. Tanzania has been the main focus for this work, which is discussed in a report by CRMG (2008, p31-32). The main difficulties enumerated are: the opportunistic nature of risk management with POs reluctant to hedge when prices are high, currency risk being perceived as a greater risk than price risk; and the cost of options in markets where margins are very tight.

Farmers working together in POs with financing can greatly increase productivity, and attain further efficiencies in product marketing. This is likely to involve:

- (a) Marketing higher quality green coffee further down the market chain and gaining premiums, and;
- (b) (assuming a favourable outcome of the WB-funded pilot) village-based wet processing of coffee and direct sale of washed green coffee to exporters and importers in Europe and elsewhere, providing much larger premiums.

The challenge is therefore to develop a cadre of strong POs to which banks and MFIs can lend at low risk.

The suggested *service centre companies* in the West and North-West could help such POs in this quest, allowing them to access economically-priced collateral management, processing, grading, container stuffing etc. services, and allow them to offer quality-certified green coffee for sale to remote buyers. These can start buying by description, taking ownership at the service centres (on an FCA or ex-warehouse basis) and arranging for shipment to destination.

Such a system would also be a step toward the establishment of a Cameroon-based exchange for trading in coffee, cocoa and other commodities for immediate physical delivery. Attempts to establish exchange trading in Africa often fall down due to the inability of sellers, or their brokers, to guarantee delivery against contract, i.e. that they don't side-sell to competing buyers. However, in this case the service centre operator could be called upon to hold back stocks committed to particular customers and thereby guarantee contract performance.

The service centres could potentially handle other crops requiring cleaning, drying, storage and collateral management services. This is particularly pertinent in the West and North-West, as farmers have diversified into alternative crops, including maize for domestic consumption and for shipment to other parts of Cameroon and neighbouring countries.

A warehousing facility of this kind would help absorb surplus production and assist in the development of markets.

#### **BOX 4: SWOT ANALYSIS OF THE COFFEE SUB-SECTOR**

##### Strengths:

- Steadily growing international market in terms of volume, over 2% per year
- Loyal international clientele, specially for Robusta
- Most components of the value chain in place – experienced producers, processors, exporters etc.

##### Weaknesses:

- Cameroon is a price-taker in a market characterized by prices with high volatility and tending to decline over the long term (competition for land from other crops, e.g. food and bio-fuels may however slow or halt this trend).
- Low yields resulting from aging plantations, poorly maintained & with inadequate use of inputs
- Lack of research and varietal development
- Marketing system does not adequately reward quality or allow farmers to maximize their share of consumer spend
- Grossly underutilized processing facilities in major producing areas
- Shortage of primary processing facilities in certain zones, notably Eastern Region
- Limited confidence of buyers and banks in local collateral management and quality certification services
- Very limited domestic and sub-regional consumption of Cameroonian coffee

##### Opportunities

- Further grass-roots cooperation in bulking, primary marketing, extension, input supply, and financing, so as to increase productivity, and increase the prices paid for coffee FOB and the percentage of FOB the farmers receive.
- Development of centralized system of biologically washed coffee, with prospects for: (a) substantial price premiums to farmers; (b) reduction of drudgery in farm-level washing (notably with Arabica in North-West region), and; (c) enhancing producer of cooperation around the village washing unit
- The opportunity to make fuller use of large-scale processing facilities, cleaning/sorting and grading facilities in hands of cooperatives in the West and North-West, much of it modern and in very good condition, but which is hardly being used.

##### Threats

- Further periods of world oversupply and low prices
- New plant diseases to which existing tree stock is vulnerable

## **5. CROSS-CUTTING ASPECTS**

### **5.1 *Financing the market chain***

We alluded to financing arrangements in previous sections, and here we provide some additional information.

Exporters are the main parties oiling the market chain, and for the most part these are part of multinationals that can source cheap funds offshore. As we discuss in Section 5.4 below, the weakness in warehouse receipting services makes it difficult for independent exporters to access financing. Exporters pre-finance their agents and some independent buyers and local coffee hullers. These parties also have their own funds and sometimes access credit from the local financial system.

Farmers need credit to buy chemicals for crop protection, fertilisers and small equipment like sprayers, to pay labour, for school fees and lean-season consumer requirements. They obtain some pre-financing through their POs, or sometimes individually (for large farmers), from exporters, their local agents and independent buyers. MFIs and traditional institutions like tontines also contribute to this lending activity. Group loans are guaranteed by members' solidarity, while the system is built upon confidence and expectations about production. However, availability of such financing is inferior to needs, greatly reducing farmers' ability to access productivity-enhancing inputs.

When buyers pre-finance farmers, this restricts their ability to earn quality premiums they could potentially earn if they sold through a PO. Notwithstanding, the above-mentioned case of inventory credit and price-to-fix arrangements suggests that private marketing arrangements have already attained a certain level of sophistication.

Not surprising farmers and POs have least access to longer-term financing to make investments in fixed assets like plantations, warehouses, scales, cocoa dryers and vehicles. As noted in Section 2.1, cocoa farmers can increase yields by six times by use of new planting material and recommended inputs and practices, but their ability to make this leap is constrained both by lack of finance and the absence of commercial supply of seedlings. There is a chicken and egg problem here: in the absence of such a market, the State (SODECAO and PSCC) rations seedlings at highly subsidised prices. The state also provides subsidised agro-chemicals to the stronger POs like CONAPROCAM and NWCA at subsidised prices.

### **5.2 *The approach to development of producer organizations (POs)***

We attach great importance to the health and dynamism of POs, since they are a potential channel for the financing of farmers and a means of providing security so that financiers may lend directly to farmers. There is widespread support for POs to take the lead in the bulking of cocoa and coffee for the market, not only from producers and Government officials, but also from some traders. For example the exporter, Mr Ndongo Essomba, notes that some

cocoa POs perform very well, and believes that POs should handle all primary marketing of cocoa, including fermenting, drying and bulking as the Federations are now doing. It is necessary “to improve things from the bottom up” and POs are best placed to do this.

Notwithstanding this comment, POs are inherently fragile entities, subject to free-rider problems and prone to politicization, and they frequently fail. Such difficulties have been evident since the first cooperative business initiatives of the early 19th century Europe<sup>15</sup>. When some eventually succeeded, they had to survive in a laissez-faire environment, without the support of the State. In Africa by contrast, cooperatives were nurtured under State-controlled monopsonies for several decades, and found it difficult to survive when expected to adapt to a competitive marketplace. Many of the new POs established in the wake of liberalization have also encountered difficulties. The circumstances are particularly challenging in poor countries, where farmers have a low level of education relative to their peers in developed countries, and have small volumes of product at stake individually. One of the reasons for failure, evident in some recent initiatives in Southern Africa, is that promoters are sometimes tempted to use aid money to build complex vertical structures that become unwieldy and loss-making.

Cameroon experiences some of these difficulties. Older organizations try to preserve complex structures that find it difficult to compete in the new environment. Some GICs are fictitious entities, and genuine ones often experience shortcomings in governance and management. Sometimes there is insufficient turnover in committee membership, and cases are cited of leaders taking under-the-table commissions from buyers. Representatives of financial institutions express anxiety about the management and creditworthiness of POs. The difficulties are fully recognized by the CICC and are the subject of the PACICC’s work on roles and professional ethics (déontologie) in POs, particularly as regards governance and accountability. Important as they are, we feel that promoters should go beyond consideration of formal roles and ethics, and consider a wider range of factors which can induce members’ commitment and loyalty, and help the business grow.

With this in mind, we would suggest the following guidelines for the development of POs:

- Keep activities as simple as possible, focusing mainly on areas of comparative advantage close to the grass roots
- Develop business monitoring systems
- Focus on improving governance, management and accountability
- Use carrot rather than stick to encourage development of collective marketing
- Develop a savings culture
- Mutualise risk and build up members’ capital
- Turn GIC-based structures into cooperatives
- Be very cautious in granting subsidies and developing vertical structures

In the following paragraphs, we explain the reasoning behind each of these points.

