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## **AGRICULTURAL MARKETING IMPROVEMENT STRATEGIES PROJECT**

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### **U.S. Agency for International Development**

Assisting AID Missions and Developing Country Governments  
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**Prime Contractor:** Abt Associates Inc.

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PRIVATIZATION OF FERTILIZER  
MARKETING IN CAMEROON:  
A THIRD YEAR ASSESSMENT OF  
THE FERTILIZER SUB-SECTOR  
REFORM PROGRAM

TECHNICAL REPORT

APRIL 1991

PRIVATIZATION OF FERTILIZER MARKETING IN CAMEROON:  
A THIRD-YEAR ASSESSMENT OF THE FERTILIZER SUB-SECTOR REFORM PROGRAM

TECHNICAL REPORT

Submitted to  
The Technical Supervisory Committee  
Fertilizer Sub-Sector Reform Program

The Government of Cameroon

and

USAID/Cameroon

March 1991

by

Richard D. Abbott

David A. Lloyd

THE AGRICULTURAL MARKETING IMPROVEMENT STRATEGIES PROJECT

The University of Idaho/Postharvest Institute for Perishables

and

Abt Associates

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## GLOSSARY OF ACRONYMS

- AMIS - Agricultural Marketing Improvement Strategies Project
- BCCC - Bank of Credit and Commerce Cameroon
- BCCI - Bank of Credit and Commerce International
- BEAC - Banque de Etats de l'Afrique Centrale (central bank)
- BIAO - Banque Internationale pour l'Afrique Occidentale
- BICIC - Banque Internationale pour le Commerce et l'Industrie du Cameroun
- BNP - Banque Nationale de Paris
- CamCCUL - Cameroon Cooperative Credit Union League
- CB - Commercial Bank
- CCEI - Caisse Commune d'Épargne et d'Investissement
- CDC - Cameroon Development Corporation
- CST - Commerce - Service - Transit S.A.
- FB - Fiduciary Bank
- FOGAPE - Fonds d'Aide et de Garantie des Credits aux P.M.E.
- FSSRP - Fertilizer Subsector Reform Program
- GRC - Government of the Republic of Cameroon
- HEVECAM - Hevea Cameroun
- IFC - International Finance Corporation
- IRA - Insitut de Recherche Agricole
- MINAGRI - Ministry of Agriculture
- NWCA - North West Cooperative Asociation
- OCB - Organisation Camerounaise de la Banane
- ONCPB - Office Nationale de Commercialisation des Produits Bruts
- PSIE - Programme Special d'Importation d'Engrais
- SCB - Societe Camerounaise de Banque

## ACKNOWLEDGEMENTS

This report is the third in a series of annual assessments of the Fertilizer Sub-Sector Reform Program (FSSRP) of Cameroon prepared by the Agricultural Marketing Improvement Strategies Project (AMIS) for USAID/Cameroon. Information for this report was gathered by the authors in Cameroon during the period 12 February 1991 to 12 March 1991.

Mr. Richard D. Abbott of the University of Idaho/Postharvest Institute for Perishables, the author of the previous two annual assessments, was joined by a banking consultant, Mr. David A. Lloyd, for the 1990 assessment. In view of the strong impact on the FSSRP of the current economic crisis in Cameroon, and in particular of the liquidity problems experienced by commercial banks, USAID/Cameroon had requested that a banking expert be a part of the team for this assessment so as to give particular attention to the financial aspects of the program.

As in the previous two years, Mr. S. Tjip Walker, Coordinator, Policy Reform Implementation and Monitoring Section, USAID/Cameroon, provided the day-to-day guidance and support without which this report would not have been possible. The authors also wish to acknowledge the valuable assistance of Mr. Rostand Longang of USAID in preparing all the exhibits in the report, and in accompanying the team during the field work phase.

This annual assessment was carried out under the supervision of the Technical Supervisory Committee of the FSSRP, and in particular by the following individuals:

M. Mohamadou Talba, President, and Secretary General, Ministry of Plan and Regional Development

Mr. Tham Troung, Chief, Office of Economic Analysis and Policy Reform Implementation, USAID/Cameroon

## INTRODUCTION

As originally stipulated in the FSSRP Project Agreement between the Government of Cameroon and USAID, and reiterated in annual AMIS technical report assessments, the overall goal of the FSSRP is "to establish a private market for the importation, distribution, and financing of fertilizer that is competitive, sustainable, and subsidy-free."

The intermediate objectives of the FSSRP in achieving this overarching goal are identified in the FSSRP's General Information Pamphlet, issued by the Technical Supervisory Committee (12 July 1990 version):

- Liberalize and privatize fertilizer importation and distribution, which means that:
  - \* fertilizer importation is no longer subject to government tender; and,
  - \* distribution at the wholesale and retail levels is unrestricted;
- Remove government quantitative allocations of subsidized fertilizer;
- Eliminate fertilizer subsidies over several years.

When fully implemented, these measures will deregulate the channels of fertilizer supply to the end users, giving them access to fertilizer at competitive, market-clearing prices. However, the primary users of the types of fertilizer imported under the FSSRP are farmers cultivating the robusta and arabica varieties of coffee in the western four provinces of Cameroon (though farmers are increasingly diversifying into other crops on which fertilizer is also applied). Consequently, consumption of the fertilizer is not just a function of independent supply and demand trends for fertilizer, but is highly dependent on the cash proceeds the farmer receives for his coffee crop. So when coffee prices drop or cash is not paid for coffee purchases -- as has been the case over the past two years - - fertilizer purchases decline as well.

Thus, as this report will show, fertilizer imports for the 1990 program year dropped substantially as fertilizer supply caught up with declining demand from the Cameroonian coffee farmer. This development does not, however, indicate a deficiency in the FSSRP program per se. Market forces are at work, and in this sense, the program can be said to be accomplishing its objectives. Our report will illustrate the impact of these forces on the program in 1990.

The report is in two parts. Part One presents our principal findings and recommendations, including a discussion of actions taken on the recommendations at a seminar/workshop attended by program participants at the conclusion of the team's stay in Cameroon. This section also serves as a summary for the entire report. Part Two reports on performance of the

FSSRP during the year as it relates to fertilizer importation and distribution, and to the financial aspects of the system.

This Technical Report version also contains extensive appendices reporting on the activities of all participants in the program.

## PART ONE: FINDINGS AND RECOMMENDATIONS

### 1.1 Overall Assessment of the Program

The FSSRP has been successful in achieving its primary objective of privatizing fertilizer import and distribution, despite operating for the past two years in a very unfavorable economic climate. As a result, farmers have had access to fertilizer at competitive prices. A private sector market for fertilizer has been established and participants -- commercial banks, importers, and distributors -- have responded to market demand signals. Demand for fertilizer during both the 1989 and 1990 program years was much lower than during the first year of the program, mainly because coffee farmers have reduced their purchases in the face of still incomplete settlement of arrears for coffee and the greatly reduced producer prices for both arabica and robusta coffee.

While fertilizer use is increasingly diversifying in favor of food crops, particularly maize, a major portion of demand for fertilizer will continue to come from coffee planters.<sup>1</sup> Once planters have been paid for all coffee previously delivered, and when coffee buyers -- whether cooperatives, private buyers, or processors -- are able to offer them cash payment for future deliveries, some measure of confidence in the market will be restored and fertilizer consumption should revive.

Several Cameroonian-owned companies have expressed interest in importing under the 1991 program, giving hope for broader participation at the importer level. What is significant is that these importers appear to be developing a diversified customer base, that is, one not wholly dependent on the coffee sector. There are also some signs of increased participation in distribution by the private sector. Several small businessmen are buying fertilizer at the port and trucking it to the interior for sale to farmers.

There are likewise indications of increased financial commitment by importers which give hope for long-term sustainability of a privatized fertilizer marketing system. For example, in view of the more stringent collateral requirements for letters of credit to import fertilizer under the FSSRP, importers have had to use more of their own funds as security deposits. One importer (IBEX) arranged a bulk shipment of over 3000 tons under the 1990 program which was bagged at quayside by equipment leased from a British firm. A prospective importer is currently planning the installation of a fertilizer mixing and bagging plant at the port of Douala.

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<sup>1</sup>See AMIS report by Nicholas Minot, "Impact of FSSRP on Farmers: The Results of the Three Farm-Level Surveys"

## 1.2 Principle Findings Concerning the 1990 Program

### 1.2.1 Economic Factors

Coffee/Cocoa Sector. The coffee/cocoa sector as a whole is in very poor financial condition. The planter still bears the burden of some unpaid ONCPB arrears and the financial carrying costs associated with it. They also face coffee prices which are roughly 50% of what they were two years ago. The cooperatives have negative working capital and no cash to advance or purchase coffee from cash-starved farmers. Intermediate coffee processors have been, and will continue to be, squeezed by declining coffee prices.

Banking Sector. The banking sector is in an improved, but still very poor, state of health. Because of large losses during the 1980's, the dismal current economic situation, and the prospect of continuing structural economic change (e.g. anticipation of a devaluation), bank credit is very difficult to obtain. This is especially true in the weak agricultural sector. On the other hand, all banks have stated that liquidity is available for firms and projects that are creditworthy.

### 1.2.2 Fertilizer Importation and Distribution

Because of these unfavorable economic conditions, and because of the large stocks of fertilizer held by importers at the close of the 1989 FSSRP program year, imports of fertilizer were greatly reduced this year. Only 22,000 tons were imported under the 1990 program, compared to 64,000 tons the previous year.

By the end of the 1990 program year, importers had sold to distributors and other buyers about 44,000 tons of fertilizer, compared to 29,000 tons in the 1989 program. These sales reduced stocks held by importers at the port of Douala from 39,000 tons in February 1990 to just under 17,000 tons in February 1991.

NPK 20-10-10 accounted for 55% of fertilizer imports, Urea for 31%, and NPK 12-06-20 and Ammonium Sulfate 7% each. Consumption of Ammonium Sulfate is sharply lower than in the first two years of the program, reflecting a policy of coffee cooperatives to discourage its use because of its soil acidifying characteristics -- and also its lower nitrogen content. CIF Douala prices for NPK fertilizers have increased only slightly over the three years of the program (5% or less). The average price for Urea in 1990 was 10% lower than in 1988, thanks to one shipment from Nigeria at prices well below those of the European product.

### 1.2.3 Financing of Fertilizer Imports

In the face of reduced consumption and unsold stocks of fertilizer -- and outstanding bank debts incurred by some importers -- commercial banks have adopted a very conservative attitude toward financing further fertilizer imports. The banks are imposing more stringent collateral

requirements for issuance of letters of credit on behalf of importers than they did last year.

#### 1.2.4 Role of Importation Loans

Fertilizer imports into Cameroon under the FSSRP are being conducted through standard commercial bank letters of credit. In addition, the FSSRP requires importers to secure from banks an importation loan equal to 50% of the value of the FSSRP fertilizer shipment. The importation loans are granted at below-market rates.

As originally conceived, the importation loan had three purposes. First, it was to provide additional liquidity to the importer and his bank. In principle, this would cover the period between up-front payment to the supplier and later receipt of cash from sale of the fertilizer. Second, it would require the commercial bank to play a "gate-keeper" role. By passing judgement on the credit-worthiness of the importer, it would only approve loans -- and access to subsidy funds -- for serious and capable companies. Third, the commercial bank would provide a minimum level of surveillance over the operations it financed. This surveillance would largely come from the collection and review of standard commercial documents, but would also come from authenticating subsidy and credit earmarking and disbursement requests.

Banks have largely circumvented the gate-keeper role by making the importation loan but placing it in a blocked account rather than releasing the funds to the importer. Nonetheless, since commercial banks also assume some risk in issuing a letter of credit, even when fully "secured" by various types of collateral, they have assured minimum standards of business conduct by their customers/importers and have played a positive role in guarding access to subsidy funds. In this way, importation loans help create a structure for a long-term borrowing relationship between bank and customer in which the bank will be willing to assume some risk. Finally, since letter of credit fees are regulated in Cameroon, profits on handling of importation loans provide additional reward and incentive for commercial banks to participate in the FSSRP program.

By the same token, even though importation loans have generally been placed in blocked accounts and were unavailable to importers, they have increased bank liquidity and made participation in the FSSRP more attractive to banks. It is also clear that the surveillance role has been adequately performed by participating banks.

Importers generally would like to see the 120-day term of the importation loan extended to at least 180 days, which would enable them to finance distributors until the fertilizer can be sold.

#### 1.2.5 Role of Distribution Loans

Coffee cooperatives and other distributors are in need of credit to finance purchase of fertilizer. However, because of their weak financial condition (and their limited experience with the banking sector), many of

these distributors are not considered creditworthy by commercial banks and are unable to gain access to FSSRP distribution loans. For this reason, there appears to be no realistic demand for a separate distribution loan facility at this time. Generally speaking, importers should be in a better position to provide the necessary credit to distributors than commercial banks.

#### 1.2.6 Role of Subsidy Fund

The availability of subsidies continues to attract the participation of importers. These subsidies, even at reduced levels, greatly reduce the prices at which importers can sell fertilizer and also provide a large part of the collateral demanded by commercial banks to cover import financing.

Subsidy rates were again reduced in 1990, in accordance with FSSRP objectives of gradually reducing them to zero over the life of the program. On a weighted average basis for all types of fertilizer, subsidies were equal to 30% of delivered cost to the farmer, a 15% reduction over the rate in 1989.

#### 1.2.7 Fertilizer Distribution and Consumption

Fertilizer distribution outside of the traditional coffee cooperative channel increased to 38% of imported tonnage in 1990 compared to 18% in 1989. Almost half of this amount was accounted for by small businessmen who resold fertilizer purchased at the port to farmers.

Fertilizer prices charged to members of coffee and cocoa cooperatives remained the same as last year, even though the average delivered cost to Douala of imported fertilizers increased by about 2%. Thus these fertilizer users continued to benefit from lower distribution costs and profit margins of importers and distributors.

#### 1.2.8 Administrative Issues

Importers, commercial banks, and the Fiduciary Bank still find burdensome the administrative work load and the tracking of various dates required by the program. Claim and disbursement conditions for disbursement of subsidy and importation loans need to be clarified to the Fiduciary Bank.

#### 1.2.9 Information on FSSRP and Fertilizer Use

Knowledge of the FSSRP, its detailed use and purpose, is quite widespread. Still, at least some commercial bank participants and potential participants are not as familiar as they would like to be with the uses and markets for the FSSRP fertilizer. There remains a need for additional training of importers and distributors in financial analysis, market forecasting, and understanding commercial bank lending practices.

### 1.2.10 Residual Impact of Previous FSSRP Problems

FSSRP fertilizer imports handled poorly by an importer in previous years continue to have a negative influence on important FSSRP participants. In part, this reflects a structural weakness of the Cameroonian judicial system in its inability to resolve these problems rapidly.

### 1.2.11 Medium Term Investment in the Fertilizer Sector

Medium term investment in the fertilizer and other sectors may be strongly deterred by the lack of medium term funds and high interest rates fixed by the Banque des Etats de l'Afrique Centrale, or BEAC (high preferential interest rates to restrict monetary growth and help discourage capital flight), the government (intermediary taxes on lending), and banks (high margins because of poor profitability).

## 1.3 Recommendations for the 1991 Program

- (1) Maintain subsidies at or near current levels.
- (2) Consolidate the importation and distribution loan facilities into a single fertilizer loan facility. The maximum term of such loans should be 180 days.
- (3) Review and tighten documentary requirements relating to disbursement of importation loans and subsidy funds.
- (4) Streamline administrative requirements by consolidating documents and procedures for release of importation loans and subsidy funds.
- (5) Consider adding flexibility to importation loan procedures by giving banks and borrowers the option to decide if it is needed.
- (6) Take no action on the concept of risk-sharing raised at Bamenda last year. In the context of privatization goals of the FSSRP, participants should assume these risks.
- (7) Consider using FSSRP funds to facilitate medium-term lending for capital investment in the fertilizer sector.
- (8) Provide additional information to commercial banks about fertilizer markets and uses. Consider providing training for FSSRP participants in financial analysis, market forecasting, and commercial bank lending practices.

#### 1.4 Action on Recommendations Made at the Second Annual Review

The effect on the 1990 program of changes introduced as a result of recommendations made at the second annual review are as follows:

**Removal of target ceiling prices:** Competitive factors continue to keep prices well below previous target levels, so there remains no need for this structure.

**45-day letter of credit requirement:** This measure, requiring banks to issue letter of credit no later than 45 days after subsidy earmarking, appears to be an effective way to eliminate the problem of excessive or premature earmarking of subsidy funds. (However, it should be noted that excessive earmarking would not have been a problem in 1990 in any case, due to much reduced demand for fertilizer.)

