



The role of warehouse receipt systems in enhanced commodity marketing and rural livelihoods in Africa

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Abstract

Most African countries have, since the 1980s, liberalised agriculture without experiencing food crisis, as feared by sceptics, but the outcome of reforms has been rather disappointing and agricultural markets remain underdeveloped and inefficient. One means to improve agricultural marketing, which is the focus of this paper, is to develop regulated warehouse receipt (WR) systems. The system will curtail cheating on weights and measures; ease access to finance at all levels in the marketing chain; moderate seasonal price variability and promote instruments to mitigate price risks. It will also reduce the need for the Government to intervene in agricultural markets, and reduce the cost of such interventions if needed.

The major problem in establishing WR systems in Africa is disabling elements in the policy environment. Drawing on experience from projects implemented in Africa during the last decade¹, the authors outline how this challenge can be addressed, the most crucial being to build strong stakeholder support behind the initiative.

Introduction

Since the late 1980s, agricultural systems in most of Sub-Saharan Africa (SSA) have been liberalised. Pervasive interventions by the state in supply of farm inputs, provision of agricultural credit and produce marketing systems have been reduced and the scope for private sector provision of agricultural services expanded. The interventions became an unsustainable fiscal burden, contributed to real decline in producer prices as producers often bore the cost of such programmes, and failed to produce significant increase in per capita food production (Akiyama et al., 2001).

Agricultural market reform in many adjusting countries proceeded under pressure from donors. Quite often, it lacked the full commitment of key policymakers, who had fears about the impact of

liberalisation and elimination of subsidies on access to food by low-income households (Jayne and Argwings-Kodhek, 1997). This was because of concern about the capacity of the weak private trade sector to fill the gap created by dismantling or down-scaling public marketing bodies.

In a recent review of literature on the experience of food market liberalisation in Africa, Coulter and Poulton (2001) find no conclusive empirical evidence suggesting that liberalisation led to significant worsening in household food insecurity. The evidence attests to significant gains from the reforms, including increased entry of private traders into the food and agricultural inputs trade, and decline in marketing margins (Jones, 1996). However, after a decade or more of reform, agricultural markets in most African countries remain underdeveloped and inefficient.

This paper discusses one means of improving the performance of agricultural markets in Africa and other developing countries—and thereby enhancing rural livelihoods—through developing *regulated warehouse receipts (WR) systems* which are accessible to smallholders. The paper is structured as follows: The next section provides an overview of African agricultural markets, showing that imperfect information and high transaction costs prevent efficient agricultural trade. In the subsequent section, we demonstrate that by reducing these problems, regulated WR systems will improve agricultural commodity trade and finance and positively affect the livelihoods of producers. Then we review challenges in implementing WR projects in Africa, drawing on practical experience of WR development since 1993, and focusing in particular on a current initiative in Zambia in the next section. We set out our conclusions in the last section.

Section snippets

The state of African agricultural markets

Agriculture is central to most of Africa's rural population, being their major source of food supply and household income. Production is predominantly by smallholders, often cultivating less than 2 ha and is largely rain-fed. There is a very marginal use of productivity-enhancing inputs like fertiliser and yields are low and highly variable from year to year.

Food distribution margins and seasonal price variability is high and has remained so in many countries after market reforms. Badiane et...

What are warehouse receipts?

Warehouse receipts (WR) are:

documents issued by warehouse operators as evidence that specified commodities of stated quantity and quality, have been deposited at particular locations by named depositors....

The depositor may be a producer, farmer group, trader, exporter, processor or indeed any individual or body corporate. The warehouse operator holds the stored commodity by way of safe custody; implying he is legally liable to make good any value lost through theft or damage by fire and other

...

Potential difficulties and challenges in applying the regulated warehouse receipts approach

In this section, we discuss various difficulties and challenges faced in introducing the approach described previously and, from experience in Zambia and other African countries, how these can be tackled (summarised in Box 2). The issues include disabling elements in the policy environment, legal issues, engendering confidence among bankers, addressing business opposition, scale economies and ensuring smallholder participation....

Conclusion

Most African countries have liberalised agricultural markets since the 1980s. Though there is no evidence that liberalisation has led to food crisis, its outcome has been rather disappointing especially for the domestic agricultural trade. The markets remain underdeveloped and inefficient, lacking adequate storage and transport infrastructure and strong supporting institutions and instruments that enable producers to manage marketing and price risks. They are characterised by wide distribution...

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...Most of these factors reduce the land and food available per capita and have led to increasing food insecurity (FAO et al., 2013; Foley et al., 2011; Van Rooyen and Sigwele, 1998). To cope with these challenges, food-securing upgrading strategies (UPS) and/or frameworks and policies should be developed or implemented (Coulter and Onumah, 2002; Graef et al., 2014; Kimenyi and Bombom, 2009; Shemdoe, 2011). These strategies, however, often do not achieve greater gender equality in food security (Arora-Jonsson, 2014)...

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¹ The authors learnt the valuable lessons discussed in the article through their involvement in: (a) two DFID-funded research projects, from 1992 onwards; (b) DFID-funded monitoring of the implementation of a pilot inventory credit project in Ghana (1993–97), and: (c) the Common Fund for Commodities (CFC) project in Ethiopia, Ghana and Zambia (since 2000). The Zambia

component of the CFC project, which is extensively discussed in the paper, has attracted co-financing from the Dutch Government, USAID (initially through the ZATAC, the Zambian Agribusiness Technical Assistance Centre), DFID, IFAD (through the SHEMA project) and the United States Department of Agriculture (USDA). USDA provided its support 'in kind', sending an experienced commodity marketing specialist to work with the team. The views expressed are exclusively those of authors and neither represent nor are endorsed in any way by the above-mentioned funding agencies. CFC reserves the exclusive right to the publication, in whatever form, of the results and technical outputs of the Project it has funded.

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