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<sup>15</sup> none of those promoted by British philanthropists (Robert Owen and Dr King) survived long-term

***Keep activities as simple as possible, and focus mainly on areas of comparative advantage close to the grass roots.*** POs are highly appropriate in parts of the value chain where they enjoy comparative advantage over other private traders, like acting as a channel for input supplies and technical assistance, obtaining credit on the basis of group guarantees, primary marketing/bulking of produce and quality control. At this level farmers' local knowledge is at a premium, a point that is borne out by the successful development of GIC-based organizations. By contrast, POs do not enjoy comparative advantage in exporting, unless they are dealing with fair trade buyers who wish to deal with a cooperatively-organized exporter. POs may succeed in adding value through exports, particularly if they can access fair trade markets, but their main strength lies at the base.

***Develop business monitoring systems.*** Performance of POs should be monitored and the information fed back to members. In the case of the cocoa marketing POs, someone should be monitoring their performance over time, in terms of volumes marketed, share of production in the zone and the share of ONCC's delivered-to-Douala prices that is paid to producers. Tables can be developed to compare performance. Other aspects to monitor include the distribution of planting material and inputs, the development of share capital and savings.

***Focus on improving governance, management and accountability.*** This means things like ensuring rotation of committee members, delegation of functions to professional staff, proper accounting systems, internal and external audits, and feedback of findings to members. Training needs to be well organized, searching for the most capable trainers. Microfinance practitioners spoke well of certain trainers whom they had employed, e.g. the Centre de Recherche et d'Appui Technique (CRATE), and the Appropriate Development for Africa Foundation (ADAF). There is also AFDI which is already supporting CONAPROCAM.

***Use carrot rather than stick to encourage development of collective marketing.*** The attempt to prohibit "coxeurs" and night-time purchases is likely to prove ineffective. The route to success is to build cooperative enterprises that inspire trust and solidarity, and establish short-term credit systems that allow them to get an advance once they have delivered the crop.

***Develop a savings culture.*** OPs should look for ways for paying farmers through MFIs or banks, while encouraging them to open accounts and leave funds on deposit. If farmers can develop savings it will facilitate their access to credit, and thereby to the inputs they need to enhance productivity.

***Mutualise risk and build up members' capital.*** A healthy cooperative needs members who feel a strong sense of attachment and prepared to hold their leaders and each other accountable. This can be more easily achieved if:

- Financial risks can be mutualised at different levels - the structure of the GIC-based cocoa federations seems good in this regard, giving the farmers a small local group within which there is mutual accountability, and so on up at each level, and;

- Members should have a share in the capital which they can withdraw in the event of their leaving the area, or ceasing to produce cocoa. Share capital should be composed of an initial (fixed) component and a variable component (or quote-part), the latter being credited to the members account out of retained earnings.

***Turn the GIC-based structures into cooperatives.*** Cooperative law is more developed than that for GICs, being based on international cooperative principles, and providing for members to have nominal share capital which is not the case with GICs. As with the banking sector, the regulatory framework provides protection for members' savings tied up in the cooperative business.

***Be very cautious in granting subsidies and developing vertical structures.*** Subsidies are a near-universal phenomenon in agriculture, particularly in developed countries. However, they sometimes result in waste, evident in thousands of empty and dilapidated donor-constructed warehouses all over Africa. We hear of such cases in Cameroon where the organization for which they were constructed has ceased to function, or there are disputes over ownership and control. More insidiously, subsidies can undermine the logic of a healthy cooperative, turning it towards the pursuit of patronage. Leaders and members may come to see it as a channel for hand-outs, and neglect the fundamental business activity for which it was established. Vertical structures may sometimes be needed to represent farmers, e.g. in the CICC, but one needs to guard against them becoming quasi-NGOs, with little accountability to the grass roots.

In promoting POs it is worth taking note of the following aspects of TechnoServe's approach with Farmer Business Groups in Tanzania (see Annex 3), notably:

- selectivity – working initially with the strongest groups, and trying to build a demonstration effect that other farmers will wish to emulate;
- repeated training in governance, leadership, finance and accounts, quality control, marketing and
- in the case of specialty coffees, getting international buyers to take an interest in the success and continuity of their supplying groups

### ***5.3 The microfinance sector<sup>16</sup>***

Traditional forms of microfinance, notably tontines have existed for more than a century, but the formal movement started with the establishment of a credit union in 1963, and this became the seed of the leading CamCCUL Federation. With this early start, Cameroon has developed by far the largest (formal) microfinance sector in the CEMAC region, with 460 licensed MFIs, Fcfa 258 billion in deposits (68% of the regional total) and a loan portfolio of

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<sup>16</sup> Much of the statistics in this sub-Section was obtained from the ANEM-CAM microfinance survey for the CEMAC zone (see ANEM-CAM, 2009). Further information on the microfinance sector can be seen on the Cameroonian Microfinance Portal [http://www.lamicrofinance.org/resource\\_centers/profilcameroun](http://www.lamicrofinance.org/resource_centers/profilcameroun)

Fcfa 138 billion (78% of the regional total) at the end of 2008. Microfinance accounts for about 6 - 7% of total financial system deposits and credits within the Region.

The sector experienced a remarkable spate of growth during the 1990s, some of it promoted by staff made redundant by the banking crisis of the late 1980s. However the enthusiasm led to a range of errors and some leading MFIs experienced high arrears in loan repayment, such that by the end of 2008, the sector registered doubtful debts around a quarter of the overall loan portfolio, and losses of Fcfa 5.6 billion for the year. The sector's financial difficulties may in part reflect the way MFIs have been promoted in Cameroon, i.e. as networks of semi-autonomous MFIs rather than as tightly integrated networks as they have in some Francophone countries. Banking and coffee sector crises have also contributed to the problems. Mounting defaults caused the Government of Cameroon to step in and establish a licensing regime, later subsumed into a regional licensing regime under the Banking Commission for Central Africa (COBAC).

Rural MFIs account for around 47% of the country total. The main products are savings, loans, rapid funds transfer and banking operations like cashing cheques. Lending covers a range of activities including commerce, agriculture (especially inputs), school fees and social loans, while guarantees include member savings, group collateral, guarantors and anticipated harvests. Group collateral is particularly appreciated, as a means of ensuring repayment, with one leading figure commenting that small informal groups tended to be better risks than larger formal POs. Nominal monthly interest rates are upward of 1.5% but the borrower may have to put up savings of up to a third of the amount borrowed, depending on the MFI.

The main networks of relevance to the cocoa and coffee producing zones are CamCCUL (with 215 outlets), MC2 (78) and CVECA Centre (80) – see **Table 3**. All are associated with commercial banks with which they have varying deposit and credit relationships, and are benefiting from donor funds and/or technical support programs.

TABLE 3: DATA ON LEADING NETWORKS IN COCOA AND COFFEE ZONES								
Network	Source of information	Year ending	Total no. of outlets in Cameroon	Number of depositors	Deposits in US \$ million	Loan portfolio US\$ million	Porfolio at risk	
							>30 days	>90 days
CamCCUL	Mixmarket	Dec 2009	215	245,501	\$157.4 M	\$125.2 M	36.6%	26.0%
MC2	Mixmarket	Dec 2009	78	97,819	\$ 49.4 M	\$ 21.4 M	9.3%	0.0%
CVECA Centre	Spreadsheet data	Dec 2009	80	30,499 *	\$ 2.4 M	\$ 1.3 M	8.8%	n.a.

\*refers to number of members, not depositors; n.a. = not available

Source of Mixmarket data: <http://www.mixmarket.org/mfi/country/Cameroon>

**FIGURE 5: MAP SHOWING COCOA AND COFFEE PRODUCING REGIONS**



To understand the geographical distribution of outlets, the reader is referred to the map below **Table 3**. The first two networks listed (CamCCUL and MC2) are mostly concentrated in North-Western, Western and South-Western region, in differing proportions. The CamCCUL League has half its deposits in its Bamenda chapter. Only CVECA Centre has a large number of outlets in the central and Southern regions which are key to expanding production of cocoa. Significantly however, there are ten MC2s in the Mbam division (northern part of Central region), an area to which many people have migrated from the North-West and Western regions, and ten in Littoral region.