**Modification of terms for distribution loans:** Although the reference value for distribution loans was changed to the full value of the delivered fertilizer, rather than the distribution cost only, this loan facility remains unused. Stringent bank collateral requirements for loans continue to make it extremely difficult for most distributors to obtain loans.

The situation as regards other recommendations and observations made at the second annual review is noted below.

**Coffee arrears:** Last year's report pointed out the urgent need to deal with coffee arrears in order to provide additional liquidity in the coffee sector. Settlement of these arrears appears to be proceeding, though there remain some amounts unpaid and confidence on the part of coffee farmers has not yet been restored.

**Liberalization of coffee marketing:** This measure, noted in last year's report as being vital to further development of fertilizer marketing, is underway.

**Inclusion of the northern provinces:** Discussions concerning a fusion of the FSSRP and PSIE program in the north are continuing, but so far without result.

**Improved information flow to importers and distributors:** No action was taken on this recommendation during 1990, but the need for such measures was recognized at the third annual review and the recommendation was adopted at that time. (See below.)

## 1.5 The Annual FSSRP Seminar/Workshop

The annual review of the FSSRP was conducted in Garoua, North Province, at a seminar/workshop attended by program participants, March 7-9, 1991. Representatives of the Technical Supervisory Committee, USAID, the Fiduciary Bank, commercial banks, importers, and distributors attended, along with officials of the Ministry of Agriculture and other interested government agencies.

The recommendations listed in Section 1.3 above were presented to the workshop, and were later considered by a committee in which bankers, importers and the Technical Supervisory Committee (TSC) participated. The committee adopted recommendation numbers 1,2,3,6,7, and 8 and these were later accepted by all participants in general session. The recommendations were formulated as follows:

1. Maintain subsidy levels at or near current levels.
2. Combine the importation and distribution loans into a single "fertilizer loan" with a maturity of 180 days.
  - For the importer (or importer/distributor) the loan will be disbursed upon presentation of a copy of the bill of lading.
  - For the independent distributor, the loan would be disbursed upon presentation of: a contract with an importer, a marketing plan, and a customs clearance document.
3. Revise and strengthen the documentary requirements for the disbursement of the fertilizer loan and the subsidy funds as follows:
  - Disburse the importation loan against a copy of the bill of lading.
  - Disburse the subsidy funds against a coded telex indicating the arrival of the ship at the port of Douala. (The form of this telex was drafted by the committee.)
4. Take no action on the proposal made during last year's annual review in Bamenda relating to risk-sharing. Given the privatization objectives of the FSSRP, the participants should assume this risk.
5. Examine the possibility of using FSSRP funds to facilitate medium-term loans for capital investments in the fertilizer sub-sector.
6. Provide additional information to the commercial banks on the fertilizer market and fertilizer use in Cameroon, in particular by organizing a half-day orientation meeting in Douala for all the commercial banks.
7. Consider training sessions for FSSRP participants in financial analysis, demand forecasts, and the credit requirements of banks.

An additional recommendation of the committee was also adopted, as follows:

Further publicize the existence of the FSSRP through the media, and particularly through seminars, in order to expand participation in the program by major importers of such commodities as rice, flour, and sugar. (The latter point embodies recommendations made by the consultant in both the first and second annual reviews.)

A discussion of the impact and significance of the recommendations as they emerged from the Garoua meeting will be found in Section 2.3.8 of this report.

A second committee considered the impact of the FSSRP on farmers in the seven provinces covered by the program. The committee concentrated on two issues for the improvement of the FSSRP: (1) how to increase the level of knowledge of the characteristics of fertilizer on the part of farmers, and (2) how to expand the geographic extent of participation in the program.

The committee observed first that fertilizers are sufficiently well-known in areas where cooperatives function well, particularly the coffee-growing areas. In other areas, the lack of all-weather roads and distance to points of sale is an obstacle. Second, the extension messages are more effectively delivered when accompanied by on-farm demonstrations. Third, in most of the country, the fertilizer storage infrastructure is deficient. Fourth, the FSSRP should support the new agricultural policy favoring diversification.

Two recommendations were made to improve farmer knowledge of fertilizer:

- 1) The committee encourages the Ministry of Agriculture (MINAGRI) to increase its efforts to expand farmer knowledge of fertilizer, particularly through on-farm demonstrations;
- 2) The committee suggests expanding the types of fertilizer covered by the FSSRP to include those appropriate for food crops as identified by the Institut de Recherche Agricole.

In addition, two recommendations were offered in light of the need to expand the participation in the FSSRP to new areas:

- 3) The committee reiterates the recommendation of the banking specialist that the FSSRP consider measures to increase the availability of medium-term credit for investment in the fertilizer sub-sector;
- 4) The committee recommends increased efforts to form farmer groups ("groupements") that will evolve over time into cooperatives.

## PART TWO: PERFORMANCE OF THE FSSRP IN 1990

### 2.1 Importation of Fertilizer

#### 2.1.1 Participation by Importers and Commercial Banks

One importer -- IBEX -- was responsible for all imports under the 1990 program. However, two sources of fertilizer supply were available during the year since CAMATREX, the major importer in 1989, had carryover stocks available for sale. CAMATREX did not participate in imports this year pending resolution of a dispute with its principal bank, Meridian.

Three other companies sought orders from distributors but did not import any fertilizer. These included ADER, who made at least one offer to a distributor which was not accepted, ADIR and Group One, who were jointly trying to arrange a letter of credit for a shipment as this report was being written, and FERIDA, who applied for earmarking for a prospective import but did not complete arrangements this year. This is the first indication of intention to participate by ADIR and FERIDA, whereas Group One participated as a distributor in 1989. To summarize, importer participation was reduced in 1990 to one firm which imported fertilizer (though two had fertilizer for sale) and three others who made offers, compared to 1989 when two companies imported fertilizer and seven others made offers.

As to commercial bank participation, Banque Internationale pour le Commerce et l'Industrie du Cameroun (BICIC) handled 92% of the tonnage imported, and Meridian Bank handled the rest. SCB/Credit Lyonnais was approached by ADIR and Group One to arrange a letter of credit for an importation but the matter is still pending. Thus commercial bank participation is greater than in 1989 when two banks (Meridien and BICIC) were involved. The major difference in 1990 was that Meridian Bank greatly reduced its activity compared to 1989, when it handled 83% of the imported tonnage. This appears to be a policy decision on the part of the bank, following the difficulties experienced in dealing with CAMATREX in 1989.

#### 2.1.2 Fertilizer Shipments

Fertilizer imports under the 1990 program totaled 22,003 tons, all imported by one firm, IBEX. Of this amount, a shipment of 3400 tons of NPK 20-10-10 was ordered but had not yet arrived as of the end of February 1991.

Imports by type over the first three years of the program are shown graphically in Exhibit 1 and tabulated in Exhibit 2. The main point to note is that 1990 imports were roughly one-third of the amounts imported in 1988 and 1989, when imports were 63,000 to 64,000 tons. Declining demand for fertilizer, especially among coffee planters, was already noticeable at the end of the 1989 program year when 39,000 tons of fertilizer remained in the hands of importers at the port of Douala in February 1990. During 1990, it became ever more obvious that the double effect of a reduction in official coffee prices by half, and continued delays in repayment by the Office Nationale de Commercialisation des Produits Bruts (ONCPB) to farmers and

# Exhibit 1 Fertilizer Imports by Types, 1988-1990

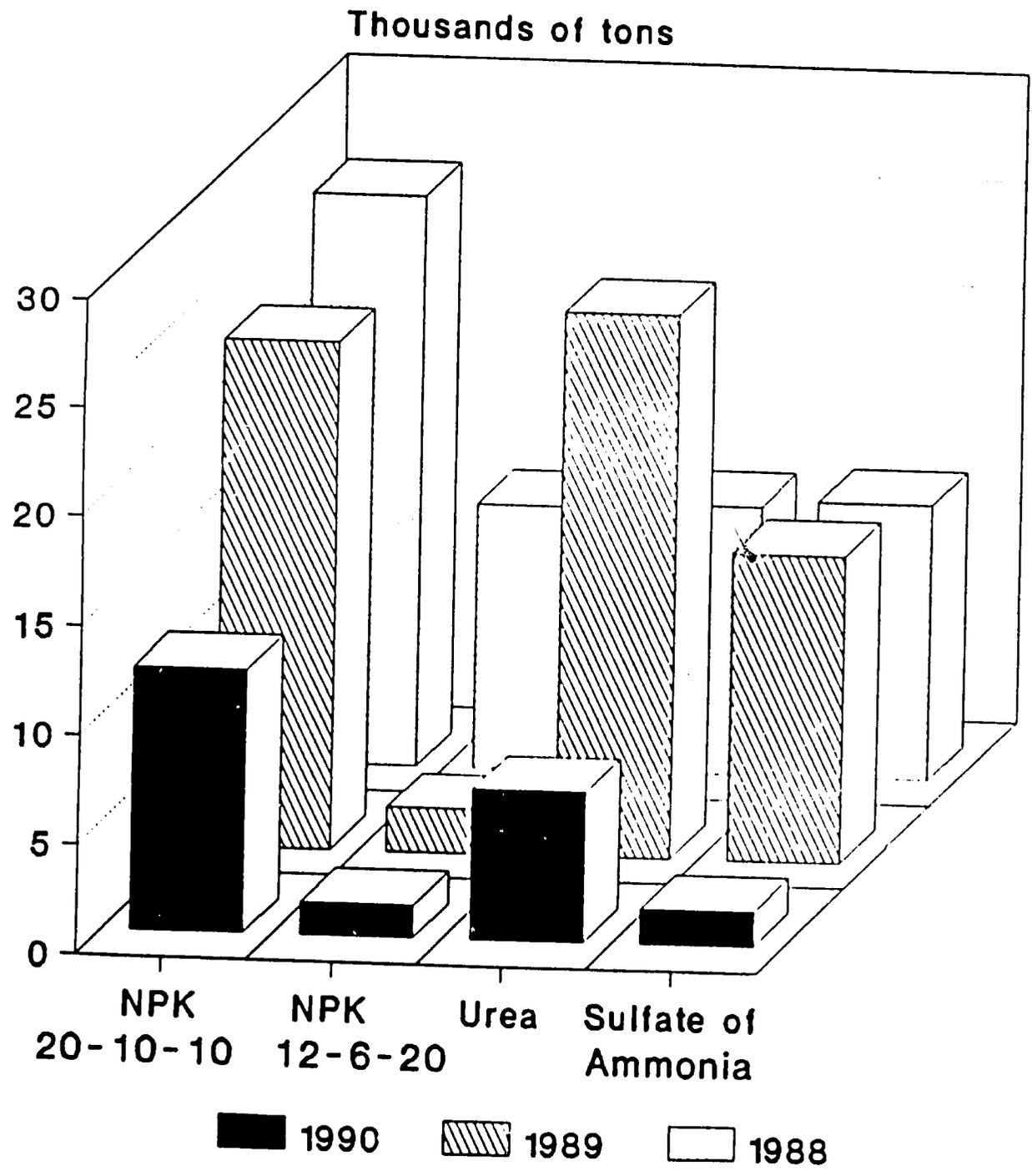


Exhibit 2

Fertilizer Imports by Type and Average CIF Cost, 1988-1990

	1988		1989		1990	
	Tons	Ave CIF Cost 000 FCFA	Tons	Ave CIF Cost 000 FCFA	Tons	Ave CIF Cost 000 FCFA
NPK 20-10-10	26,300	62,650	23,230	63,853	12,051	64,776
Urea	15,200	51,250	24,941	56,169	6,885	46,222
NPK 12-6-20	12,000	61,000	2,000	66,500	492	64,000
Sulfate of Ammonium	<u>9,500</u>	39,643	<u>14,000</u>	42,080	<u>1,575</u>	40,000
Totals	63,000		64,171		22,003	
Weighted Ave		56,116		56,199		57,144

cooperatives for past deliveries of coffee, demand would remain at reduced levels. Imports were accordingly much reduced and importers were able to draw down fertilizer inventories.

NPK 20-10-10 and Urea are the types most in demand, together accounting for over 70% of total imports for the three year period. Ammonium sulfate imports constituted only 7% of imports in 1990 compared to 20 to 22% in previous years, reflecting efforts by coffee cooperatives to discourage its use. It is interesting to note in Exhibit 2 that average CIF costs for NPK 20-10-10 and 12-06-20 have increased only 4 to 5% over the three years of the program, and Urea prices in 1990 were actually 10% lower than in 1988 (mainly due to one shipment from Nigeria at much lower prices than European-sourced product). Ammonium sulfate prices have changed little over the period.

The importer stock situation over the past two years is illustrated in gross terms in Exhibit 3 below, and graphically in Exhibit 4. Of the 64,000 tons imported under the 1989 program, only 25,000 tons had been delivered to customers as of the end of February 1990. This resulted in a carryover of 39,000 tons, which in turn led to reduced imports in 1990 of 22,000 tons. Between March 1990 and February 1991 (corresponding to the FSSRP program year), importers disposed of a reported 44,000 tons, reducing stocks at the end of the period to 17,000 tons. This demonstrates the effect of market forces on the fertilizer distribution system in that signals indicating reduced demand were transmitted through the system, resulting in reduced supply.

### Exhibit 3

#### Importer Stock Situation, 1989 and 1990 (tons)

Stocks, beginning 1989 program year.....	negligible
Imports, 1989 program.....	64,000
Received by customers, 1989.....	25,000
Stocks, end 1989 program.....	39,000
Imports, 1990 program.....	22,000
Total available in 1990.....	61,000
Received by customers, 1990.....	44,000
Stocks, end 1990 program.....	17,000

#### 2.1.3 Use of the Importation Loan Facility

As in previous years, importers were required to take out FSSRP importation loans in order to qualify for granting of subsidies. The status of these loans as of 31 January 1991 appears in Exhibit 5. Ninety-five percent of disbursements were handled by BICIC, and the rest by Meridien Bank. In accordance with FSSRP stipulations the value of the loan is equal to 50% of the CIF value of the imported fertilizer in each case. Commercial banks have repaid the first four of these loans to the Fiduciary Bank on

# Exhibit 4 Disposition of Imported Fertilizers (1988-1990)

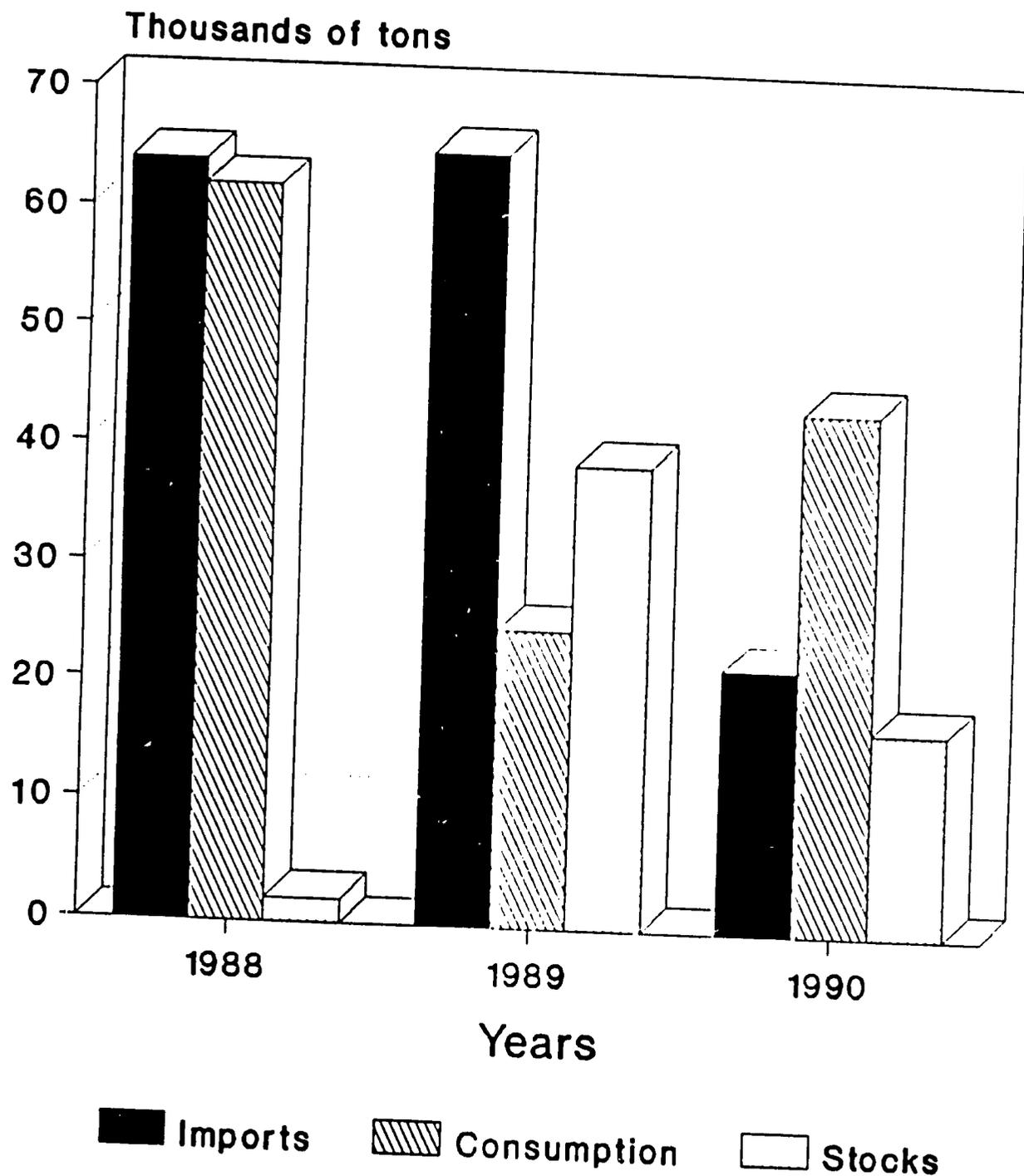


Exhibit 5

Importation Loan Status

(as of 31 Jan. 1991)

Loan No.	Commercial Bank	Importer	Tons	Loan Disbursed 000	Date Disbursed	Date Repaid
90-1	BICIC	IBEX	3,227	93,438	18 Oct 90	15 Feb 91
90-2	BICIC	IBEX	1,492	43,400	18 Oct 90	15 Feb 91
90-3	BICIC	IBEX	3,500	89,250	18 Oct 90	15 Feb 91
90-4	BICIC	IBEX	1,575	31,500	18 Oct 90	15 Feb 91
90-5	BICIC	IBEX	1,676	42,729	30 Nov 90	Open
90-6	Meridien	IBEX	1,709	28,991	30 Jan 91	Open
90-7	BICIC	IBEX	5,424	168,000	28 Jan 91	Open
<b>Totals</b>			<b>18,603</b>	<b>497,308</b>		

Note: Another loan to IBEX for 3,400 tons of NPK 20-10-10 has been earmarked but not disbursed.

schedule; the three which are still open have due dates in March and April 1991. An eighth loan is expected to be granted on the basis of an earmarking requested on 3 January 1991 for a final shipment by IBEX. IBEX has 90 days from that date (early April) to effect the import.

All importation loans issued since the beginning of the program have been repaid on time. Commercial banks have been careful to assure timely repayment since they must issue promissory notes to the Fiduciary Bank for these amounts.

FSSRP importation loans have not entered directly into financing of fertilizer imports, which is carried out by means of letters of credit. Instead, importers follow the normal commercial practice of opening L/C's in favor of foreign suppliers through commercial banks in Cameroon. As the discussion in Section 2.3 of this report will demonstrate, FSSRP importation loans can still serve a useful purpose.

#### 2.1.4 Use of the Subsidy Fund

The status of the FSSRP subsidy fund at the end of the 1990 program year is shown in Exhibit 6 below. A deposit of FCFA 500 million was made into the fund by the Government of Cameroon in May 1990. As of the end of February 1991, a total of FCFA 399,288,000 in subsidies had been disbursed to commercial banks to be paid out to importers.

#### Exhibit 6

##### Status of the FSSRP Subsidy Fund (as of the end of the 1990 program year)

Balance available, beginning of 1990 program year.....	FCFA 638,565,982
Disbursement on 14 February 1990.....	153,300,000
Amount deposited, 11 May 1990.....	500,000,000
Disbursement on 30 November 1990.....	203,978,620
Disbursement on 26 February 1991.....	42,009,100
Interest earned.....	45,818,319
Balance as of 28 February 1991.....	785,096,581

Actual subsidy rates for the first three years of the FSSRP are tabulated in Exhibit 7 below for the three principal types of fertilizer imported. As a percentage of actual delivered cost to the end user, the subsidy rate on a weighted average basis was 30.2% in 1990, compared to 35.6% in 1989 and 43.4% in 1988. The decrease from 1988 to 1989 was 18% and that from 1989 to 1990 was 15%, an overall decrease of 30%. In making these calculations, distribution costs estimated for the 1989 program are used on the assumption that little has changed since last year in this respect.

## Exhibit 7

### Actual Subsidy Rates as Percentage of Delivered Cost

	<u>1988</u>	<u>1989</u>	<u>1990</u>
NPK 20-10-10	46.2	36.5	30.0
Urea	39.3	33.5	32.6
Ammonium Sulfate	62.8	28.7	26.2
Weighted Average	43.4	35.6	30.2

These actual subsidy rates are well above the base-line subsidy rates calculated at the beginning of the program year, which were based on estimated fertilizer costs and assumptions as to distribution among types to be imported and consumption by province. It was estimated at the start of the 1990 program year that the average subsidy for all types would be about 20%. The actual rate of 30% reflects, in part, lower than expected fertilizer prices on world markets as well as lower than expected distribution costs in Cameroon.

## 2.2 Distribution of Fertilizer

### 2.2.1 Consumption by Category of Purchaser

In contrast to the first year of the program, when purchasers of fertilizer were limited to coffee and cocoa cooperatives, a more diversified market for subsidized fertilizer has developed over the past two years. Exhibit 8 breaks down distribution by purchaser for the 1989 and 1990 program years. A graphic representation of the changing consumption by category of purchaser is presented in Exhibit 9. Whereas cooperatives accounted for 100% of consumption in 1988 (not shown), this was reduced to 73% in 1989 and only 43% in 1990. "Other distributors" accounted for one-third of consumption in 1990 versus only 18% the previous year. This category includes any company or individual who purchased fertilizer from importers for resale. Significantly, the tonnage accounted for by small distributors jumped up sharply in 1990. Importers report that among their clients is an increasing number of small businessmen who pick up loads of 20 to 40 tons and truck it to the interior for resale in small quantities to farmers.

Parastatal organizations engaged in production or marketing of bananas, maize and food crops became purchasers of FSSRP fertilizer for the first time in 1990. Sales to these organizations suggest increased efforts by importers to find buyers, a healthy sign for a privatized distribution system. Privately operated banana plantations also made purchases in each of the last two years. The fact that only a portion of fertilizer types used by these organizations can be imported under the FSSRP places a limit on the size of this market, however.

Exhibit 8

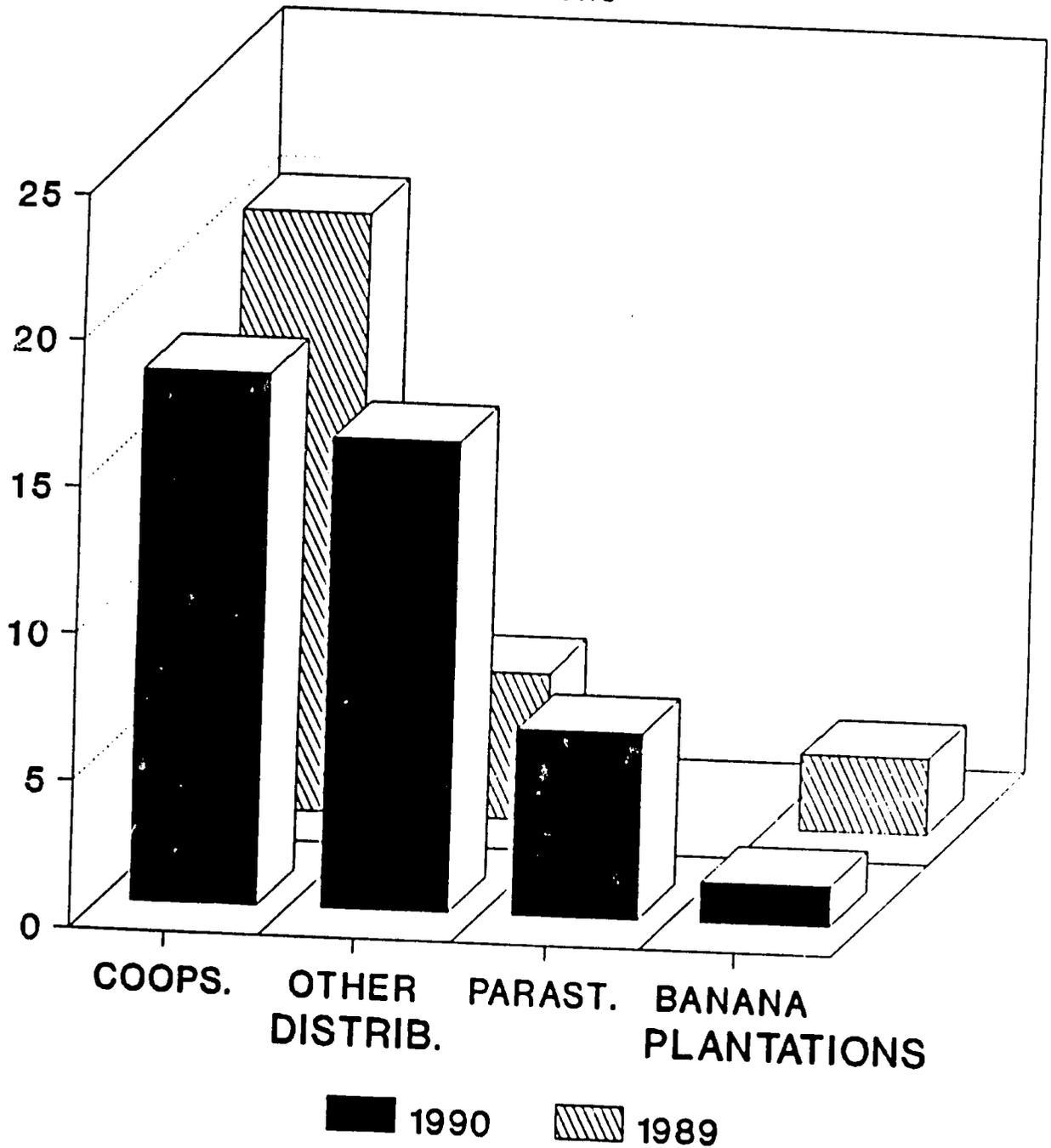
Fertilizer Consumption by Type of Purchaser  
1989 and 1990

	1989	1990	Total
<b>Cooperatives:</b>			
UCCAO	9,000	3,000	12,000
NWCA	2,800	4,526	7,326
UCAL (+ COOPLAM)	4,590	4,463	9,053
UCAC	1,750	801	2,551
COOPROVINOUN	2,257	263	2,520
SOWEFCU	-	5,014	5,014
Subtotal	20,397	18,067	38,464
<b>Other Distributors:</b>			
SOCOTRA	760	525	1,285
ADER	-	3,524	3,524
SOCANI	-	2,190	2,190
Groupe One	1,951	-	1,951
FOGACAM	10	1,650	1,660
Small Distributors	2,219	8,117	10,336
Subtotal	4,940	16,006	20,946
<b>Parastatals:</b>			
MAISCAM	-	843	843
OCB	-	2,877	2,877
MIDEVIV	-	21	21
CDC	-	2,545	2,545
Subtotal	0	6,286	6,286
<b>Banana Plantations:</b>			
Del Monte / CDC	-	400	400
SPNP	2,539	976	3,515
Subtotal	2,539	1,376	3,915
<b>Total</b>	<b>27,876</b>	<b>41,735</b>	<b>69,611</b>

Note: Annual consumption figures differ somewhat from those in Exhibit 3 due to variations in shipping and receiving dates reported by importers and distributors at year end.

Exhibit 9  
Fertilizer Consumption by Type  
of Purchaser (1989 and 1990)

Thousands of tons



## 2.2.2 Disposition of Fertilizer by Cooperatives

The data reported above for consumption by cooperatives is based on sales by the cooperative unions (or apex organization in the case of North West Cooperative Association -- NWCA) to the member cooperatives. Information on how much of this fertilizer actually was sold at retail to farmers, and how much remained in stock in cooperative warehouses, was not available. These amounts vary greatly throughout the year. Clearly stocks will be high just before application on coffee in March and September, and quite low afterward. If a better picture of actual consumption at the farm level is desired, it will be necessary to more clearly define the dates corresponding to crop years and to make a specific request for this information from cooperatives.

## 2.2.3 Fertilizer Prices Charged by Cooperatives

Cooperatives generally retained the same price structure in 1990 as they had in 1989. The retail prices per 50 kg. sack in force for members of the cooperatives is as follows:

UCCAO: FCFA 2500, all types

UCAL: FCFA 3000, all types

NWCA: FCFA 3689 average for 20-10-10  
FCFA 3521 average for Urea  
FCFA 3066 average for Ammonium Sulfate

COOPROVINOUN: FCFA 2830, all types

SOWEFCU: FCFA 3200, all types

At these levels, all retail prices remained below the target ceiling prices established for 1989. This indicates that competitive pressures continued to keep retail prices at reasonable levels and that removal of target ceiling prices in 1990 has had no ill effect.

## 2.3 Financing of Fertilizer Importation and Distribution

### 2.3.1 Description of the FSSRP Credit System

The FSSRP provides financial incentives for private sector companies to engage in the import and distribution of fertilizer. A Revolving Credit Facility has been established with the Fiduciary Bank to provide short-term financing to commercial banks at below-market interest rates for fertilizer importers or distributors. This should facilitate the importation and delivery of fertilizer to distributors or users in Cameroon by making available low-cost funding between the time of payment to foreign fertilizer suppliers and reimbursement from sale to fertilizer users in Cameroon. The FSSRP also controls access to subsidy funds which reduces the cost of the

fertilizer to the farmer (these subsidies are being incrementally phased out).

Routine financing, administration, and control of the fertilizer brought into Cameroon under the FSSRP lies with the participating private commercial banks. The FSSRP agreement has defined the eligibility requirements for private commercial banks. The Technical Supervisory Committee decides whether a particular bank meets these requirements and is qualified to participate in the program. Qualified commercial banks, in turn, are responsible for determining the FSSRP eligibility of companies interested in importing fertilizer under the program. They decide whether a company meets the minimum requirements established by the FSSRP agreement and submit their decision to the Fiduciary Bank for approval.

Once an importer is qualified in this manner, it may apply through its commercial bank to have subsidy funds set aside ("earmarked") for an intended fertilizer import transaction. The commercial bank submits an earmarking application to the Fiduciary Bank, which controls the subsidy funds. Since subsidy funds reduce the cost of imported fertilizer by 20% - 50%, they are currently the primary attraction of the program. However, in order to receive subsidy funds after they have been earmarked, an importer must first apply for and receive an importation loan from its commercial bank.

In addition to facilitating financing for fertilizer imports, the importation loan, as a prerequisite for access to subsidy funds, was intended to require the commercial bank to extend credit to the importer. Although funding for the loan is provided by the Fiduciary Bank, the credit risk is to be assumed by the commercial bank. The commercial bank issues a promissory note and must repay funds to the Fiduciary Bank, whether or not it is repaid by the importer. This structure is meant to induce the participating commercial banks to treat FSSRP importers as regular customers, lending to reliable borrowers but denying access to the program to less creditworthy companies. Additional documentary requirements proving shipments of goods, value, and arrival in port are also imposed to help prevent fraudulent transactions and claims for subsidy funds.

A distribution loan facility has also been made available, but is not required, for distributors. It is intended to provide a distributor with short-term financing at below-market rates to facilitate storage, transport, and sale of fertilizer at the wholesale and retail levels in Cameroon. Although documentary requirements are different, the structure of Fiduciary Bank funding of a commercial bank loan is the same as the importation loan. Both importation and distribution loans are for 50% of the import value of the fertilizer.

### 2.3.2 Present State of the Banking Sector

Overall, the banking sector in Cameroon is in a very bad state. Throughout the 1980's, poor internal credit control and political influence at banks gave rise to an enormous buildup of bad loans to both public and private sector borrowers. The World Bank in 1989 estimated defaulted debt

at CFA 300 to CFA 375 billion, about one-third of total bank credit to the Cameroon economy and 10% of GDP.