The different networks vary widely in terms of the resources they can devote to projects with the cocoa and coffee value chains. With total deposits of nearly \$50 million, and a loan portfolio of \$21.4 million (43%), MC2 has considerable surplus liquidity which it needs to put to more profitable use. CamCCUL credit unions have most deposits, but the loan portfolio represents 80% of this, and it is currently seeking to improve its balance sheet with the support of Canadian technical assistance<sup>17</sup>. Nevertheless, CamCCUL receives a 20% share of savings at affiliated credit unions, which between 2009 and 2010 would have provided about Fcfa 2.8 billion (US\$5.3 million), and it channels this back to credit unions in the form of “league loans” and to individual members in the form of “golden loans”. The General Manager indicated that some of this would be available for bankable coffee and cocoa projects. He also reacted positively to the idea of the *service centre companies* for coffee, both with regard to the financing of warehouse receipts and as a possible investment proposition.

By contrast the CVECA MFIs in the Central and Southern Region have a low level of deposits, around \$30,000 per branch, compared to over \$600,000 per branch for the other two networks. Hence we see that the MFIs in the highest potential area for cocoa have the least internally generated resources with which to support production and marketing projects.

We noted certain instances where MFIs were already providing POs with input credit and marketing pre-finance, notably:

- The above-mentioned example of CamCCUL and LAFCOOP (**Box 1**)
- A collaboration between MIC microfinance and FEUCIGAPAL in Nyanon, Littoral Region – MIC is a small MFI with scarce funds
- First Investment for Financial Assistance (FIFFA) which has been supporting cooperatives, while drawing on a line of credit under the Cocoa Livelihoods Program.

We conclude that MFIs have some surplus liquidity with which to support bankable propositions from cocoa and coffee farmers, but geographical coverage would be very patchy and interest rates rather high in line with normal microfinance practice.

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<sup>17</sup> *Institutional and Capacity Building Project* with assistance from Desjardins International Développement (DID)

## 5.4 Collateral management services

Warehouse receipting is important to Cameroonian exporters of coffee and cocoa. Some cannot access financing without the service, while for others the increased security may mean a drop in interest rates from around 16% to 9-12% per annum. The service has long been used in Cameroon. Prior to the liberalization, it was normal for exporters to obtain financing against non-negotiable warehouse receipts (*Attestations de Prise en Charge* or APCs), issued by freight forwarders in Douala.

The number of eligible exporters multiplied following liberalization but some of the service suppliers failed to perform properly, damaging their reputation among the banks. SGS started providing warehouse receipting services in up-country locations. The exporter could deposit coffee in any form (dried cherries, parchment or fair-average quality green coffee), and SGS would certify the volume and then deliver a warehouse receipt on the basis of the estimated out-turn of green coffee delivered to Douala. This was a very worthwhile operation, but it was poorly managed, and buyers discovered that the volume of stocks within the system fell short of the volume on outstanding warehouse receipts (LMC International, 2001). This undermined confidence and led to the discontinuation of the scheme in 1998. Banks also experienced major losses as a result of financing exporters who had taken unhedged positions<sup>18</sup>, leaving them reluctant to engage in export financing of commodities.

Information from interviewees suggests that collateral management continues underperforming in Cameroon, with certain service suppliers occasionally issuing warehouse receipts for fictitious stocks (known as *attestations de complaisance*) in collusion with clients, with the objective of easing the latter's cash flow (if not with the intention of defrauding the banks). Reported occurrences perpetuate banks' general apprehension towards export financing. Consequently we find that much of the stocks entering the export trade are not collaterally managed, but are financed against stock reports provided by the exporter and on the strength of:

- a) trust in the exporter based on his character and track record;
- b) the exporter's long-term relationship with the importer;
- c) export contracts and/or;
- d) pre-export financing that the overseas importers channel to exporters through local banks (indeed the largest exporters, Telcar, Olamcam etc., are subsidiaries of major importers).

Where stocks are collaterally managed, the service simply complements other forms of risk mitigation in the foregoing list. This is notably the case when Cargill-Netherlands insists that its Cameroonian cocoa suppliers (other than Telcar) have their stocks collaterally managed prior to export. Collateral management is mainly carried out in Douala, but some stocks are held up country, particularly in Nkongsamba (for Robusta coffee) and Obala and

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<sup>18</sup> These events suggest that the banking sector was ill-prepared for liberalization. It was reportedly the practice to finance at 100% of stock value, without requiring borrowers to put up a margin to cover possible loss in spot market prices.

Yaoundé (for cocoa), but in all cases service provision is heavily dependent on the bank's trust in the exporter concerned. Hence, the status of Cameroonian warehouse receipts is a far cry from those in highly developed systems (e.g. grains systems of the Republic of South Africa or the United States) where the value of warehouse receipts reflect the value of the underlying commodity and is largely independent of the standing of the persons in whose name they are issued.

The companies providing collateral management services for cocoa and coffee currently include freight forwarders with their own warehouses, notably SDV and SAGA (of the French Bolloré Group), and certain inspection companies notably local subsidiaries of Audit, Control & Expertise (Swiss), Certispec (Canadian) and Unicontrol (Dutch, recently taken over by the Belgian Catanasi Group). The Bolloré Group was dominant in this business, but its main customer Cargill/Telcar has invested in its own port handling operation, and it is now reported to only have two customers. The inspection companies that provide collateral management services do not have their own warehouses, but operate in premises designated by their clients; they lease the warehouse at a nominal rent for the season, and assume full responsibility for whatever products enter or exit. The same inspection companies also do pre-export quality certification on behalf of ONCC.

Sometimes collateral managers simply hold products ready for export, but more often there is some sort of drying, cleaning and primary processing (e.g. milling of coffee), in which case they oversee these processes and ensure that processing losses are in line with expected percentage allowance (*réfaction*). The collateral manager is responsible for ensuring the correct weight of product is delivered at the port, but does not take full responsibility for the quality as this may be affected by elements beyond its control, e.g. if the client decides to store it for excessive periods it may absorb moisture and go mouldy.

Finance is provided under tripartite agreements (*conventions de tierce detention*) involving borrower, financier (either a bank or an importer) and collateral manager. Stocks are insured against fire and allied risks and theft (involving forced entry), and the companies concerned have international cover for fidelity (i.e. fraud) and professional errors. The terms of the agreements are far from uniform and it is likely that there is considerable variation in the level and quality of cover for fidelity and professional errors, which is the main area of risk bearing on this activity.

It should be noted that several of the companies providing pre-export inspection services to ONCC also collaterally manage coffee and cocoa, something that is prohibited under their Licensing Agreement on conflict of interest grounds. Given the small number of companies capable of providing either service, it would be best to remove this requirement from the licensing agreement, while ensuring that a given inspection agencies are not allocated to the same exporters whose stocks they are collaterally managing.

Imported commodities like rice and sugar are also at times collaterally managed, allowing importers to bring in large shipments, hold the stocks with bank financing, and draw them

down gradually. Horizon Commodities and Audit, Control & Expertise are reported to be the main service providers.

The OHADA Law of Francophone Africa (*Acte Uniforme du 17 avril 1997*), mainly paragraphs 44-62) provides a legal framework for collateral management, but there is no specific regulatory framework for this activity in Cameroon. Providers complain of the long drawn out process for seizing stocks of delinquent debtors, which can take many years; this defeats the object of collateral management and calls for legal reform.

## **6. A BUSINESS FINANCE MODEL WITH SPECIAL FOCUS ON SMALLHOLDERS**

It was UNCTAD's primary request that we develop such a model. There is a certainly a good case for *an initiative to improve farmers' access to financing in Cameroon*, notably short-term pre-financing of sales through POs, working capital for purchase of inputs, payment of labour etc., and financing fixed assets (cocoa dryers, sheds, spraying equipment etc.) and plantations. It would be mainly (not exclusively) focused on cocoa, particularly in Central and Southern regions where production has expanded during this decade and there is major yield-increasing potential. The initiative should be anchored on the most viable of the GIC-based POs which have emerged since liberalisation, plus some older cooperative structures that are still bankable, linking these up with MFIs and sometimes banks in their neighbourhoods. The aim is to develop a robust movement that competes effectively with private intermediaries, speeds the pace of intensification, improves quality and the FOB price for cocoa and coffee, and captures a growing share of that price for farmers. MFIs and banks would first focus on the most secured transactions (e.g. short term pre-financing against stocks during procurement) and building of member savings, and from there move on to financing production. The support methodology should take account of the guidelines listed in the discussion of producer organizations (Section 5.2).

It is important to recognize there have been four previous projects to improve value-chain financing, including the Cocoa Marketing Improvement project (project ICCO/CFC/11), the World Bank/SOWEDA project, the "Cleaning up" project, and the Cocoa Livelihoods Project. Apart from these projects, PACICC and CONAPROCAM/AFDI are providing complementary support of producer organisations. Any new initiative should build on these efforts, and reduce the need for further projects in the future.

***The "Cleaning up" project started in January 2009, has a budget of about \$8 million to be spent over six years, and its design provides most of the basis for the proposed initiative.***

The activities include: support for bulking and periodic auctions by POs; developing sound quality control monitored by ONCC produce inspectors, provision/rehabilitation of warehouses in locations where sound structures are lacking; structuring a system of pre-financing against stocks deposited in the warehouses, and; training of the players (mainly POs).

Notwithstanding, we feel it could be improved and augmented in the following areas:

- There needs to be an in-depth review of previous PO-MFI linkages, like those involving LAFCOOP + CamCCUL, MIC + FEUCIGAPAL and those carried out under the Cocoa Livelihoods Project, with a view to drawing lessons<sup>19</sup>. Moreover there should be close coordination with the Cocoa Livelihoods Project during implementation.
- The project design (Component 1) provides for “evaluating the potential of POs”. This important aspect needs to be reinforced with the provision that the project will focus support on a select group of POs and MFIs with a strong record and capabilities, and enjoying the cooperation of local authorities. Starting with the pilot phase (years 1 and 2) it is important to develop “shop windows” of good practice that will encourage emulation in other districts, and start a virtuous circle in the cooperative movement. This is vital in view of the history of payment defaults and farmers’ consequent cynicism about cooperative enterprises.
- Fixed assets, notably warehouses, weighing and transport equipment, should be sold to POs through leasing arrangements or mortgage plans, rather than being provided as donations, which risks creating another generation of redundant structures. If POs bear the cost (or a large part of it), they will scrutinize the investment more thoroughly (is it of correct scale, in the correct location etc.?) and be at pains to generate the necessary throughput. They should also know that failure to pay the mortgage will lead to foreclosure and sale of the assets.
- It needs to ensure the adequacy of funds at the level of the MFIs and their backers. As shown in Section 5.3, MFIs have limited funds, and those in the Centre and South have a very low level of resources.
- It would be helpful if the cost of funds accessed by POs and farmers could be more competitive with those accessed by multinational buyers who have ready access to low-interest offshore funds. Current interest rate structures within the CEMAC region are as follows: commercial banks’ base rates are 8.5 to 9%, to which they add a risk-related margin of 0 to 6%, and clients must pay VAT at 19.5%. This suggests that MFIs can borrow at annualized rates between 10-18%, and towards the lower end if they can establish their creditworthiness and borrow on a substantial scale. Monthly retail rates are unlikely to be much less than 2.5%. Such rates are easy to bear with two week credits for pre-financing of sales, but are quite substantial for seasonal lending for inputs, and rather onerous for term lending involving establishment of plantations, buildings, vehicles etc..
- It should be possible to take tough decisions, like reducing support for organizations and district authorities that do not respond to the stimulus the project is giving them. The money needs to reward those coops, MFIs and zones that perform best, and not be seen as a political entitlement. This poses a difficult, in that a supervisory structure mainly composed of Ministerial representatives, will find it difficult to take decisions that are politically unpopular. Indeed there is a risk that a publicly-sponsored financing scheme for crop intensification will simply degenerate into a social support mechanism. With commodities subject to wild and uncontrollable price fluctuations, there will inevitably be

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<sup>19</sup> The review would require more time than provided for this consultancy project, involving examination of records, interviews with participants on the ground.

calls for “debt forgiveness” at times of low prices, and this can lead to a large amount of unpaid debt – this in turn frustrating the establishment of a sustainable financing system in support of crop intensification. In short, the system can only work if longer-term financing is channeled to ventures that are still profitable when subjected to stringent sensitivity analysis involving a “price collapse scenario”. Banks might legitimately finance higher risk loans if these are hedged up to 24 months in advance<sup>20</sup>, but as we indicated in Section 4.3, Tanzanian experience shows that it will in practice be very difficult to establish the necessary hedging devices..

***Hence our first business finance option is a strengthened and revamped version of the “Cleaning up” project, including a refinancing component and governance changes that will provide for the necessary management autonomy.***

The refinancing component should be structured to ensure sustainability, meaning that it should not be reliant on long-term aid funding. There are three options here:

- Central Bank refinancing of MFIs
- An international line of credit guaranteed by the State, or
- An agricultural bank with international investors

It will require some investigations and internal debate to select the best option.

In the case of Central Bank refinancing, the loan funds will come from local and regional (CEMAC) sources, and may be provided to MFIs at rates as low as 4.25%, the Central Bank tender rate. External donor support should be limited to declining loan guarantees which focus efforts on ensuring the MFIs become fully bankable within no more than a few years. The approach to refinancing must take account of the current interest rate structure in the CEMAC region: By providing for direct refinancing of certain “eligible cooperative credits” and exempting them from value added tax (VAT)<sup>21</sup>, Government could establish a much more level playing-field between coops and international buyers and their agents. There are international precedents for this going back well over 100 years, notably when the United States established a rediscounting facility for warehouse receipts, with a view to encouraging the opening up of Mid-West for agriculture (Coulter, 2009). Such an arrangement could be justified in terms of the additional export revenue flowing from institutional structures that radically enhance productivity and improve quality of cocoa and coffee. Only the commercial banks may at present access Central Bank money, but the monetary authorities may wish to consider changing this<sup>22</sup>.

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<sup>20</sup> This would probably involve a local bank taking out put options on international futures exchanges, while providing farmers with “over-the-counter” options, on a back-to-back basis, at the cost of a premium that is added to the loan repayment.

<sup>21</sup> Exporters can claim back VAT, but this is of little use to farmers if they sell to the exporters or their agents

<sup>22</sup> This is an area where the pre-liberalization system was advantageous. Commercial banks could get central bank refinancing because of quotas! Every registered and licensed exporter had a quota and an implicit ONCPB guarantee since there was only one seller.

The second option, an international line of credit guaranteed by the State, may also be viable, as international lenders do not fear further devaluation of the Fcfa. Agricultural development banks, the third option, do not have a good overall record in Africa, and one of the participants in the stakeholder workshop, of 5-6 October, questioned their viability in the light of past experiences in Cameroon. The option might however be worth considering if a major international player, like Rabobank, were prepared to take a major holding in the enterprise, along the lines its currently being mooted in Tanzania.

The governance aspect is fundamental to the success of the entire initiative, and particularly critical if it becomes a source of low-cost funds. In the case of the revamped “cleaning up” project, the composition of the Supervisory Committee should be changed, by bringing in private sector players (particularly from banks and accounting companies), and retaining only one or two Government representatives, who could be chosen by an electoral college. Other measures should be taken to minimise short-term political pressure, e.g. by tendering management out to a shortlist of prestigious operators with an international reputation to protect. We commend this aspect to the relevant Cameroonian decision-makers, and to any interested donors. Indeed we would only recommend going ahead with the “business finance model” if the issue is comprehensively and unambiguously addressed, such that we can expect the new institutional PO/MFI framework to be a shining example of excellence.