The banking sector and the Cameroon government were finally forced to address this disastrous situation toward the end of the decade. Mounting government budget deficits caused large scale withdrawal of its deposits from the banking system. Loss of confidence in the official banking sector and the value of the CFA franc promoted capital flight into the informal sector ("tontines") and overseas. With this massive contraction of deposits and unpaid principal and interest on a major portion of their loan portfolios, some banks stopped functioning for lack of liquidity. With assistance from foreign donors, the World Bank, and the BEAC (central bank), four banks have been liquidated over the last two years and one reconstituted with new foreign capital (Credit Lyonnais/SCB). Of the three remaining major banks in the country, one has ceased functioning pending acquisition. The other two continue to function with substantial bad debt portfolios pending restructuring and recapitalization agreements between the Cameroon government and French bank owners. Some smaller and newer banks continue to conduct business, having avoided or controlled defaults on loans. Eventually, most bad debt from all these banks will be spun off to a new company, Societe de Recouvrements de Creances, for rescheduling and recovery. Like Credit Lyonnais/SCB, the remaining banks will have been recapitalized and unburdened of their bad debt and therefore capable of resuming normal banking activities, presumably in a more cautious manner.

At the same time -- and indeed linked to the crisis in the banking system -- the financial strength of the agricultural sector, particularly coffee, has been undermined. Arrears in payments to coffee farmers for their production, farmers' financial carrying costs from indebtedness incurred during this delay, and an approximate 50% drop in current prices for coffee have severely hurt the coffee sector in Cameroon. Farmers are out of cash and confidence, cooperatives have negative working capital, intermediate coffee processors have been operating at a loss, and commercial banks have arrears on agricultural loans.

Although the liquidity situation appears to have stabilized, credit is scarce and lending and remuneration standards are very high. When lending is accorded, maximum interest rates (21%, including 3% tax and about a 7% margin) are often charged. This would be particularly true in bank transactions with the coffee sector, which is financially weak and a higher risk than other sectors. Nevertheless, all banks interviewed insisted that adequate liquidity is available to finance well-conceived and clearly viable short-term commercial transactions.

### 2.3.3 Effect of Tight Credit on FSSRP Fertilizer Imports

Minimizing the shipping cost of importing fertilizer into Cameroon requires chartering a small ship to bring in 5,000 to 10,000 tons of fertilizer. As a result, few FSSRP transactions have been valued at less than \$1 million. This implies a relatively large contract between a Cameroonian importer and an agro-chemical company or fertilizer broker in Europe or, to a lesser extent, in West Africa. Contracts such as these

between two parties which may be unwilling to take large risks are often covered through a commercial bank letter of credit.

To issue a letter of credit on behalf of an importer requires a commercial bank to assume some credit risk. The bank is required to pay the supplier under an irrevocable letter of credit, whether its customer, the importer, reimburses it or not. With regard to FSSRP fertilizer imports, banks have perceived a relatively high level of risk because of the connection with the coffee sector, the banks' lack of knowledge of fertilizer use, and the lack of pertinent business experience of new FSSRP fertilizer importers. (The two major importers, CAMATREX and IBEX, are newly created firms.)

From the inception of the program, most banks have required 100% collateral before issuing the letter of credit to import FSSRP fertilizers. Such collateral can come from several sources. Since commercial banks can depend upon guaranteed receipt of subsidy funds from the Fiduciary Bank for qualified FSSRP fertilizer imports, the subsidy has been an important source of collateral, currently about 30% of the value of the letter of credit. Successful FSSRP importers have also been able to cover about 25% of the transaction through foreign bank standby letters of credit. In order to make a sale, foreign fertilizer suppliers have been willing to have their own banks issue these stand-by letters of credit. In the first years of the program, the balance of the value of the letter of credit could be covered by cash deposits or drafts drawn on acceptable customers like Societe de Plantation Nouvelle de Penja (SPNP), UCCAO, or (at the time) ONCPB. Cash might come from the importer's own resources or from downpayments the importer had received from its contracts to sell the fertilizer to distributors. (At least one importer noted that it was sometimes possible to structure 100% collateral for FSSRP transactions without using any of its own cash resources.)

Although fully "secured", banks will still act to ensure that the fertilizer is imported properly and sold (thereby protecting the FSSRP program and the subsidy funds). Under a letter of credit, the issuing bank gains title to the imported goods (fertilizer in the case of FSSRP transactions) through possession of the bill of lading, until the importer pays for the goods. In principle, this also can serve as collateral. However, banks incur an operational risk of loss on the transaction, even when collateralized. Banks do not usually want to have to seize collateral. They are not equipped to sell fertilizer, for example, and would take a loss if they actually had to seize and sell it. One bank noted a specific instance during the first year, when a portion of the imported fertilizer was to be purchased by UCCAO, that it agreed to accept some percentage of the fertilizer as collateral. This represented the bank's appreciation that UCCAO, as an established cooperative, would honor its obligation to the importer to take and pay for the contracted amount of fertilizer.

The reliability of an importer's clientele, to the extent that it involves less financially solid distributors or even small merchants with trucks, means that sales contracts for imported fertilizer are less dependable. And ultimately the value of the underlying fertilizer, if it

is seized by a bank, is not as certain. For this reason, banks no longer seem willing to accept the fertilizer as collateral. In the context of the current overhang of fertilizer stocks in Douala, this seems to be a quite realistic assessment.

Furthermore, drafts taken as collateral imply taking risk on the draft, which may not be honored (as ONCPB demonstrated). Standby letters of credit from foreign banks often expire before the equivalent cash is obtained from the importer's sale of fertilizer. Even cash may not be adequate security in that it might be paid out by mistake, blocked in a legal fight with a bankrupt importer, or even reduced in value if a surprise devaluation takes place.

In summary, the effect of the commercial banks' strict collateral requirements for opening a letter of credit to import FSSRP fertilizer has been to limit access to the program to companies which are well established and have available credit or sufficient capital, liquidity, and industry connections to post the necessary collateral. Alternatively, new importers with some financial sophistication and market contacts (among foreign suppliers and Cameroonian users) have also gained access by arranging for collateral from other parties as detailed above. Among FSSRP importers, the latter type have predominated.

#### 2.3.4 Utilization of Importation Loans

As pointed out in Section 1.2.4, one of the purposes of the importation loan was to require the commercial bank to pass judgment on the credit-worthiness of the importer, thereby limiting access to FSSRP funds to serious and capable companies. Commercial banks have usually circumvented this role by making the importation loan, then placing the funds in a blocked deposit rather than releasing them to the importer. The unwillingness of the banks to release importation loan funds reflects several issues.

Credit. As discussed above, it is evident that commercial banks evaluate the risk of lending on fertilizer as very high, both in terms of the credit worthiness of the importer and the nature of the transaction itself (that is, dealing in fertilizer sales for coffee is risky).

Remuneration. The arrangement of issuing a letter of credit and establishing a parallel loan with accompanying blocked deposit is apparently quite common in Cameroon outside the FSSRP program. Letter of credit fees are limited by law to a maximum of 1% per annum. (Thus if the letter of credit is outstanding for 90 days, 0.25% of the L/C value is payable.) When the letter of credit transaction is considered attractive but not profitable enough, a parallel loan/blocked deposit arrangement is established to boost the bank's return. The bank incurs no incremental risk, but earns the margin on the loan plus free use of funds for its treasury.

Liquidity. Usually, partial payment of the letter of credit must be made upon presentation of the bill of lading and other shipping documents. (A typical time letter of credit may have payment terms of 50% upon

presentation of shipping documents, 25% at 30 days from date of bill of lading, and 25% at 45 days from date of bill of lading.) In the case of large transactions, such as a \$1 million fertilizer import, the supplier sends bills of lading and other shipping documents by air courier to the issuing bank to obtain payment as quickly as possible. Often, the initial payment must be made before the fertilizer arrives in Douala port. Although the bank is fully collateralized against a credit default, this payment may require the use of the bank's own funds, at least until money from the subsidy release or the importer's sale of fertilizer comes in. The importation loan, available from the time the fertilizer is loaded for shipment, can be used by the commercial bank to meet this need for liquidity for payment. This can be an important consideration since liquidity in the Cameroon banking system is tight.

It should be noted here that the importer's need for an importation loan may be reduced in cases where suppliers furnish financing in the form of a time letter of credit. Under these conditions, payment for all or part of the letter of credit is delayed, as opposed to a sight letter of credit where full payment is required upon presentation of shipping documents.

#### 2.3.5 Utilization of Distribution Loans

This facility has only been used twice since the beginning of the program. Many of the large cooperative distributors are in poor financial condition and do not have access to bank credit. Smaller entrepreneurs who might distribute fertilizer on their own do not have bank relationships in the formal banking sector.

As noted above, banks are not willing to accept fertilizer as collateral against a loan. Technically, taking fertilizer as collateral for a distribution loan would be difficult to do anyway since banks cannot really keep control of the fertilizer once it leaves the port of Douala. If something went wrong, they would almost certainly not be able to seize it.

As a result, it seems that distributors usually must pay cash to the importer. And, judging from the results of the agricultural survey<sup>1</sup>, 85% of farmers claim to pay cash for their fertilizer. To the extent there is credit at this level, it is provided by the importer to the distributor as a competitive inducement to make a sale.

#### 2.3.6 Fertilizer Imports on "Open Account"

Importers with established or related foreign fertilizer suppliers, such as Rhone Poulenc/Cameroon, may be able to purchase FSSRP fertilizers on open account, that is without recourse to letter of credit requirements. (N.B. Section V.1, paragraph 3 of the General Information Pamphlet (English and French versions) may be construed as requiring all importers to open a

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<sup>1</sup>See AMIS report by Nicholas Minot, "Impact of FSSRP on Farmers: The Results of the Three Farm-Level Surveys"

letter of credit.) Importers may also open letters of credit with foreign banks to import FSSRP fertilizer into Cameroon, either because of a satisfactory credit standing with the bank or the ability to put up foreign currency deposits as collateral.

In these cases, documentary requirements for access to the importation loan and subsidy funds (bill of lading, SGS inspection certificate, customs declarations) and the necessity of applying to the Fiduciary Bank through a qualified Cameroonian commercial bank would seem to require only the standard bank procedure of a documentary collection. Shipping documents under this procedure are handled in much the same way as under a letter of credit, but without any bank guarantee. The supplier (or its commercial bank), sends standard documents proving shipment to the importer, or its local commercial bank, who releases payment. For an FSSRP fertilizer import, the local commercial bank would still have to certify to the Fiduciary Bank that the fertilizer had been loaded on the ship to trigger release of the importation loan. This would normally require receipt by the local commercial bank of a copy of the bill of lading, which, later with other shipping documents, must be sent to the Fiduciary Bank to provide ex post facto justification for the release of subsidy funds. These functions would be consistent with the "surveillance role" previously described for the commercial banks.

### 2.3.7 Overall Evaluation

The financial structure of the FSSRP seems to have functioned well, even if not as originally intended. It has helped facilitate the development of a private sector fertilizer importation and distribution system, while protecting subsidy funds from misuse. By and large, banks seem to have played a positive role in rationing credit, thereby helping balance market supply and demand for FSSRP fertilizer in Cameroon.

While importation loans have not played a major role in inducing commercial banks to judge the credit-worthiness of the importer or in facilitating the importers' access to short-term financing, banks have not completely abdicated the role of "gate-keeper". Since they assume a certain amount of risk when issuing any letter of credit, they have at least been obliged to assure minimum standards of business conduct by importers. They also play a surveillance role since they are required to pass along shipping documents to the Fiduciary Bank which link the importation loan and subsidy funds released to a qualified FSSRP fertilizer import. Furthermore, FSSRP importation loans seem to have been an important factor in encouraging commercial banks to participate in the program by both increasing their overall return on the FSSRP transactions and by giving them additional liquidity.

In a more indirect sense, importation loans are of some benefit in creating the structure for a borrowing relationship between the importer and the commercial bank. Over time, this should facilitate the development of a relationship where banks will assume more risk and will not block the use of funds from importation loans. This can be an important factor in that

all active FSSRP importers are relatively new companies, without long established bank relationships.

### 2.3.8 Recommendations

In reviewing the FSSRP credit system, most recommendations concern lightening the administrative structure and documentary requirements to make the system more "user friendly" while strengthening the security of the system to prevent errors and misuse of the subsidy and revolving credit funds. It must be recognized that there is a direct trade-off here; removing documentary requirements and improving accessibility means less control and security. Stronger security usually means more documents and longer administrative delays to check them. The following commentary covers the recommendations which deal directly with the FSSRP credit system, numbers 2,3,4,5 and 7 on the list submitted to seminar/workshop participants (see Section 1.3) and number 2,3, and 5 on the list of those adopted by the workshop (see Section 1.4).

Elimination of Distribution Loan. The second recommendation submitted to the workshop attempted to recognize that, practically speaking, distributors would probably not be in a financial position to take advantage of the Revolving Credit Facility and that importers were compensating, to a certain extent, by extending them credit. So it was proposed to eliminate the distribution loan and extend the importation loan to 180 days, helping importers pass on credit to distributors. During the workshop, bankers and importers agreed to the extension to 180 days but did not want to lock out distributors, so the distributor access was maintained. Bankers also proposed that the importation loan be disbursed upon receipt of a copy of the bill of lading. (See Recommendation #2 on the list adopted by the workshop.)

Importation Loan and Documentary Security. Recommendations 3, 4, and 5 on the list submitted to the workshop were attempts to address several inter-related issues. Recommendation #5 proposed making the importation loan optional, eliminating it as a prerequisite to receipt of subsidy funds. This recognized that since the loan was usually not released to the importer, it did not serve to limit access to subsidy funds. Assuming an optional importation loan, Recommendation #4 proposed streamlining documentary procedures by consolidating documents and dates for subsidy and importation loan into one single schedule.

As a counterbalancing measure, recommendation #3 was intended to tighten documentary requirements for access to both the importation loan and the subsidy fund. Since commercial banks have been able to obtain 100%+ collateral on FSSRP letters of credit and loans, they might not be as discerning in their choice of FSSRP importers as was originally intended. Since payment of both importation loan and subsidy funds is made by the Fiduciary Bank against a coded telex from the commercial bank, the Fiduciary Bank may disburse both amounts without ever verifying any original documents showing that a fertilizer shipment is actually being made. Although these documents are subsequently required to be presented by the importer through the commercial bank, under current circumstances in Cameroon (commercial

bank liquidity and corruption problems and poor recourse through the judicial system) the money may be difficult to get back once paid out.

Bankers and importers rejected this package in preference for the current system, while clarifying two minor documentary requirements (see Recommendation #3 of those adopted by the workshop). Fiduciary Bank disbursement of the importation loan to the commercial bank was made contingent upon presentation of a copy of the bill of lading, rather than a coded telex. The Fiduciary Bank and commercial banks also agreed on the text of a standard telex to request disbursement of the subsidy funds.

However, bankers rejected requiring additional documents to show fertilizer arrival in the port (local SGS inspection certificate, customs certificate, or a transit agent's certificate) before getting importation loans or subsidy funds. According to the bankers, obtaining these documents could delay release of the importation loan by several weeks. Bankers wanted to continue to have access to the funds from the importation loan with presentation of the bill of lading. This gives them the funds to meet the initial payment under the letter of credit (often also made against presentation of the bill of lading). Importers agreed but were not as interested since the banks have not been releasing the funds to them anyway.

Banks and importers are also both interested in receiving subsidy funds as soon as possible, banks because they regard them as guarantees, and importers because they receive cash to pay at least part of the letter of credit. The Fiduciary Bank was satisfied with this procedure because its obligations in terms of verifying documents were clarified; it disburses funds against receipt of a coded telex, the text of which was agreed upon at the conference.

Medium Term Lending. The recommendation of using FSSRP funds to facilitate medium-term lending for capital investment in the fertilizer sector was adopted. (See Recommendation #7 on list submitted to the workshop.) While the FSSRP program assists the import and sale of fertilizer, it can only be imported in bags, which increases the cost substantially. The price of fertilizer to the farmer could also be reduced substantially by some capital investment in the fertilizer sector, for example in bagging and blending facilities or additional storage and transportation equipment. The consultants' suggestion that this take the form of an "interest make-up margin" was briefly discussed. As with the current FSSRP system, it would provide a financial incentive but leave the credit decision to a commercial bank. This structure of financial assistance is often used by export credit agencies such as Eximbank or Coface to subsidize medium-term export credit loans. Under such a facility, the lending commercial bank informs the subsidizing organization of its current base interest rate and of changes in this rate as they occur over the duration of the loan. The subsidizing organization agrees to pay ("make up") to the commercial bank the difference ("margin") between this rate and a lower fixed rate. This margin is usually payable in advance for a fixed period of time (depending upon the market funding period, which does not yet exist in Cameroon), such as every 3 months.

In Cameroon, this could have a two-fold, positive effect. Current short-term interest rates of 21% serve as a substantial disincentive for medium term lending for capital investment. An interest make-up margin facility could substantially lower this rate to the borrower and make an investment project worthwhile. Additionally, there is no medium-term source of bank funding as one might find in Europe or the United States from pension funds or insurance companies, which constrains medium-term lending. Since short and medium term deposit rates are the same, there is no incentive to place funds in medium term deposits. By guaranteeing to a bank an interest make-up margin between a fixed rate and the prevailing short-term interest rates, the risk of funding a long-term loan with short term deposits is eliminated. Increases in the short-term funding rate are covered by the subsidizing organization.

APPENDICES

## APPENDIX A

### RECENT DEVELOPMENTS IN THE FSSRP

As noted in Appendix D, two Cameroonian firms -- ADIR and Group One -- were attempting jointly to arrange financing for the import of 26,000 tons of fertilizer as the 1990 program year closed. Their combined order would include 6000 tons of NPK 20-10-10, 10,000 tons of Urea, and 10,000 tons of Ammonium Sulfate. Although earmarking had already expired, the two firms attended the Garoua seminar/workshop March 7-9, 1991 and requested at that time that the TSC consider extending the earmarking period to allow the importation to take place under the 1990 program. The application was approved, provided certain conditions were met by March 15, 1991. Since the two companies failed to meet these conditions by that date, earmarking was closed for the 1990 program year.

## APPENDIX B

### FIDUCIARY BANK: BANK OF CREDIT AND COMMERCE CAMEROON

Interviewed: Mr. Muhammad Khan, Assistant General Manager  
Mr. Mustafa Boodhoo, Manager, Operations and Credit  
Mr. Thomas Amibang, Loan Officer

#### 1. Importation Loan Operations

The Fiduciary Bank is charged with the management of the Special Local Currency Account (SLCA), into which periodic disbursements are made by USAID. Funds are transferred as needed from the SLCA to the Revolving Loan Fund Account for disbursement to commercial banks for importation loans. Exhibit B-1 shows activity in the SLCA since the beginning of the FSSRP.

#### EXHIBIT B-1

##### Status of Special Local Currency Account (as of 28 February 1991)

AID Disbursements, 1987 and 1988.....FCFA	2,194,500,000
Transfers to Revolving Credit Fund in 1988.....	745,000,000
Balance.....	1,449,500,000
Accrued interest, 1988.....	45,181,005
Balance available, beginning of 1988 program.....	1,494,681,005
Transfers to Revolving Credit Fund in 1989.....	1,032,045,021
Accrued interest, 1989.....	99,823,265
Balance in SLCA, 31 December 1989.....	562,459,249
AID disbursement, 1990.....	782,500,000
Disbursement for Monitoring Fund, 8 June 1990.....	81,960,000
Balance.....	1,262,499,249
Accrued interest, 1990.....	112,163,235
Balance in SLCA, 28 February 1991.....	1,374,662,484

Information on importation loans disbursed and repayments made during the 1990 program year is presented in Exhibit B-2. Six loans were made to BICIC and one to Meridien, all for on-lending to the importer, IBEX. As of 31 January 1991, the first four had been repaid and the remaining three have due dates in April and May 1991. Earmarking has been made for an eighth loan, also for IBEX, but the shipment had not been made as of the end of February 1991.

#### 2. Distribution Loan Operations

No applications have been received by the Fiduciary Bank for distribution loans.

Exhibit B-2

Importation Loan Status

(as of 31 Jan. 1991)

Loan No.	Commercial Bank	Importer	Fertilizer Type	Tons Earmarked	CIF Value (000)	Tons Received	Loans Disbursed (000)	Date Disbursed	Date Repaid	Expiry Date
90-1	BICIC	IBEX	NPK 20-10-10	3,000	172,500	3,250	93,438	18 Oct 90	15 Feb 91	15 Feb 91
90-2	BICIC	IBEX	NPK 12-6-20	3,000	172,500	1,500	43,400	18 Oct 90	15 Feb 91	15 Feb 91
90-3	BICIC	IBEX	Urea 46 %	5,000	255,000	3,500	89,250	18 Oct 90	15 Feb 91	15 Feb 91
90-4	BICIC	IBEX	A/S 21 % N	1,500	60,000	1,575	31,500	18 Oct 90	15 Feb 91	15 Feb 91
90-5	BICIC	IBEX	Urea 46 %	(1) 1,675.65	85,458	1,675.65	42,729	30 Nov 90	Open	03 Apr 91
90-6	MERICAM	IBEX	Urea 46 %	2,150	57,981	1,709	28,991	18 Jan 91	Open	22 May 91
90-7	BICIC	IBEX	NPK 20-10-10	(2) 8,000	512,000	5,423.76	173,560	28 Jan 91	Open	25 Jun 91
Totals				24,326	1,315,439	18,633.41	502,368			

- (1) Initially, the CB applied for earmarking of importation loan and subsidy for 5000 MT of Urea. Later on, they applied for and were granted an importation loan for 3,500 MT of Urea only, certifying that this quantity, amongst other types of fertilizer, had been loaded on board a ship.

At the time of applying for subsidy the CB requested subsidy for an additional 1,675.65 MT of Urea, thus a total of 5,175 MT, stating that there was a second shipment for additional tons. The FB objected to this request, since no importation loan had been disbursed for this consignment. The CB then applied for and were granted both the importation loan and subsidy corresponding to 1,675.65 MT of Urea at a later stage.

- (2) 8,000 MT of NPK 20-10-10 were earmarked, but only 5,423.76 MT was imported. Earmarking for the balance has expired.

Note: Loan Nos 90-1 to 90-5 are the subject of the same import contract.

### 3. Subsidy Fund Operations

Disbursements from the Subsidy Fund for the first three shipments by IBEX are shown in Exhibit B-3. This covers 13,177 tons of fertilizer, the amount which had arrived by 31 January 1991. Since then an additional 5,423 tons of NPK 20-10-10 has arrived and another 3400 tons of 20-10-10 is expected. This 8823 tons will require disbursement of an additional FCFA 205,579,000, for a total disbursement at the end of the program year of FCFA 476,912,000.

Subsidies announced for the 1990 program are as follows:

NPK 20-10-10	FCFA 23,300/ton
NPK 12-06-20	23,600
NPK 10-30-10	25,100
Ammon. Sulfate	15,200
Urea	19,900

The impact of these subsidies on actual delivered costs to the farmer are shown in Exhibit B-4 for the three years of the program.

As a percentage of actual delivered cost to the end user, the subsidy rate on a weighted average basis was 30.2% in 1990, compared to 35.6% in 1989 and 43.4% in 1988. The decrease from 1988 to 1989 was 18% and that from 1989 to 1990 was 15%, an overall decrease of 30%. In making these calculations, distribution costs estimated for the 1989 program are used on the assumption that little has changed since last year in this respect.

As a percentage of CIF costs, the weighted average subsidy rate was 38.0% for the 1990 program, compared to 45.2% in 1989 and 57.3% in 1988. Thus the 1989 subsidy level was 21% lower than that of 1988, and the 1990 level was 16% lower than 1989, overall a 34% reduction.

The subsidy percentage figures in the final column were derived prior to the beginning of the 1990 program year and were based on estimates of the tonnage to be imported of each type and its distribution among provinces, and the anticipated CIF prices. Subsidies actually paid were a higher percentage of the delivered cost than these latter figures because CIF costs were lower than expected and the mix of fertilizer types was different than forecast.

### 4. Fiduciary Bank Operations

The Bank of Credit and Commerce Cameroon (BCCC) is a subsidiary of the Bank of Credit and Commerce International (BCCI), which holds 65% of BCC Cameroon's capital. The balance is held by Cameroon government entities, Societe Nationale d'Investissement, and (what used to be) Banque Camerounaise de Developpement. Capital funds currently amount to CFA 1.3 billion, broken down into CFA 700MM in paid-in capital plus CFA 600MM in retained earnings. This seems rather thin against a balance sheet total of CFA 90 billion. On the other hand, BCCC, like BCCI, tends to concentrate

Exhibit B-3

Subsidy Disbursements, 1990 Program

(as of 31 Jan 91)

NPK 20-10-10		NPK 12-6-20		Sulfate of Ammonia		Urea		Total	
Quantity Tons	Subsidy 000 FCFA	Quantity Tons	Subsidy 000 FCFA	Quantity Tons	Subsidy 000 FCFA	Quantity Tons	Subsidy 000 FCFA	Quantity Tons	Subsidy 000 FCFA
3226.60	75,180	1491.00	35,209	1575.00	23,940	5175.65	102,995	11468.25	237,324
						1709.00	34,009	1709.00	34,009
3,227	75,180	1,491	35,209	1,575	23,940	6884.65	137,004	13177.25	271,333

Exhibit B-4

Subsidy Rates Based on Actual Costs, 1988, 1989, and 1990

(F CFA/ton)

Fertilizer Type	Average CIF Value	Average Distrib. Cost	Average Delivered Cost	Subsidy	Subsidy as % of CIF	Subsidy as % of Actual Deliv'd Cost	Subsidy as % of Estimated Deliv'd Cost
--- 1990 Program ---							
20-10-10	64,776	13,494	78,270	23,300	36.0	30.0	24.1
Urea	46,222	14,829	61,051	19,900	43.1	32.6	22.6
AmmonSulf	40,000	18,111	58,111	15,200	38.0	26.2	19.7
Wt'd Ave.	56,645	14,759	71,404	21,538	38.0	30.2	20.5
--- 1989 Program ---							
20-10-10	63,853	13,494	77,347	28,200	44.2	36.5	24.7
Urea	56,159	14,829	70,998	23,800	42.3	33.5	24.9
AmmonSulf	42,080	18,111	60,191	17,300	44.1	28.7	22.8
Wt'd Ave.	55,189	14,759	69,948	24,923	45.2	35.6	24.3
--- 1988 Program ---							
20-10-10	62,650	16,574	79,224	36,600	58.4	46.2	33.7
Urea	51,250	17,731	68,981	27,500	53.7	39.3	32.4
AmmonSulf	39,643	20,158	37,889	23,800	60.0	62.8	32.7
Wt'd Ave.	54,967	17,586	72,553	31,504	57.3	43.4	33.1

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on less risky deposit-gathering. It re-invests these funds in short-term assets, either very short-term loans (especially related to trade transactions) or deposits with other banks. As a matter of internal bank policy, BCCC cannot invest more than 60% of its deposit base in loans. Its actual figure is 55%, compared to what BCCC claims is a loan/deposit ratio of over 125% at most other Cameroonian banks.

BCCC operations have been very profitable, especially in terms of return on equity. In each of the last three years, profit after tax has amounted to just over CFA 1 billion. Similar profits are expected this year as well. Eighty to ninety percent of profits are paid out in dividends each year, which is advantageous for shareholders but a seemingly high rate for a bank, especially under adverse economic conditions.

**Medium-Term Funds:** Interest rates on deposits and loans in Cameroon are regulated by the government and the BEAC, not determined by market demand. There is no difference between long and short term interest rates, hence medium term liquidity tends to go into "tontines" or into a basic form of investment like real estate. It was the opinion of BCCC that current uncertain economic conditions (such as the possibility of devaluation) do not warrant medium-term lending. (It should be kept in mind, however, that it is not the policy of the bank to make medium term loans in any case.)

**Cameroon Banking Sector:** In discussing the banking sector, BCCC noted that BIAO is already insolvent and certain other large local banks -- BICIC or SGBC or both -- also have very tight liquidity. They cited an instance of drafts totalling CFA 350MM drawn on such a bank which had gone unpaid for at least two months after presentation.

**Liquidity in the Local Economy:** Working capital availability in the Cameroon economy is very limited as it is affected by continued capital flight (funds seeking a safer haven, anticipation of a devaluation, low domestic net deposit rates) and investment in real estate. Furthermore, under current economic conditions, businessmen do not want to risk their own capital.

**Business Relations with Banks:** BCCC bemoaned the lack of knowledge by local businessmen as to how to manage their banking relationships. The tendency is to hide and spread out their assets and liabilities because they do not want the government or others to know what their true assets are. Consequently, banks do not have much of an opportunity to build knowledge of a customer, his business, and his overall financial condition. Without this knowledge and confidence, it is difficult for a bank to be willing to extend credit.

**Disbursement of Subsidy Funds:** Presently, release of subsidy funds is intended to be made by the Fiduciary Bank upon receipt of a coded telex notifying arrival of the ship and requesting disbursement of funds. Mr. Amibang, who has operational responsibility for this at BCCC, has felt that this does not provide adequate security (because, for example, access to telex coding procedures is fairly open at some banks). For this reason, and with his senior management's concurrence, he has sometimes not disbursed

against the telex but awaited delivery of justifying documents. It was in this highly commendable spirit of vigilance that he discovered that a subsidy fund application against the import by IBEX (via Meridien Bank) of 2,100 tons of urea from Nigeria did not correspond to the 1,790 tons of urea actually delivered in Douala port. Although bill of lading and inspection documents stated that 2,100 tons had been sold, customs certificates showed only the 1,790 ton delivery. Subsidy funds were properly paid out against the lower amount, which would not have happened had the amount claimed in the coded telex been paid upon demand.

Consequently, the Fiduciary Bank recommended that subsidy funds not be paid out against the coded telex, but against actual delivery to BCCC of the required documents: bill of lading, SGS inspection certificate, and customs documents. In addition, Mr. Amibang was supported by his superiors in suggesting that an additional document be required from the port transit agent stating the amount of fertilizer delivered. This is apparently often part of standard letter of credit documentation and ought not to be any additional burden to commercial banks and importers.

The Fiduciary Bank also requested clarification on their responsibility in the event of a discrepancy in the documents concerning the amount of fertilizer imported. The TSC consensus was that it was the Fiduciary Bank's responsibility to verify the correct amount itself, if necessary through the transit agent. However, there is no mention of this in the agreement between the TSC and BCCC.

A problem with disbursing against documents instead of a coded telex is the additional time delay. Mr. Amibang estimated that it takes three working days for the commercial bank to receive funds after sending out a disbursement claim by telex. With the requirement that actual documents be presented, obtaining the customs and transit agent forms may take twice that time. From the Fiduciary Bank's perspective the improvement in security outweighed the delay in payment. This must be discussed with commercial banks and importers.

**Combination of Documentary Requirements for the Disbursement of the Importation Loan and Subsidy Funds:** BCCC felt that the documentation presented for the subsidy funds would also suffice for release of the importation loan, thus lightening everyone's official administrative load by making it one transaction.

**Elimination of Importation Loan Requirement:** Mr. Thomas agreed that the letter of credit (or documents required for shipment if a letter of credit is not used) provided more protection than the importation loan requirement against fraudulent or mistaken claims for subsidy funds. He did not feel that eliminating this requirement would weaken fund security, especially if disbursement is to be made against presentation of documents, not a coded telex.

In the event that a letter of credit is not used between the fertilizer importer and supplier, payment for the fertilizer should normally take place via a commercial bank documentary collection. Here, payment is

made against standard documents without the commercial bank payment guarantee afforded by the letter of credit. The documents required for FSSRP funds disbursement would remain the same, and would prove actual shipment (bill of lading, SGS certificate) and receipt (transit agent and customs certificates) of fertilizer.

**Letter of Credit Fees:** BCCC confirmed that the regulated maximum fees in Cameroon for issuing a letter of credit is 1% per annum, prorated for the time period the letter of credit is outstanding. It is not unusual that the commercial bank would consider this rate to be too low in relation to a customer's credit risk. In such a case, the commercial bank may require the customer to take out a loan and leave the funds in a blocked deposit to boost the profitability of the transaction. This has the same effect as the blocking of funds from the FSSRP importation loan.

APPENDIX C  
COMMERCIAL BANKS

1. Banque Internationale pour le Commerce et l'Industrie au Cameroun (BICIC)

Interviewed: M. Arthur Kamssue, Assistant Credit Manager - Douala  
M. Placide Tedom, Branch manager - Bafoussam

1.1 Review of Fertilizer Transactions

In 1988-89, BICIC handled 58,500 tons of fertilizer imports under the FSSRP program, working with three clients, CAMATREX, Aminou, and ADER. In 1989-90, they handled only 11,000 tons (of the total FSSRP imports of 64,000 tons), working with IBEX. In 1990-91 the bank handled only one transaction of 20,400 tons for IBEX.

1.2 Earmarking

Mme. Mbonde at IBEX had complained that BICIC's delay in earmarking subsidy funds might prevent them from qualifying for a last fertilizer importation operation before the official expiry date of the 1990-91 campaign. At BICIC, however, Mr. Kamssue noted that they had only been informed of IBEX's intent to import this fertilizer several days previously, and had not yet received any additional documentation concerning suppliers, collateral, etc. In general, BICIC does not feel it appropriate to earmark funds until they know the transaction will be concluded, which is when BICIC actually issues the letter of credit. They do not want to develop a reputation of not being serious when earmarking funds, nor do they want to prematurely prevent access to subsidy funds by other parties.