The first steps in implementing the initiative are therefore: (i) an in-depth review of previous PO-MFI partnerships; (ii) review design, governance and management of “Cleaning-up Project”; (iii) to research and decide on the approach and timing for the rediscounting mechanism. If all the steps can be completed, a detailed design mission should follow, with a team involving specialists in financial aspects including microfinance, cooperative management, the commodities and their marketing.

## 7. OTHER PROPOSALS

We make three further proposals:

- for coffee cooperatives in the West and North-West to seriously consider establishing *service centre companies* for coffee so as to alleviate their debt burden and encourage the development of primary POs
- to establish *a rigorous regulatory function* for commercial warehousing and collateral management services
- to more fully research the operation of internal value chains, notably for Robusta coffee

We discuss each of these in turn.

### **The establishment of *service centre companies* for coffee in the West and North-West, with the development of financing against warehouse receipts**

As suggested above UCCAO and NWCA, and affiliated coops should seriously consider setting these up in their respective Regions, with a view to making their facilities more

bankable, and providing fresh stimulus to PO, including primary cooperative societies and village-based organisations seeking to market premium products directly to end buyers, as has happened in Tanzania (see Annex 3). This approach is most appropriate for coffee because it allows for efficient utilisation of costly processing plant that is not needed with cocoa.

The service centre companies will be completely specialized in service provision, and not be involved in other activities of the union and affiliated cooperatives, e.g. extension, provision of inputs, trade in coffee etc. They will have a single set of charges, and provide services equally to cooperatives and other customers on a non-discriminatory basis re charges, payment terms etc.. They should seek shareholdings from other players, notably banks and MFIs interested in financing against warehouse receipts, and ensure them places on the Board of Directors. Board membership should be widely enough distributed to ensure that no one party dominates decision-making. Government and donors should offer to co-fund the necessary feasibility study and business plan, investment promotion and technical assistance to set up the enterprise.

### **To establish a rigorous regulatory function for commercial warehousing and collateral management services**

There will be two main objectives here:

- (a) to ensure the reliable provision of third-party warehousing and collateral management services, available to all-comers, with minimal risk of non-performance, and rapid recourse if it occurs
- (b) to create a framework whereby financiers in Cameroon can leverage stock-in-trade as a major form of collateral (if this has proved important in northern countries, the case is particularly compelling in a continent where real estate has limited collateral value outside large towns)

Government should ask the banking sector to deal with this, as a matter of direct interest to them. It should make a formal approach to the Cameroonian Bankers' Association<sup>23</sup> with a view to agreeing a basic set of requirements (*cahier de charges*) for example:

- To specify standard requirements (professional, financial, operational, physical facilities and equipment) that all service providers must meet, either in ports or up-country locations. These may include quality and grading requirements according to the commodity concerned.
- To specify standardized guarantees and insurance cover that the service providers must individually provide to exercise the profession
- To develop proposals to cover risks against which it is difficult to insure. It is envisaged that the bankers will establish a guarantee fund to which the service providers will contribute pro-rata on the basis of their operations.

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<sup>23</sup> Association des Professionnels des Etablissements de Crédit du Cameroun

- To draw up standard documentation that licensed warehousemen and collateral managers will be required to use in the exercise of the profession
- To specify inspection arrangements to ensure compliance
- To draw up a business plan for a regulatory body to be owned principally by financial sector stakeholders, specifying means of funding
- To specify legal or regulatory changes required to permit the issue and effective use of non-negotiable, negotiable and electronic warehouse receipts, the swift foreclosure on delinquent debtors, and the establishment of the regulatory body. Annex 4 contains some tips on legal and regulatory aspects.
- To develop a phased plan for implementation, including any other aspects necessary to achieve the above-mentioned objectives

The bankers will go ahead and implement this plan, subject to the observations of, and necessary contributions by, other parties. Other trade associations, e.g. freight forwarders, may also contribute to this effort. In order to facilitate the bankers' work, Government should assign such domestic technical assistance (e.g. from ONCC) within its capabilities, and orient aid donors to directly assist the effort.

**To more fully research the operation of internal value chains, notably for Robusta coffee**

ONCC and the Interprofession need to constantly update their knowledge of value chains, so as to ensure that public policies are informed by current realities. This is particularly the case with Robusta coffee, where supply chains seem a little more sophisticated than commonly assumed (see Section 4.2).

**And lastly,**

the above recommendations were well received at the workshop on Financing the Coffee and Cocoa Sectors in Cameroon (5-6 October, 2010). Their implementation will require considerable determination on the part of the Cameroonian Government, notably ONCC. It is recommended to appoint someone full time with responsibility for coordinating activities and ensuring that they are carried through to conclusion.

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## **ANNEX 1: TERMS OF REFERENCE FOR INTERNATIONAL CONSULTANT**

Working closely with the national consultant and under the supervision of UNCTAD Special Unit on Commodities, the consultant will carry out a needs-based study which will consider the feasibility of a business finance model to improve value chain finance for the coffee/cocoa sector in Cameroon with a special focus on smallholders, and upon confirmation of this, propose a design for the model. This will entail providing inputs to:

1. Coffee/cocoa value chain analysis: Brief description of coffee/cocoa production and exports, the importance of coffee/cocoa in the Cameroonian economy and social development, main stakeholders, performances of the cocoa and coffee sector, main problems since liberalization, etc.
2. Assessment of current conditions of the sector development: identifying policies, strategies, action programmes and projects that would ensure continued development of the sector.
3. Coffee/cocoa value chain finance: in-depth analysis of sector's value chain finance, identifying gaps and bottlenecks, especially those related to access to credit for smallholders/producers organizations, and providing recommendations on how to improve sectors financing in general and to facilitate access to finance by smallholders in particular. This would be based on the assessment of existing financing mechanisms such as financing through cooperatives, MFIs, and Commercial Banks, as well as other new initiatives in Cameroon or in the region, including: Projet de Caisse Rurale Décentralisée, BICEC, MC2, Warehouse receipt system and inventory credit (as in the case of Tanzania, Côte d'Ivoire), etc.
4. Proposals and recommendations: a business finance model to the benefit of producers and producers' organizations, cooperatives would be analyzed and elaborated on the basis of warehousing/inventory credit and the role of local banks. This will also include identifying potential financial partners and defining the precise needs and responsibilities of operators, financial institutions and others involved with the financing of production activities and marketing, etc. A proposal should be made with regard to the optimal organization of collection and marketing of coffee/cocoa.

### **Required outputs**

A needs-based study of a business finance model to improve value chain finance for the coffee/cocoa sector in Cameroon with special focus on smallholders is completed.

The consultant should submit draft and final report which will contain inputs by national consultant and UNCTAD comments. The report should highlight the key issues with regard to the coffee/cocoa value chain, current conditions of the sector development and coffee/cocoa value chain finance, and propose a viable business finance model to improve the value chain finance for the coffee/cocoa sector in Cameroon with a special focus on smallholders. The report should also include a summary, a bibliography and a list of people interviewed.

## ANNEX 2 : LIST OF PERSONS MET

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## ANNEX 3: ADVANCES IN TANZANIA'S COFFEE PROCESSING AND MARKETING

Tanzania's experience with warehouse receipts, and village pulperies for wet processing of coffee, is of considerable interest to Cameroon, which has projects dealing with both these topics. Warehouse receipts are the subject of this report, while the pulperies project is presented in a recent report by Café Africa (2009) and is being implemented with World Bank funding.