1.3 Letter of Credit Collateral

For less creditworthy FSSRP importers, BICIC has required from the beginning of the program 100% collateral before issuing the letter of credit. What has changed is not the collateral requirement but what they consider to be acceptable collateral. Three years ago during the program's first campaign, subsidy funds would have accounted for 60% of collateral with a stand-by letter of credit for an additional 25%. The balance would be covered by drafts drawn on acceptable customers like SPNP, UCCAO, or (at the time) ONCPB. Mr. Kamssue noted that in specific instances during the first year when the fertilizer was to be purchased by UCCAO, BICIC accepted some percentage of the imported fertilizer as collateral. This represented BICIC's appreciation that UCCAO, as an established company, would honor its obligation to the importer to take and pay for the contracted amount of fertilizer.

With changing economic conditions, BICIC's consideration of what constitutes adequate collateral has also changed. Obviously, ONCPB drafts, even if available, are not acceptable. The reliability of IBEX's clientele,

inasmuch as it has changed from companies like UCCAO to less reliable cooperatives or even small distributors with trucks, also means that IBEX's sales contracts for its imported fertilizer are less dependable. And, ultimately, the value of the underlying fertilizer, if it is seized by a bank, is not as certain. For this reason, BICIC is no longer willing to accept the fertilizer as collateral. In the context of Meridien Bank's experience in seizing Camatrex's fertilizer stocks and the current overhang of fertilizer stocks in Douala, this seems to be a quite realistic assessment.

When pressed about whether BICIC would require the same collateral requirements from other, more established firms, Kamssue stated that ADER, an affiliate of the French firm Potasses d'Alsace, would not necessarily benefit from more advantageous terms. Apparently SEPCAE, another local affiliate of Potasses d'Alsace, did default on its local debt to banks. On the other hand, he noted that the standing of SOCANI, another Cameroonian firm involved in agricultural imports, was such that they might have access to unsecured credit for FSSRP fertilizer.

#### 1.4 Liquidity in the Cameroonian Bank System

Mr. Kamssue considers that, under the monetary guidelines established for the Cameroonian economy by the World Bank, general liquidity available through the BEAC (central bank) to the banking system is adequate. However, the enormity of the bad debt problems of the 1980's, a major portion of which still cloud the balance sheets of BICIC, SGBC, and BIAO, mean that banks' willingness to use that liquidity to make loans (i.e. extend credit), is very limited. Coming out of a period of "loose credit" in the 1980's, it would seem likely that some Cameroonian businessmen (who may still have unpaid debts at other banks), would have a difficult time adjusting to the application of new, much more stringent credit standards by banks.

#### 1.5 Bank Involvement in the Agricultural Sector

Partially as a result of ONCPB's previous monopoly of revenues from the agricultural sector, commercial banks have not been that deeply involved here. In terms of cooperatives, BICIC has dealt with UCCAO and, recently, UCAL. Apart from UCCAO, none of the other agricultural cooperatives have developed the financial strength or even the knowledge and management skills required to work with a bank. In the case of UCAL, BICIC-Bafoussam extended a CFA 100 million line of credit to finance coffee purchases. However, the financial standing of UCAL had little to do with this transaction since it was based on BICIC receiving direct payment from Compagnie de Commerce Service Transite (CST), the firm which purchased the coffee from UCAL and exported it.

Although UCCAO is still regarded as a viable borrower within limits, BICIC-Bafoussam noted that UCCAO had had large losses in recent years because of lower coffee prices. They estimated that UCCAO could only continue to operate under current conditions for another two years before it would have financial problems. In light of the current situation in agriculture (and in the coffee sector in particular), low prices, poor

management, residual debt and financial problems such as unaudited books, it is difficult to believe that banks in Cameroon will be willing to become more involved in the sector than they have in the past. Some areas such as bananas, of course, are excepted.

#### 1.6 BEAC Financing of Agricultural Campaign

As in other Franc Zone countries, the central bank annually makes available to local commercial banks facilities to rediscount loans made to the agricultural sector. Essentially, this makes available the large amounts of money required seasonally by banks to finance the purchase and export of coffee and cocoa. These BEAC funds only provide liquidity to refinance a loan made by a commercial bank. The commercial bank assumes the credit risk and must still repay the loan if the borrower (a coffee cooperative for example) defaults.

Normally, around the beginning of the year, the BEAC decides on the amount of funds it will make available to pre-finance the coffee/cocoa "campaign" during the coming year. These funds will be made available to a pool of local banks who will allocate amounts to each individual bank based upon interest and ability to lend to its customer base. In January/February, banks are eligible to receive their allocation of "avances en blanc" (cash advances) from the BEAC to be re-lent to companies or cooperatives which ultimately buy the coffee and cocoa from farmers (such as UCCAO and UCAL). These advances must be repaid by July 31, whereupon they may be replaced by "avances sur produit" or advances against product sales. In order to be eligible for an "avance sur produit", a bank must present a draft from an exporter plus a certificate of inventory ("etat de stock"), to back its claim that the BEAC loan is to finance export of actual goods. These "avances sur produit" must be reimbursed by 31 December. Any unsold stocks of coffee and cocoa must then be financed by the bank's own resources. And, of course, any bad loans are the responsibility of the commercial bank as well.

BICIC-Bafoussam gave the team their figures for BEAC refinancing during the 1989-1990 campaign:

Arabica:	"Avances en Blanc" -	CFA 563 million
	"Avances sur Produit" -	4,946
Robusta:	"Avances en Blanc" -	196
	"Avances sur Produit" -	1,819

The large difference between the amounts lent as "avances en blanc" and "avances sur produit" would seem to illustrate an obvious point: it is safer to lend to an exporter with the coffee stocked in a warehouse than to lend to someone who is to go out and buy the coffee from the farmer. BICIC-Bafoussam noted that UCCAO does reach its credit limit with the bank during the campaign. However, BICIC does not (yet) require UCCAO to pledge its coffee stocks against the "avances sur produits" that it receives.

For the current "campaign", the BEAC has still not released funds (as of mid-February). This is quite late and means that money is not yet available to buy farmers' stocks of harvested coffee. The bank allocations for the 1991 campaign are: Credit Lyonnais/SCB, CFA 45 billion; BICIC, CFA 40 billion; and CCIE, CFA 15 billion. SGBC has chosen not to participate (possibly because of previous problems in the agricultural sector).

## 2. Meridien Bank

Interviewed: Mme. Gisele Mouloung, Credit Manager

### 2.1 Background on Meridien Bank

Meridien is part of Meridien International Bank, Ltd., a banking group registered in the Bahamas but with its principal office in Lusaka, Zambia. The Meridien Bank group is itself part of ITM International, a trading, construction, manufacturing, and distribution group with businesses in about 30 countries, primarily in Africa. Lusaka is also the base for Andrew Sardanis, a businessman of Greek origin who controls and is Chairman of both ITM and Meridien.

Meridien Bank Cameroon S.A. was acquired from Chase Manhattan in 1988 and renamed. Mme. Mouloung, who has handled FSSRP transactions at Meridien over the last several years, went through the Chase training program in New York but stayed with Meridien after Chase sold its subsidiary. Meridien Cameroon has been 67% owned by Meridien International Bank, Ltd with the remaining one third of equity held by the Cameroon government through the Ministry of Finance and the S.N.I. However, capital was recently doubled, halving Cameroon ownership since the government did not contribute to this increase.

### 2.2 Participation in the FSSRP

In addition to its continuing problems with CAMATREX, discussed elsewhere, Meridien Bank Cameroon has also conducted six fertilizer importation transactions with IBEX, five of which fell under the FSSRP program. Meridien expressed their general satisfaction with this business, but did not volunteer information concerning the report IBEX had given the team about refusing additional FSSRP transactions.

In its FSSRP transactions with IBEX, Meridien has sought to secure 100% of the credit risk. Collateral from the subsidy funds usually has accounted for one third of the face value of the letter of credit issued on behalf of IBEX to import fertilizer under the FSSRP program. Additionally, in all transactions, IBEX has been able to secure a standby letter of credit issued by an established foreign bank to Meridien guaranteeing an additional portion of the L/C. The percent covered has varied from 25% by French American (BNP's affiliate in New York) on a CFA 679 million L/C to 40% by Banca Commerciale Italiana on a CFA 517 million L/C. Although the standby letter of credit covers a portion of the risk at issuance of the import letter of credit for the fertilizer, Mme. Mouloung noted that the standby

often expired before even half of the imported fertilizer had been sold. When this happens, Meridien requires IBEX to secure any residual uncovered risk with a cash deposit against release of the fertilizer from the port. This is not a desirable development because banks are typically equipped (and charge fees) on handling trade documents. They are not in the business of taking title to goods and controlling their release from the port.

Even with 100% security at the outset, there can be operational risks and potential losses on these transactions from the bank's point of view. CAMATREX is an example of this. Meridien also had another fertilizer transaction which illustrated this point. They confirmed a letter of credit on behalf of IBEX to cover the import of fertilizer from a Nigerian exporter. Although all the shipping documents were in order, actual fertilizer unloaded from the ship was 1,709 tons, not the 2,150 tons specified in the contract and confirmed in the shipping documents. Normally, despite a deficient shipment, a bank would be required to pay out the full amount because of presentation of the appropriate documents specified by its own irrevocable letter of credit. In principle, the problem is one to be settled between importer and exporter. In reality, if the importer refuses (or cannot) pay, the bank may take a loss if it is not covered by a cash deposit. Fortunately, the Nigerian exporter's bank is Meridien/Nigeria so this particular problem will be settled amicably. However, this demonstrates the importance of the importer's need for established business contacts and experience, adequate capital to withstand unforeseen problems, and good banking relationships. Without these, even operations which are "100% secured" can be risky.

### 2.3 Importation Loans

In this most recent Nigerian transaction, which totalled CFA 57.981 million (\$273,000 face value), IBEX was able to claim through Meridien a subsidy of CFA 42.785 million. The extra-ordinary 74% coverage of this L/C by subsidy funds comes from the formula which calculates subsidy on the estimated final CFA sales price to the farmer. To the extent that an importer gets a very good purchase price on the fertilizer, he benefits from a larger percent coverage of the L/C by subsidy funds which can be used as security. In this case, in addition to the subsidy funds, IBEX was required to put up an additional CFA 12 million in a cash deposit as security, leaving only about CFA 3 million unsecured by cash. Since the L/C payment terms were 50% at sight of shipping documents and 50% at 120 days from shipping date, it is clear that this CFA 3 million balance will be covered by eventual fertilizer sales. However, Meridien in this case did release the importation loan of CFA 28.9 million to IBEX, payable in 120 days (probably because the subsidy coverage was so high and they calculate that repayment of the fertilizer loan will easily be covered by the fertilizer sales). In this case, the importation loan and the subsidy funds totaled 123% of the L/C, providing extra working capital to IBEX.

### 2.4 Non-Release of Funds from Importation Loans

Except for this last instance, Meridien standard procedure on these loans has been to withhold release of funds from the importation loan. The

structure for this has been to create the loan on their books through the establishment of a fully-drawn overdraft account on which is charged to the importer, at the FSSRP 8.5% interest rate. However, funds from this loan are not paid out to the borrower but are placed in a parallel blocked deposit on which the importer earns no interest.

Since the blocked deposit fully collateralizes the "loan", there is no credit risk in it for the commercial bank. The net effect is that the importer pays 8.5% on funds he cannot use. The bank receives this 8.5% on a riskless loan, paying 4.7% to the Fiduciary Bank to fund it. And, since the funds must be left on deposit with the bank at no interest, the bank also gets interest-free use of the funds for the period of the loan, funds for which it would have to pay 10%-10.5% p.a in the open market.

The implications of this procedure on the intended "gate-keeper" role of commercial banks are discussed in Sections 1.2.4 and 2.3.4 of this report.

## 2.5 Suggested Changes in the FSSRP

Knowledge of the Fertilizer Market. Meridien Bank admits that they are not as knowledgeable as they should be about the agricultural sector, particularly the uses of the fertilizer their customers are importing. They would like the FSSRP to help them improve their knowledge of the fertilizer market, such as the end uses of different types of fertilizer, on which crops, in what areas, why ammonium sulfate use is declining, etc. They pointed out, properly, that the more they know about the market, the more comfortable they will feel about their customer and the less expensive and easier access to credit will be.

Documentation. Meridien felt that there was too much documentation and too many dates to keep track of for the earmarking, release of importation loan, and release of subsidy funds. They would like to see some consolidation or streamlining to make it easier to keep track of.

Information to Importers/Distributors. Meridien would like the FSSRP to give a clearer explanation to importers/distributors of the importation and distribution loans, i.e. explaining that access to the funds is contingent on credit approval by the commercial bank.

## 3. SCB/Credit Lyonnais

Interviewed: M. Alain Raffiot, Director, Yaounde Branch

### 3.1 Background on SCB/CL

SCB/CL is the new bank affiliate of the French bank Credit Lyonnais, created to succeed Societe Camerounaise de Banque (SCB). SCB's bad debts, mostly incurred by the previous bank management appointed by the Cameroon government, had reached about CFA 120 billion -- about half the bank's credit portfolio. These have now been spun off into a separate company, Societe

de Recouvrements de Creances (SRC), whose specific goal is to reschedule and obtain repayment of these debts. SCB was then renamed, recapitalized by Credit Lyonnais, and re-opened with new management sent in by Credit Lyonnais.

This transformed SCB from the worst to the best capitalized bank in Cameroon, making them the only major bank here without severe problems with bad debt (at least until the other banks are restructured). This has attracted a good deal of business, with companies switching their deposits and business to stronger banks as confidence declines in the banking sector.

### 3.2 Participation in the FSSRP

Credit Lyonnais recently became a qualified bank for FSSRP transactions and had been approached by two potential importers, Groupe One and ADIR. M. Raffiot characterized ADIR as "an individual without a company" and Groupe One as "a company without any capital", neither meriting any consideration for credit facilities. He stated that Groupe One never bothered to open an account and, although ADIR did open an account, they never activated it. M. Epassy of ADIR in particular required a lot of attention by having a multitude of potential intermediaries contact Credit Lyonnais. Clearly frustrated, M. Raffiot finally insisted that only a guarantee from another member of the Credit Lyonnais group would be sufficient to induce him to open a letter of credit for Groupe One and ADIR. He does not expect this to be possible and has closed the file.

Although M. Raffiot was irritated about what he considered a waste of time on these transactions, clearly this is a good example of the privatization program functioning properly; commercial banks are screening out participants who are not creditworthy enough to gain access to the fertilizer subsidy and function as effective importers and distributors.

Credit Lyonnais may still be interested in the FSSRP program, but will only consider applicants which are already well-established companies and have an adequate financial structure.

### 3.3 Comments on Cameroon Agriculture

M. Raffiot was very negative about the future of coffee and cocoa in Cameroon. The bank is not that involved in the export of these products now, having "spun off" most of their relationships in this sector with the loans that went to the SRC. Surprisingly, M. Raffiot identified Gourtzounian, the coffee processing company in Nkongsamba which handles about 20% of Cameroon's robusta crop, as among the larger defaulted debtors that SCB unloaded. Even with a devaluation, Raffiot does not see Cameroon being able to compete with more efficient coffee producers in East Asia, especially because demand for these primary products is stagnant or declining. He believes that the future of Cameroon is necessarily tied to agriculture, but lies with production of bananas, other fruits, and vegetables for the European market.

#### 4. Credit Agricole du Cameroun

Interviewed: Mr. Hubert Rauch, Managing Director

##### 4.1 Background on CAC

This bank opened in October 1990 and has not had the time yet to become an active financial participant in the economy. Their balance sheet is essentially as follows (in thousands of FCFA):

Assets		Liabilities	
-----		-----	
5,550	Cash and deposits at other banks	1,000	Customer deposits
300	Loans	4,850	Paid-in Capital
-----		-----	
5,850		5,850	

The customer deposits have been attracted since opening, the result of CAC's obvious strong financial condition vis-a-vis the other local banks. Placement of these funds as assets is basically limited to deposits with other local banks. The only loans that CAC has made so far are to the local firms that provided the furnishings for its new office. Reflecting adequate overall liquidity in the banking system as a whole, the going rate for such deposits is 10% to 10.5%, a slight discount to the central bank (BEAC) refinancing rate (Taux de Base) of 11%. Were access to liquidity through refinancing at the central bank a constraining factor, the inter-bank deposit rate would have been bid above the refinancing rate. Nevertheless, CAC did note that some of the local banks that are known to be in trouble are indeed paying deposits rates higher than the central bank.