*The warehouse receipts system (WRS) with coffee.* During the 1990s, there was considerable local concern about the impact of market liberalization in the coffee sector, notably that the cooperative structure was ailing and losing market share to better financed international traders, and that moreover, the quality of Tanzanian coffee was being sacrificed as competing buyers battled for market share. Lack of collateral was a major handicap constraining local players in their ability to compete. The Government of Tanzania sought to respond in various ways, one of which was an arrangement whereby parchment coffee could be collateralized with the "Coffee Curing Companies" (CCCs) largely owned by the cooperative unions<sup>24</sup>. The CCCs would offer warehouse receipting services alongside custom processing activities, such that a primary society (PS) or other parties could obtain an all-in-one storage, financing, processing and grading service. The PS could deposit parchment coffee for processing at the CCC, get a warehouse receipt for the expected output in graded green coffee and immediately use this to raise bank credit which it could use to continue procuring from its members. The product would eventually be sold through the mandatory auction at Moshi (in northern Tanzania), and the proceeds, net of sums due to other parties, would allow them to make a second payment. The system is described in **Box 5** and **Figure 5**.

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<sup>24</sup> In developing this system, Government enjoyed the support of a technical assistance project funded by the Common Fund for Commodities (CFC). The CCCs were originally privately/cooperatively owned, but were nationalized in 1970 and subsequently handed back to the cooperative unions dealing with coffee. Warehouse receipting started with the Tanganyika Coffee Curing Company based in Moshi, and whose shareholders are the Kilimanjaro Native Cooperative Union Ltd, the Tanganyika Coffee Growers' Association, Arusha Cooperative Union and some other unions with minor shareholdings.

### **BOX 5: OPERATION OF THE COFFEE WRS IN TANZANIA**

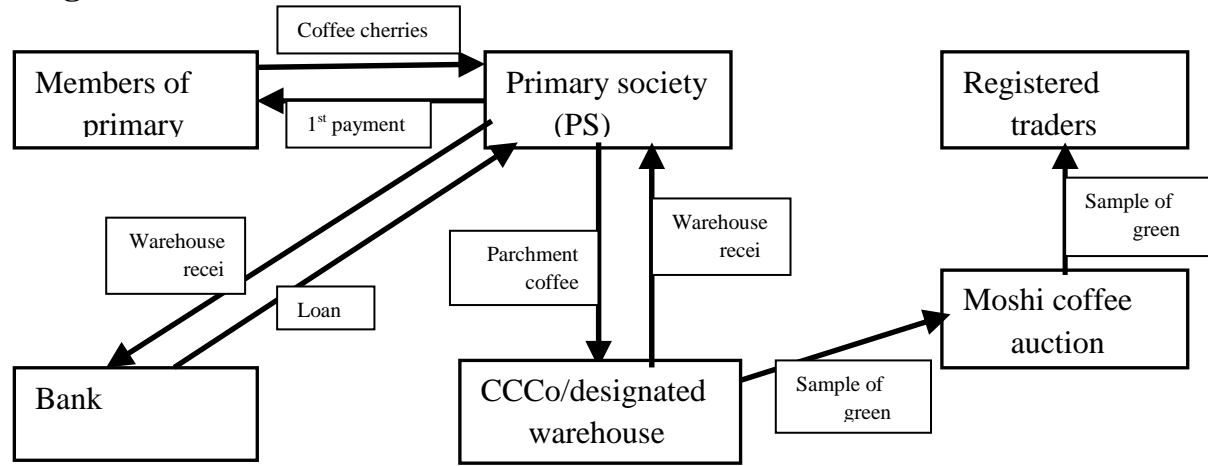
- The primary society (PS) bulks on behalf of members and delivers deposits of 3-7 tons to designated warehouses and is issued with a WR. It makes “first” payments to the members, which are financed with initial bank loans.
- The designated warehouse operators issue the WRs and process the delivered parchment coffee on a “first-come-first-processed” basis, unless the depositor specifically asks for processing to be delayed.
- The PS obtains inventory finance on the basis of the WRs, which allows it to make further purchases of coffee from its members (and sometimes from non-members in their catchment area).
- After processing, and on the basis of instructions by the PS, the warehouse operator sends samples of the coffee intended for sale to the Moshi Coffee Auction (MCA). The MCA in turn delivers the samples to registered traders (mainly coffee exporters) about three weeks before the date for trading the specific lot. Representatives of the coffee exporters assemble at the MCA and competitively bid for specified lots of coffee, using an electronic bidding system.
- The winning buyer makes payment directly to the MCA, which in turn pays the PS through its financing bank, ensuring that any processing fees are deducted and directly paid to the warehouse operator.
- The financing bank, after deducting the loans advanced to the PS and associated costs, credits the accounts of the PS with the balance. The bank then releases the warehouse receipt to the buyer. This process can be hastened if the buyer has a letter of credit, allowing the coffee to be released more quickly.
- The buyer presents the warehouse receipt and release instructions from the bank to the warehouse operator, who then releases or delivers the processed (green) coffee to the buyer and cancels the WR.
- The PS makes “second payment” to the farmer after deducting the loan and servicing cost from proceeds from the sale. At the end of the season, when all administrative and other costs have been deducted from total sales revenues, the PS makes a “third payment”.

Source: Gideon Onumah, NRI, *pers. comm.*

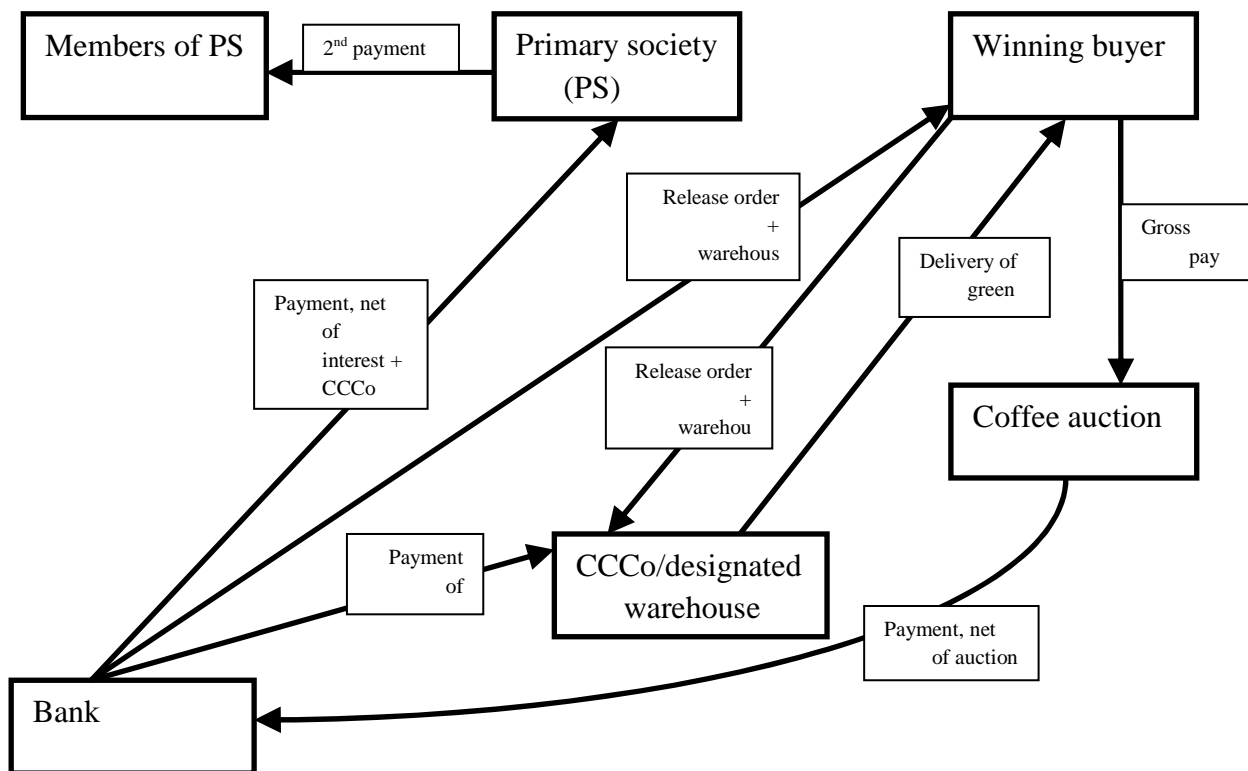
The system took some time catching on with the banks, but in the third year the Kilimanjaro Cooperative Bank (KCB), started lending to three PS in Kilimanjaro region. From this point, things started moving, the country’s leading banks started lending and warehouse receipting spread to the Southern Highlands. The public image of the system was reinforced with the passage of Warehouse Receipts Act in 2005, and the establishment of a Warehouse Licensing Division (WLD) at the Ministry of Trade in 2006. Speed of disbursement is a vital attribute of this system. Assuming that the PO or private depositor has a prior arrangement with the bank, once it has deposited the coffee and obtained the warehouse receipt it can obtain its inventory loan more or less the next day.