##### 4.2 Capital

Credit Agricole's capital is owned as follows: 40% Cameroon Government, 38% Cameroon parastatals, 2% Cooperative Unions, 20% German government. Commitment and release of capital by the Cameroon government and parastatals were made in 1987 when government funds were still available. Although the Cameroonian representation dominates the bank's Board of Directors (headed by the Minister of Plan), the Germans maintain effective control by having a guaranteed management contract and veto power on all the Board's decisions.

##### 4.3 Goals

CAC's business "philosophy" is to operate as a normal commercial bank, making profits -- not distributing subsidies. It will naturally specialize in agricultural credit and will work in rural areas. Interestingly, the bank is to be decentralized, with its future ten branches to become separate banks. The Head Office will be a central holding company with one third the capital and a veto right over the board decisions of each of its regional affiliates. The other two thirds of the capital is to be subscribed by

local private shareholders. Credit control will also be centralized at the Head Office.

#### 4.4 Comments on Banks in the Agricultural Sector

Mr. Rauch, CAC Managing Director, agreed that commercial banks in Cameroon were unfamiliar with the agricultural sector, inhibiting credit to the sector. He also asserted that farmers in Cameroon have to be educated about basic accounting and finance principles so that they can develop realistic expectations and relations with the banking sector.

#### 4.5 CAC Business Development

Although Rauch expects to develop business relations with coffee and cocoa producers and exporters, CAC has not done so yet. Operationally, they are not yet geared up to handle this type of transaction. Most of these companies are located in Douala, where they will be opening in the next two months. There seemed to be a natural fit between the FSSRP program and the type of business that CAC expects to pursue. They will be reviewing the FSSRP information and will stay in touch with USAID.

However, Rauch showed more interest in developing medium term business. Long-term funds (over two years) are not available in Cameroon since the government pension and insurance companies are insolvent and the French-affiliated firms place their money in the Paris market. Furthermore, the government and the central bank decide what the interest rates will be. Lending rates are currently 11% (set by the Central Bank, BEAC) to which must be added 3% government tax and a 5.88% "marge brut" for the commercial bank, also regulated by the government. The total is almost 20% for short term credits. With rates this high and entirely disconnected from the demand/supply equation for capital, the disincentive for capital investment is substantial. Rauch did not think that normal seasonal financing of cash crops such as coffee or cocoa could seriously be financed at this rate.

#### 4.6 Letter of Credit Fees

Rauch clarified the structure and charging of letter of credit fees in Cameroon. The total L/C issuing charges are limited by law to a maximum 1%. If this does not adequately compensate CAC for its risk exposure (for example, because 30% of a letter of credit is not secured) CAC will, for its "best" customers, create a special loan facility. Funds from this loan will be blocked on deposit at the bank, allowing CAC to charge interest on a fully collateralized loan while not paying interest on the deposit. This parallels what Meridien and BICIC have been doing with the importation loans under the FSSRP program. (See discussion in Sections 1.2.4 and 2.3.4.)

APPENDIX D  
ACTIVITIES OF IMPORTERS

1. IBEX Cameroon SARL

Interviewed: Mrs. Rose Mbonde, Administrator

1.1 Importation Record

IBEX imported 22,003 tons of fertilizer under the 1990 program, as indicated in Exhibit D-1. This compares to 31,175.5 tons for the 1989 program, a 30% reduction in imports. The final shipment of 3400 tons of NPK 20-10-10 had not yet arrived as of mid-February 1991. About 55% of imports consisted of NPK 20-10-10, compared to 40% of imports under the 1989 program. Urea imports were 31% of the total, whereas they were 45% of last year's total.

One shipment of 3,226 tons of NPK 20-10-10 was shipped in bulk and bagged at quayside as it was unloaded. This was the first time FSSRP fertilizer has been imported in bulk. Two bagging machines leased from a British company, Nectar, were shipped in containers aboard the same vessel. Nectar also sent several technicians to assist in setting up and operating the equipment. Nectar had stated the capacity of the machines at 1200 tons/day, but the maximum achieved during unloading was 950 tons/day.

1.2 Disposition of Stocks

The disposition of IBEX imports under the 1990 program is indicated in Exhibit D-2. Sales of 12,200 tons are reported by IBEX as of February 1991, leaving stocks of 9,803 tons still to be disposed of. Three coffee and cocoa cooperatives accounted for almost 80% of sales, the balance going to SPNP, a banana plantation and to other distributors. The latter category includes a number of small wholesalers who purchased several hundred tons, picking up the fertilizer at the port in their own trucks and selling at retail to farmers in rural areas.

IBEX hopes to dispose of some of its stock in exchange for coffee and is currently trying to arrange the sale of Cameroon coffee to a U.S. processor. The quality of the coffee is of concern to IBEX, however, as the buyer would have the option of rejecting the entire shipment if quality is not acceptable.

At the close of the 1989 FSSRP program, IBEX was holding stocks of more than 23,000 tons. Much of this was covered by sales contracts with cooperatives who were slow to take delivery due to financial problems. The final disposition of IBEX's 1989 imports of 31,172 tons is shown below in Exhibit D-3.

Exhibit D-1

Fertilizer Shipments, 1990 Program

IBEX

Shipment No.	Type	Tons	Supplier	Cost per Ton (F CFA)	CIF Value (F CFA 000)	Arrival Date	Customs Clearance Date
1	Urea	3,500		51,000	178,500	27 Aug 90	5 Oct 90
2	NPK 20-10-10	3,227	Interore	64,000	206,528	20 Oct 90	19 Nov 90
	NPK 12-6-20	1,492	Interore	64,000	95,488		
	Amm. Sulf.	1,575	Interore	40,000	63,000		
	Urea	1,676	Interore	51,000	85,476		
3	Urea	1,709	Caterman (Nigeria)	31,750	54,261	4 Jan 91	Not Complete
4	NPK 20-10-10	5,424	Interore	64,000	347,136	16 Feb 91	Not Complete
5	NPK 20-10-10	3,400	Interore	66,750	226,950	Not yet	-
	Total	22,003			1,257,339		

Exhibit D-2

Disposition of IBEX Stocks Imported under 1990/91 Program

(Metric Tons)

	NPK 20-10-10	NPK 12-06-20	Urea	Sulfate of Ammonia	Total
Total Imports	12,051	1,492	6,885	1,575	22,003
Sales:					
SOWEFCU	1,720	-	725	749	3,194
UCAL	1,500	193	2,260	416	4,369
UCAC	1,005	55	1,000	50	2,110
SPNP	305	452	237	-	994
Others	1,234	-	178	121	1,533
Total Sales	5,764	700	4,400	1,336	12,200
Stocks on Hand	6,287 *	792	2,485	239	9,803

\* Includes 3,400 tons of NPK 20-10-10 not yet shipped as of February 1991

### Exhibit D-3

#### Disposition of IBEX Stocks Imported Under the 1989 Program

<u>Distributor</u>	<u>Tons</u>
UCAL	4,590
NWCA	4,526
SOWEFCU	1,820
UCAC	450
OCB	2,677
CDC	2,545
SPNP	2,539
SOCANI	2,190
Group One	1,951
FOGACAM	1,650
<u>Others</u>	<u>6,232</u>
<u>Total</u>	<u>31,170</u>

IBEX's marketing plan mentions future plans for creating distributorships in the Littoral, West and North Provinces. The most likely first location appears to be Yabasi in the Littoral Province.

#### 1.3 Financial Structure of Import Transaction

IBEX worked with both BICIC and Meridien Bank on FSSRP transactions in the 1989 and 1990 programs. This year Meridien handled only one small shipment (1709 tons).

##### 1.3.1 Letter of Credit

BICIC now typically requires 110% collateral of varying types in order to issue a letter of credit to import fertilizer on behalf of IBEX under the aegis of the FSSRP program. In past years, surprisingly, IBEX was able to provide this cover without using any of its own cash or other assets. Collateral came from the following sources:

- 25% - Supplier standby letter of credit
- 25%-30% - Importer's drafts or cash
- 30% - Subsidy Funds earmarked by Fiduciary Bank
- 25%-30% - Value against title of imported fertilizer

Total: 105%-115% of face value of letter of credit

IBEX's primary supplier of fertilizer has been Interore, a Belgium-based broker owned by Occidental Petroleum. Interore has been willing to guarantee 25% of the face value of the operation by having a standby letter of credit issued to BICIC by French-American Banking Corporation in New York, which like BICIC is an affiliate of BNP. The 25% standby letter of credit Interore has issued may well equate or come close to their profit margin on the transaction, meaning that they take little or no actual risk in the transaction either.

In the past, IBEX has been able to cover up to 25%-30% of the face value of the letter of credit through some combination of a cash deposit or drafts acceptable to the bank as security. These drafts have been from companies in good standing such as SPNP or, for a while early on, ONCPB.

Subsidy funds, once earmarked, are also used as an important source of collateral. Since they are based on the ultimate estimated price to the farmer, they can actually account for substantially more than 30% of the value of the letter of credit if the purchase price is exceptionally low, as was the case for their recent purchase of urea from Nigeria (the subsidy is equal to 73% of CIF value).

Finally, title to the imported fertilizer may be retained by the bank as a source of security, although heavily discounted because of the perishable nature of the fertilizer and its uncertain liquidation value.

In terms of the actual structure of the letter of credit, IBEX said that standard payment terms required payment of 50% of the letter of credit at presentation of shipping documents (bill of lading). This usually occurs about 10 days after the letter of credit is opened. Twenty-five percent of the letter of credit is payable 30 days from date of bill of lading (about 20 days after the first payment) and the final 25% is paid at 45 days from date of bill of lading. Actual shipment time of the fertilizer from Europe usually is about 15 days with an additional week for discharge and customs clearance in Douala. So, under normal conditions, fertilizer should be received and ready for sale about three weeks from the opening of the L/C, although this might take up to five or six weeks in the worst case.

IBEX commented that BICIC no longer accepted fertilizer as security and that in recent transactions IBEX has had to put some of its own cash as collateral for fertilizer imports.

### 1.3.2 Importation Loans

With IBEX, BICIC follows the practice previously described by which it places importation loan funds in a blocked deposit (see sections 1.2.4 and 2.3.4). If IBEX could actually get access to the funds, they would certainly use it to provide themselves liquidity so as to be able to extend credit to their individual distributors. IBEX feels that appropriate payment terms for distributors would be about 90 days.

### 1.4 IBEX Comments on the FSSRP

Importation loans. Even though importation loans are not directly involved in arranging a letter of credit, they can serve a purpose. By increasing working capital for importers, they could potentially allow importers to extend easier credit terms to distributors -- if banks allowed importers access to these funds and if terms were longer than 120 days (see discussion elsewhere in this report).

Risk sharing by banks. By insisting on 100% or more collateral for L/C's, banks are not sharing any of the risk now born entirely by importers. Financing of fertilizer imports would be greatly facilitated if banks would accept fertilizer to partially collateralize letters of credit.

Farmer education. There is still a lack of knowledge among farmers as to the value of fertilizer. It is suggested that the FSSRP assist in arranging meetings for farmers around the country as part of an education program. IBEX is considering using as advertising material some video film in which farmers talk about positive results of fertilizer use.

## 2. CAMATREX

Interviewed: Mr. Alamayehu Aligaz, Deputy General Manager

### 2.1 Importation and Distribution of Fertilizer

Although CAMATREX was the largest importer in the 1989 FSSRP program, it imported no fertilizer in 1990. The company is in financial difficulty due to problems in disposing of stock imported the previous year (1989). The situation was exacerbated by credit constraints imposed by the company's bank (Meridien), which was concerned about its exposure in an uncertain fertilizer market situation. Until the dispute between the two parties is resolved, CAMATREX's participation in the 1991 FSSRP program is in doubt. In the meantime, the company is engaged in brokering the sale of flour imported from the U.S.

CAMATREX imports under the 1989 FSSRP program, and the disposition of these stocks over the past two years as reported by the company, are shown in Exhibit D-4. Only 17,046 tons were disposed of in the period March 1989 to February 1990, and another 9,222 tons were sold in the March 1990 to February 1991 period. The largest sales were 3000 tons to UCCA0 and 3,024 tons to ADER (Cameroun S.A., an established importer of non-subsidized fertilizer and agricultural chemicals. The latter sale was carried out at auction by Meridien Bank as a means of reducing CAMATREX's indebtedness to the bank.

CAMATREX reports that it still has an unsold stock of 6,732 tons as of mid-February 1991. Ammonium sulfate, a product becoming increasingly difficult to sell as coffee cooperatives discourage its use, accounts for 6,584 tons of this amount and the balance (148 tons) is Urea. Most of this fertilizer is still stored outside in the port of Douala.

Exhibit D-4

CAMATREX Imports and Sales, 1989/90 and 1990/91

(Metric Tons)

	1989/90	1990/91	Total Tons
Imports:	33,000	-	33,000
Sales:			
UCCAO	9,000	3,000	12,000
NWCA	2,800	-	2,800
COOPROVINOUN	2,257	263	2,520
SOCOTRA	760	525	1,285
FOGACAM	10	-	10
MAISCAM	-	843	843
MiDEVIV/Yaounde	-	21	21
UCAL (COOPLAM)	-	94	94
OCB	-	200	200
DEL MONTE/CDC	-	400	400
ADER	-	500	500
MERIDIEN BANK (ADER)	-	3,024	3,024
OTHERS	2,219	352	2,571
Totals	17,046	9,222	26,268
Stocks on hand			6,732

## 2.2 Comments on the FSSRP

The Deputy General Manager offered the following opinions on the FSSRP program:

Subsidy Fund. Fertilizer subsidies should be maintained at present levels to avoid imposing higher fertilizer prices on users already suffering from extremely tight credit, unpaid arrears for coffee, and much reduced coffee and cocoa prices.

Farmer Education. The Cameroon government and USAID should sponsor an education program to teach farmers more about fertilizer usage.

## 3. ADIR and Groupe One

Interviewed: M. Roger Epassy, General Manager, ADIR  
M. Emmanuel Ndong, General Manager, Group One

At the time this report was being prepared, these two Yaounde-based firms were attempting to arrange financing for the import of 26,000 tons of fertilizer. The tonnages of each type to be imported by the two companies would be as follows:

### Exhibit D-5

#### ADIR/Groupe One 1991 Planned Fertilizer Imports

	<u>ADIR</u>	<u>Groupe One</u>	<u>Total</u>
NPK 12-06-20	2,500	3,500	6,000
Urea	4,000	6,000	10,000
Ammonium Sulfate	7,000	3,000	10,000
Totals	13,500	12,500	26,000

According to the companies' marketing plan and statements by the principals, contracts have been signed with "distributors" for 43,400 tons. These are said to consist mainly of licensed coffee buying agents (usiniers), as well as planters of bananas and other crops. The marketing plan also mentions possible additional spot sales to JCCAO, NWCA, CDC, HEVECAM, and SOCAPALM, and to individual farmers.

ADIR and Group One have called on American Overseas Services, Inc., a Michigan corporation represented in Cameroon by a Cameroonian named Ekamba Louma Pierre, for help in arranging financing. The total value of the shipment would be FCFA 1,362 million, CIF Douala, and the importers hope to arrange for a letter of credit through a Swiss bank. Equator Bank in the U.S. was to have provided guarantees for a portion of the payment. Credit Lyonnais would be involved in the transaction in Cameroon. However, there was some doubt that financing arrangements could be completed before the 1990 program closed, and no orders had been placed as of the end of February 1991.

#### 4. FERIDA

Interviewed: Mr. Bonaventura Mbida-Essama, General Manager

##### 4.1 Background on the Company

FERIDA is a newly-created import company based in Douala and headed by a Cameroonian, Mr. Bonaventura Mbida-Essama. Mr. Mbida is a former staff member of IFC in Washington DC. He currently serves as Cameroon "Correspondent" for AMSCO (African Management Services Company, based in Amsterdam), which receives support from IFC. FERIDA first imported fertilizer in 1990, but not through the FSSRP. The 5000 ton shipment went to parastatal companies managing oil palm and banana plantations.

##### 4.2 Investment Plans

Mr. Mbida is currently finalizing plans to install a fertilizer mixing and bagging plant at Bonaberi in the port of Douala. Two existing buildings on an 11,000 sq. m. plot of land near a quay have been leased for storage of bulk fertilizer and -- following mixing to formulas required by his clients -- bagged fertilizer. Initially, trucks (later a conveyor) will move bulk fertilizer from quay-side to the mixing/bagging facility located outside, adjacent to the buildings.

In mid-February 1991, Mr. Mbida stated that the IFC loan had been approved and that he expected to complete local financing in the near future. Loans from IFC and Cameroon sources (through FOGAPE), together with locally-subscribed equity shares, will finance the \$1 million installation (equipment plus refurbishing of buildings) and provide about \$600,000 in working capital.