**FIGURE 5: FLOW CHART FOR COFFEE WRS IN TANZANIA**

**Stage I**



**Stage II**



**Table 4** shows the development of receipting up to 2005/06, in which year 12,561 tones of parchment was receipted. Private companies deposited 46% of the total, primary level POs 44% and cooperative unions 11%. Significantly, primary societies were opting for selling their coffee directly to exporters, via the auction, rather than through the unions that were traditionally their sole marketing channel. Farmers reported receiving much higher prices under the WRS, up to 45% more than prices paid by the private traders. Anecdotal evidence also suggested that the quality of the coffee delivered by the primary level organizations was constantly improving. The improvements have been attributed to the higher prices linked directly to higher quality coffee and the improved traceability systems enhanced with the use of WRS. Primary level farmer organizations using the WRS were also showing increasing sophistication in their marketing strategies, making use of privately owned curing companies with access to lower cost finance<sup>25</sup>.

For more recent years, up to 2008/09, we only have data for quantities deposited in coffee curing companies in Mbeya and Mbinga in the Southern Highlands; out of a total of 6,279 tones receipted in 2008/09, farmer groups other than cooperatives deposited 79%, primary societies 4%, cooperative unions 2% and private traders 16%. The farmer groups had been promoted by the NGO TechnoServe, Neumann Coffee and some other exporters, and were responsible for most deposits in southern parts of Tanzania.

	2002/03	2003/04	2004/05	2005/06
<i>Tones:</i>				
Coop Union	1,098	3,484	4,209	1,323
POs	7,072	5,187	6,512	5,488
Private	-	1,172	4,951	5,749
<b>Total</b>	<b>8,171</b>	<b>9,842</b>	<b>15,672</b>	<b>12,561</b>
<i>%age:</i>				
Coop Union	13%	35%	27%	11%
POs	87%	53%	42%	44%
Private	0%	12%	32%	46%
	100%	100%	100%	100%

Source: Fidelis Temu, Warehouse Licensing Division, Ministry of Trade, Tanzania

An estimated 25% - 30% of the country's exports were being financed through this system, a large part of it supplied by POs that bulk on behalf of their members. By September, the WLD had registered seven coffee curing companies, including some private operations. Indeed it has become normal for coffee processors to provide all-in-one warehouse receipting and processing services, and curing companies sometimes offer financing at lower cost than

<sup>25</sup> Source: <http://www.nri.org/projects/wrs/tanzania.htm>

the bank; indeed some of the providers may not be officially registered. In any case, the WLD does not appear to have the necessary resources to perform a full regulatory role, ensuring compliance with strict regulatory criteria, and the means to rapidly seize control of failing warehouses<sup>26</sup>.

This confidence in the Tanzanian coffee WRS appears to rest primarily upon perceptions of integrity in the service suppliers, while the existence of a legal framework and regulatory institution serves as an important confidence booster. To the author's knowledge there have been no defaults on loans against coffee held on warehouse receipts.

***Fully-washed coffee.*** A reform in the marketing system has opened the way for Tanzanian producers to gain premium prices for high quality fully-washed coffee. Producers of specialty coffee can get special dispensation from the Moshi auction, and may enter into longer-term business arrangements with international buyers prepared to reward the supplier on its longer term performance as regards quality, flavour and delivery. The buyers involved some international retail names such as Starbucks, Peet's and Unicafé. Such business arrangements were not possible under the auction system.

It is in response to this that there is now a major move from traditional local washing methods to the use of centralized processing units (wet mills). The first aim is to improve quality through centralized pulping, as well as uniformity of quality so they can gain economies of scale in selling their parchment. The American NGO, TechnoServe has been doing this under two projects: the first of these supported by USAID and the Swiss State Secretariat for Economic Affairs (SECO) resulted in the establishment of 80 wet mills; the current project, supported by the Gates Foundation, involves establishing wet mills in Tanzania, Kenya, Rwanda and Ethiopia. This is the same technology that is being introduced into Cameroon with World Bank support, but unlike the case in Cameroon, TechnoServe has not so far tried to introduce centralized pulping for Robusta coffee.

A 40-tonne per annum processing unit costs US\$ 12,000, and this is enough to handle the output of 400 farmers with an average output of 100 kg. In Tanzania, the new technology is allowing farmers to make major gains, and according to TechnoServe around 10,000 farmers raised the farm gate value of the coffee they sold by nearly 50% (US 41/95 cents) in the last season. Farmers earned considerably more when the sold green coffee, once graded and cured.

The processing units are run by local POs called *Farmer Business Groups* (FBGs). Significantly, TechnoServe has adopted a selective approach, going to great lengths to ensure that the most effective groups acquire the new equipment. About five months of the year are spent assessing candidate groups against key criteria, such as the support of local government, leadership, debts, how much farmers trust their groups and losses in previous years. Out of 200 groups assessed under the Gates-funded project this year, 40 were selected for more detailed assessment, and 20 were incorporated into the project. The project may

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<sup>26</sup> An example of such a system is that of the USA, discussed by Coulter, 2009 (p11-13).

subsequently support groups that do not qualify in the first year. All this involves a considerable up-front investment in human resources, including about 20 people (mainly MBA students) employed in identifying groups and training.

TechnoServe provides all groups with training in governance, leadership, finance and accounts, and the training is repeated annually until the fourth year when groups are expected to go it alone. It hopes that the Tanzania Coffee Board (TCB) will in the future provide some formal oversight for these FBGs. Buyers dealing with particular groups are encouraged to take an interest in their management, and are starting to ask for financial statements. Obvious failures are dropped from the project, but over 90% of those assisted in the first two years have been retained. The project is now in its third year. Hitherto, Techno Serve's approach has been to work with new groups rather than pre-existing primary cooperative societies, many of which have become defunct. However it now sees scope for involving some of the primary societies in the endeavour.

There are two alternative marketing channels with groups either selling through the Association of Kilimanjaro Specialty Growers which markets specialty coffee under the brand of Kilicafé, or through a broker which TechnoServe has identified. High quality coffee (screen 15+) is sold direct for export, while the remainder goes to auction. The groups are important users of the warehouse receipt system, which they use to refinance their operations and advance cash against cherries that their members deposit. This is of particular significance for Cameroon because it suggests that the all- in-one coffee-curing-and-warehouse-receipting service is likely to be of interest to such groups as are established there.

TechnoServe is working to increase yields from the existing tree stock, by training local people to impart training modules, and to educate them about appropriate fertilizer formulations. The project will also provide information on new planting materials available in Tanzania.

## ANNEX 4: TIPS ON LEGAL ASPECTS OF WAREHOUSE RECEIPTING

Recommendations on legal aspects of warehouse receipting:

### 1. Background reading, particularly the following:

- Chapter 6 and Annex 2 of FAO Agricultural Services Bulletin 120, by Coulter and Shepherd 1995, and
- Jonathan Coulter's report to UNCTAD on Warehouse Receipts and Inventory Credit in Eastern and Southern Africa, 2009. This can be found on <http://www.unctad.info/en/Special-Unit-on-Commodities/Events-and-Meetings/All-EU-ACP/>

### 2. Decide exactly what it is that Cameroon wishes to regulate, for example:

- Which commodities: should it be only coffee and cocoa, all agricultural commodities, or both agricultural and non-agricultural?
- Which type of operations: should it be only public warehouses (i.e. warehouses that are open to deposits from the public in general), or collateral management operations which involve prior contractual arrangements with specific depositors?

Looking around the World, most regulatory regimes have been designed with public warehousing in mind, to protect the public where numerous smaller players, notably farmers, are involved. A leading example is that developed under the US Warehouse Act of 1916. By contrast, countries normally have no specific regulatory regime for collateral management of stocks unless it involves public warehousing. Regular law of contract and pledges is applicable, but the depositor (or his financier) enjoy no special protection and must do their due diligence and look after their own interests – a case of *buyer beware*. This clearly hasn't worked well in Cameroon, and has been encountering serious problems in East Africa and further afield. Examples were mentioned during the Kribi workshop of October 5-6.

Exceptionally, and due to the large volumes of commodities (cocoa, coffee, rice etc.) exported and imported, Côte d'Ivoire has established a regulatory regime for collateral management. Unfortunately, the licensing requirements have been insufficiently rigorous. As of September 2009, licensed operators required minimum capital of Fcfa 300 million and a bank guarantee of Fcfa 100 million, which is very low in relation to the value of commodities handled by the collateral managers, and does not provide the necessary level of protection to depositors and financiers.

The implication of the above is that Cameroon needs a regulatory regime with different variants for public warehousing and collateral management that we shall call *private warehousing*. In the latter case the collateral manager has discretion as to whom he provides services, and will often hold stock on the premises of an individual depositor – this is known

in English as *field warehousing*. The warehouse operator should be licensed to hold a wide range of commodities, as required by a port-based forwarder. The regulatory regime is designed to ensure that operators are competent and equipped for the job, to ensure that products are properly handled, to minimise professional negligence or fraud, and to provide effective and rapid recourse (in the form of insurance and performance guarantees) in the event anything goes wrong. There can also be an element of self-regulation by the industry, e.g. collateral managers can establish common codes of conduct, contracts and terms for insurance coverage etc..

In the case of public warehousing, there are a number of differences.

- The warehouse operator has no discretion as to whom he provides services but must, as the term implies, receive deposits from the public at large.
- Depositors will often be relatively small players, e.g. local producer groups, seeking to bulk up products for onward sale.
- While private warehouse operators negotiate charges individually with each depositor, public warehouses must prominently display a standard tariff showing the rates it charges its depositors for all the services it provides (these may include drying, cleaning, primary processing, apart from storage services).
- Often, and particularly with lower valued commodities like maize, products of individual depositors will need to be commingled, i.e. stored as an undifferentiated mass of the same grade, so as to economise on space and ensure uniformity of product. For example, the depositor who has deposited 20 tons of Grade 1 maize in the warehouse is entitled to get back exactly 20 tons of Grade I maize, less any shrinkage allowance the warehouse keeper displays in his standard tariff.
- It should also be possible for the original depositor to transfer rights over the goods, to either a lender or a buyer, by endorsement; this brings us to the concept of transferability and negotiability.

The regulatory regime for public warehousing will need to meet the same requirements as for private warehousing, and more; i.e. it must be more comprehensive and commodity-specific. It needs to ensure that warehouse operators have specialised physical facilities and competence to handle the commodity concerned. It will need to demonstrate a very high level of competence in any processing, grading or packaging functions it carries out while the goods are in-store. It will also need to ensure grade standards exist and are properly applied.

This means that public warehousing licenses should be issued for the handling of specific commodities, not for a wide range of commodities as would be the case in with collateral managers. For example, the regulatory authority might first issue the proposed *Service Centre Companies* in the West and North-West for licenses for Arabica and Robusta coffee, then for cocoa, and following that for maize and other commodities. In each case they would need to demonstrate that there is a demand for the services, and that it has the facilities and competence to provide them. In the USA, Federal and State authorities license warehouses for which there is a specific USDA *Commodity Program*. The law and regulatory regime

should also facilitate the use of electronic documentation, so that transfers, encumbrances etc. can be made at the touch of a button.

**3. Cameroon should try to avoid creating “texts” that become “dead letters” (*qui tombent en désuétude*)**

People operating warehouses should be absolutely clear whether they need to get licensed, and the regulator should have the financial and technical capability to ensure compliance. One should avoid further texts that are either unenforceable or not enforced. In the case of public warehousing, regulatory coverage should be phased in to different activities/filières.

**4. Lastly, it is worth studying laws and regulations of other countries, but one should not simply transcribe them into Cameroonian law**

In the case of private warehousing (collateral management), there is a lack of precedents and as noted above, the one in Côte d’Ivoire is inadequate. In the case of public warehousing, laws and regulations are new, unproven and have some obvious defects. The leading practitioner, South Africa, has no Act whatsoever, though the South African Futures Exchange (SAFEX) has certain requirements to register warehouses as delivery locations for maize, wheat, soybeans and sunflower upon expiry of SAFEX contracts. Apart from that the system of silo receipts rests upon public confidence in the integrity of the system, confidence that is lacking in most countries.

Ethiopia, Tanzania and Uganda have Acts but they have very little experience with their application. Warehousing is most developed in Tanzania, but the role of the Warehouse Licensing Division of the Ministry of Trade has hitherto been largely advisory; it registers warehouses but so far does not seem to have licensed them, required performance guarantees, or carried out a systematic inspection programme. The Act and Regulations do not specify exactly what types of warehousing are to be regulated (private, public etc.), and when operators need to be compliant. The Ugandan Act lacks clarity in certain aspects. Both Acts provide for licensing appeals to be referred to the Minister, whereas arbitration would probably be a better route, distancing the subsequent decision from political considerations.

As for Cameroon’s former Mandate powers, Britain has no Warehouse Act and provides no blueprint for a regulatory regime. By contrast, France has the regime of *Magasins Généraux (MGs)*, a 19<sup>th</sup> Century concept which has been copied into the legislation of a large number of Civil Law countries of Europe and Latin America but not Francophone Africa. Cameroonian jurists may want to adopt this French legislation – but beware, it is a bit of a *Dinosaur*. The reader’s attention is particularly drawn to the following shortcomings:

- MGs often have a blanket authorisation to store all kinds of commodities, whereas as indicated above better legislations such as those in the USA provides for public warehouses to store specific named commodities. The regulator insists on a high level of technical competence with those commodities.

- Normally, MGs must be non-trading entities, and this seems to make sense with the proposed Cameroonian Service Centre Companies in their early stages. However, as such systems develop one wants trading companies to provide warehousing services, which due to economies of scale, they can usually do more cheaply than companies without trading operations. This is the way US *elevator companies*, or South African *silo operators* function.
- MGs are required to issue *two part warehouse receipts*, one part being a *certificate of title* to the underlying good and the other a *certificate of pledge*. These two documents are supposed to circulate separately, in theory, but this does not seem to happen in practice. Banks want control of both documents, not simply the pledge certificate. It is best to follow the practice of Common Law countries and South Africa, i.e. use a single document (warehouse receipt or silo certificate) for both purposes. Despite being a Common Law country, the Tanzanian regulations require warehouse operators to use the two part warehouse receipt and this seems over-restrictive. In any case the advent of electronic documentation requires a new approach to documentation, one which adapts to the evolving technology and does not apply a straight-jacket.

**5. One should carry out a close examination of existing legislation in Cameroon and the region, to decide what additional legislation is required**

There is certainly OHADA legislation applicable to pledges, and there may be local or CEMAC Region laws, or even old French legislation that can affect the practice of collateral management and warehouse receipting. It is also important to look closely at dispute resolution, with rapid and binding arbitration-based systems, and avoiding lengthy court procedures with appeals ending up in Abidjan.

In conclusion, circumstances seem very favourable to the passage of Legislation in Cameroon (contrast the situation of Zambia where the relevant Bill has constantly been delayed). However, it is important that Cameroon does its homework properly, and ensures legislation and regulatory arrangements are well designed from the outset. This will greatly reduce subsequent problems, and the need to go back to Ministers and legislators for amendments.