Provided financing arrangements are successfully completed, FERIDA plans to seek orders for about 7,500 tons for delivery in March/April 1992 through the 1991 FSSRP Program. Plans are to gradually increase imports to about 20,000 tons annually, which Mr. Mbida believes is sufficient to support his investment in the Bonaberi facility.

The advantage of a mixing and bagging facility, which would be the only one existing in Cameroon, is that a variety of N-P-K formulations could

be prepared, opening up markets other than coffee. Parastatal companies growing bananas, oil palms, cotton and other crops would become potential customers, and FERIDA should be able to offer better prices than current non-subsidized imports of these other formulations. With a view to the future, when liberalization of coffee and cocoa marketing is complete, Mr. Mbida approached an Austrian bank, Girozentral, about assisting him in a type of countertrade arrangement. The proceeds from coffee and cocoa exports to Austria by FERIDA, and sold in Austria by Girozentral, would be used to finance import of fertilizers.

One of Mr. Mbida's concerns is that he will not be able to finance imports through local commercial banks, given the very conservative attitude of banks toward a newly-established company with no credit history. He has already approached Meridien Bank for financing of an import through the 1990 FSSRP and was turned down. For the prospective 1991 importation, he plans to approach Standard Chartered Bank instead. The \$600,000 in working capital he hopes to obtain would allow him to offer commercial banks cash deposits to cover at least a portion of the collateral banks participating in the FSSRP are demanding.

#### 4.3 Comments on the FSSRP

Types of Fertilizer. Mr. Mbida would like to see the FSSRP include a broader range of fertilizers. Through its ties to the government subsidy program, it is now targeted at those types of fertilizer used by small coffee and cocoa farmers in the North West. FERIDA's fertilizer market is to be much broader than that.

Importation Loan. The company only sees a need for the fertilizer importation loan facility if they can actually get access to the funds -- not easy for his start-up company. He would like to see the program shift the credit risk from the commercial bank to the program, which might ease credit access.

Medium Term Lending. FERIDA would also like to see medium term projects be made eligible for program funds. Short term funds support commercial interests which may only be short term whereas an investor willing to commit medium term funds is making an investment and a commitment. Medium term investors should be encouraged, not penalized, vis-a-vis short term investors in terms of fund eligibility.

Commercial Bank Margins. Mbida did not feel that increasing the margin to the commercial bank on the importation loans would make any difference. He felt that the basic issue is more one of access to credit than the bank's risk/reward calculation.

## 5. ADER Cameroun S.A.

Interviewed: M. Bernard LeBlanc, Director General  
M. Daniel Wolff, Administrative and Financial Director

### 5.1 Background on the Company

ADER imports fertilizer (unsubsidized), phytosanitary products, animal feed ingredients, and industrial chemicals. They report sharply reduced sales of products used in agriculture during the past year due to problems in the rural sector discussed elsewhere in this report. The portion of their total sales accounted for by agriculture dropped from 63% in 1988/1989 to 53% in 1989/1990, while industrial sales increased correspondingly. Overall, sales dropped 22% for the last six months of 1990 compared to a like period in 1989. The most promising area at present appears to be poultry feed, as local poultry producers benefit from tariff protection against imported frozen chicken. The increasing demand for feed is causing an increase in maize prices, as maize is one of the principal ingredients in prepared feed. Another contributor to favorable markets for maize is exports to Chad, which amounted to 8000 tons last year. This should be good news for maize farmers, especially those switching from coffee growing to maize production.

### 5.2 Fertilizer Imports

ADER imported 15,000 tons under the 1988 FSSRP program, but none in either the 1989 or 1990 program. It has, however, regularly imported unsubsidized fertilizer for private and parastatal banana and oil palm plantations. Imports for these customers for the 1989/90 fiscal year amounted to 15,972 tons, much of it of types not covered by the FSSRP program. ADER was also able to purchase 3000 tons of Urea which was auctioned off by CAMATREX's bank, Meridien.

The company estimates that amounts of agricultural inputs used by coffee and cocoa farmers in 1990 are half what they were in 1989, which portends substantial reductions in yields of these crops in the coming years.

The shortage of credit has had an enormous impact on suppliers of agricultural inputs. In this respect, ADER, which receives financial support from its parent company in France, is better off than independent specialized fertilizer importers (such as IBEX and CAMATREX). A diversified product line has been another major factor in ADER's ability to weather current bad economic conditions.

### 5.3 Financial Situation of ADER

Like almost every industry in Cameroon, ADER has been negatively affected by the 20%+ fall in GNP over the last two years. Overall company sales in the first half of its current fiscal year (6/30/90 to 12/31/90) have declined to CFA 1.731 billion from CFA 2.217 billion during the same period in 1989, a fall of 22%. This drop has been even more pronounced in

ADER's sales of fertilizer to the agricultural sector, the 15,972 tons of fertilizer actually sold accounted for only 16% of the group's sales in 1990, down from 25% in 1989.

ADER is quite negative about future prospects and is trying to reduce its costs. Although they would not admit to losses, they did say that they were just hoping to maintain their "financial equilibrium". This corresponded to BICIC's intimation that ADER might not qualify for bank credit to import fertilizer, especially since its primary shareholder, Potasse d'Alsace, had allowed SEPCAE, another Cameroonian affiliate, to go under. In addition to being undercut by other fertilizer importers sponsored by the FSSRP program, ADER attributes its drop in fertilizer sales to a virtual cessation of fertilizer purchases by coffee farmers. Still burdened by non-payment for previous coffee crops and facing very low prices on its current crop, farmers have neither the cash nor the inclination to invest in fertilizer for their coffee trees, arabica or robusta. For this reason and because of the existing overhang of unsold fertilizer currently on the market (CAMATREX and IBEX imports), ADER considers itself an interested bystander of the FSSRP program for the coming year.

In terms of its own liquidity situation, ADER seems to reflect the situation of the country as a whole. On the one hand, when customers do buy, they require longer payment terms because of their own liquidity problems. Not to make credit available may mean not being able to make the sale. On the other hand, however, banks have recently imposed stricter credit requirements so that ADER has less available cash. BICIC, for example, has required ADER to post a 20% deposit when it applies for a letter of credit and to add an additional 30% when BICIC actually confirms the L/C, for a total of 50% cash collateral. Meridien Bank now requires a 33% deposit against issuance of confirmed L/C.

SCB/Credit Lyonnais, more liquid and less exposed to doubtful loans, does not require deposits but, in ADER's view, is not interested in trying to become familiar with the program and, in any case, ADER is at its bank credit limit. Because of the company's treasury crisis (increased credit required by customers but reduced availability of credit from local banks), ADER has had to obtain an additional CFA 1 billion financing through its French parent company, Potasse d'Alsace, via extended payment terms on ADER's purchases. In this context, ADER would certainly be interested in using the importation and distribution loan facility especially at their preferential borrowing rates. But they will not do so in the near term because they do not see any opportunity to sell FSSRP-covered fertilizer.

#### 5.4 Comments on the FSSRP

M. LeBlanc repeated comments he had made to the AMIS/USAID team last year to the effect that it is not in Cameroon's interest to promote the participation in the FSSRP program of companies which have little or no long-term commitment in the form of investments in warehouse and distribution points, limited financial resources, and insufficient knowledge of the market for agricultural inputs. In his view, this is the main reason for unsold stocks of fertilizer now deteriorating in the port, and for

financial problems being experienced by the two major importers in the FSSRP last year.

ADER's other comment about the structure of the importation loan was that the financing period of 90 days, even if increased to 120 days, was too short. They preferred to obtain supplier financing which would cover the 150 to 180 day period which they consider normal for fertilizer purchases from the date of issue of the supplier's Bill of Lading (shipment) to repayment by the distributor. This could be covered, however, by utilizing in tandem the importation and distribution loans.

## APPENDIX E

### ACTIVITIES OF DISTRIBUTORS

#### North West Cooperative Association

Interviewed: Mr. Ghogomu Tapisi, General Manager  
Mr. John Ndi Akwar, Chief, Farm Support Service

#### 1.1 Fertilizer Purchases and Stocks

The AMIS annual assessment of the 1989 program reported that of the 10,000 tons of fertilizer ordered from CAMATREX in July 1989, only 2800 tons had been delivered as of February 1990. The balance of the order had still not been delivered when the team visited in February 1991, despite the fact that NWCA made full payment in the amount of FCFA 494 million to CAMATREX in November 1989. This leaves NWCA with a credit balance with CAMATREX of FCFA 376 million. CAMATREX claims they are unable to deliver the balance of the fertilizer for reasons beyond their control, but has not refunded the money due NWCA. NWCA stated in February 1991 that they are preparing a lawsuit in an attempt to recover the money.

To partially cover the shortfall which CAMATREX was unable to deliver, NWCA purchased 4,500 tons of NPK 20-10-10 from IBEX in May 1990. This purchase was made by signing over ONCPB "traites" in the amount of FCFA 200 million, leaving a balance still owing to IBEX of FCFA 22.5 million.

Disposition of fertilizer imported in calendar years 1989 and 1990 are tabulated in Exhibit E-1, which also shows existing stock levels. (All this fertilizer was imported under the 1989 FSSRP program.) Stocks of fertilizer not yet sold to farmers consist of less than 1000 tons of 20-10-10 at the apex level (NWCA central warehouse), and at the cooperative union level 390 tons of Urea and 1057 tons of Ammonium Sulfate. Allowing for a small stock in inventory at the beginning of the 1989/1990 season, it appears that fertilizer purchased from NWCA by farmer members in the 1989/1990 coffee season amounted to about 5000 tons. This amount was apparently all farmers were prepared to purchase in a situation in which coffee prices were declining and they had still not been paid for coffee delivered in the past.

NWCA estimates that coffee planters need approximately 4000 tons of 20-10-10 for application in March 1991, while stocks on hand are less than 1000 tons. According to NWCA management, due to their debt position and the lack of working capital no purchases can be made in time to meet this need.

#### 1.2 Coffee Sales

Liberalization of coffee marketing now taking place in Cameroon allows NWCA to export coffee directly. In the meantime, NWCA purchased from its members in April 1990 some 1730 tons of arabica, and after processing the coffee was recently exported to Europe by UCCAO on NWCA's behalf.

Exhibit E-1

Disposition of Fertilizer, 1989 and 1990 Programs  
NWCA

(Metric Tons)

	NPK 20-10-10	Urea	Sulfate of Ammonium	Total
Stock Carryover from 1988 program	440	174	37	651
1989 Imports	0	600	2,200	2,800
1990 Imports	4,500	0	0	4,500
Total	4,940	774	2,237	7,951
Sold to Farmers	3,600 (est.)	210	1,143	4,953 (est.)
Stocks, Feb. 1991:				
Apex level	-	390	1,057	1,447
Union level	900 (est.)	-	-	900
Total Stocks	900 (est.)	390	1,057	2,347 (est.)

### 1.3 Financial Situation

NWCA's current financial situation is "stretched" at best. It has not had an external audit since 1984, and the current Managing Director, seconded to NWCA by the government since February, 1990, is seeking external funds (CFA 20 million) to pay for an audit in order to start off with a clear, if not clean, slate.

The good news is that NWCA is no longer owed any money by ONCPB, these debts having been cleared by USAID and STABEX funds. Unfortunately, however, NWCA's only true liquid assets are the coffee export contract and the anticipated sales of their residual stocks of fertilizer (CFA 625 million total for the two).

The CAMATREX debt has been the subject of at least six meetings between NWCA and CAMATREX, four of which were presided over by the Minister of Agriculture. NWCA is now taking their claim to court (see discussion below). The CFA 100 million in Banque Internationale pour l'Afrique Occidentale (BIAO) blocked deposits does not relate to the CAMATREX transaction but constitutes prior amounts left on deposit there.

NWCA has a CFA 22.5 million debt to IBEX, the residual amount from NWCA's May 1990 purchase of 4,500 tons of fertilizer. To encourage future business, IBEX is apparently not charging interest on this amount. A CFA 500 million debt to coffee farmers represents a portion of the CFA 700 million that NWCA received from STABEX in March/April to pay farmers for ONCPB arrears. NWCA actually paid out only CFA 200 million. The CFA 500 million balance went to buy (in cash) from farmers 2,200 tons of last year's coffee crop. The CFA 595 million coffee contract receivable should be passed on to farmers to cover NWCA's debt to its members.

Despite its unfavorable financial condition, Mr. Tapisi feels that NWCA does have access to bank credit, both through pledging coffee exports as well as borrowing on its own account. This might allow them to use the distribution loan facility in the future. If NWCA contracts to purchase fertilizer in the future, they feel that it would likely require a 30% payment up front (standard in Cameroon, they claim) with the balance paid in phases (e.g. as "liftings" occur) or against receipt of the bill of lading.

NWCA's apparent access to credit despite its current financial situation represents its "intangible asset" of having the current monopoly of arabica purchases in the region. Even if this monopoly is officially removed, as seems certain, NWCA's strong relations with the farmers almost guarantee it a major role in marketing coffee coming from this area (provided NWCA can pay cash). This was confirmed by CamCCUL.

### 1.4 Financial Problems Relating to Fertilizer Purchases under the 1989 Program

It was reported in the 1989 annual FSSRP assessment that CAMATREX diverted to UCCAO fertilizer originally destined for NWCA because the latter

was unable to make payment (through BIAO) by the scheduled date of October 31, 1989. NWCA states that a payment order was issued to BIAO on November 2, 1989 and that CAMATREX was aware that payment was forthcoming. Payments were to be scheduled over a period of several months, but NWCA has not been able to confirm when payments were actually made, except that the full amount had been paid in by February 1990. One possible explanation is that CAMATREX, with the encouragement of Meridien, diverted fertilizer to UCCAO, since UCCAO was able to make cash payments on delivery and these would be immediately available to repay some of CAMATREX's debt to the bank. It is likewise possible that the FCFA 376 million due to NWCA was used to draw down CAMATREX's outstanding overdraft with Meridien. So in essence there has been a double payment for fertilizer.

As reported last year, CAMATREX tried to arrange import of the fertilizer shortfall owed to NWCA but Meridien would not pass on the BCCC CAMATREX's request for earmarking, feeling that in view of the large stocks already available in the country CAMATREX would be unable to sell the additional 7,200 tons. This was apparently a fair assessment because NWCA was able in May 1990 to buy 4,500 tons of fertilizer from IBEX, and there are still unsold stocks of some types of fertilizer in the country as of February 1991.

At this writing, the impasse continues. Meridien Bank states that they are willing to open an L/C for CAMATREX to cover import of fertilizer for NWCA, but insists on a 30% cash guarantee as collateral.

### 1.5 Restructuring of NWCA

NWCA's hope is that with the help of the PRAMS Project they can eventually make a profit on coffee sales by improving product quality (offering a price gradient to farmers according to quality), improving processing with new and refurbished equipment, and reducing overhead costs. Since it appears that they will have to compete with private coffee buyers in the future, it will be essential for the cooperative to be competitive in prices and services offered. NWCA believes that market conditions will continue to be good for "mild arabica", the type produced in the North West, and that their task is to "improve the image of NWCA coffee".

## 2. Union Centrale des Cooperatives Agricoles de l'Ouest (UCCAO)

Interviewed: M. Djieya Emmanuel, Assistant Director of Operations

### 2.1 Fertilizer Purchases and Stocks

UCCAO imported no fertilizer under the 1990 FSSRP program. Due to decreased demand from cooperative members for application on coffee trees, stocks carried over from the 1989 program were sufficient to meet needs.

As indicated in Exhibit E-2, UCCAO purchased 30,000 tons under the 1988 program, which was their estimate of the total annual needs of the cooperatives at that time. However, members of the cooperatives making up

Exhibit E-2

Fertilizer Consumption and Stocks, 1988 and 1989 Programs  
UCCAO

(as of Sept. 1990)

	NPK 20-10-10	NPK 12-6-20	Urea	Total
<b>1988 Program year</b>				
(1) Received	9,833	9,839	9,854	29,526
(2) Consumed	7,862	2,364	6,173	16,399
(3) Stock Carryover	1,971	7,475	3,681	13,127
<b>1989 Program year</b>				
(4) Received	7,319	0	4,993	12,312
(5) Total Available (3) + (4)	9,290	7,475	8,674	25,439
(6) Consumed	5,266	1,798	4,689	11,753
(7) Stock Carryover	4,024	5,677	3,985	13,686

Notes:

(1) Of the 13,686 tons carryover from the 1989 program, 3,567 tons was being held at the Union level and the balance was held by various UCCAO cooperatives.

(2) Figures may not add due to rounding.

UCCAO consumed only 16,399 tons during the 1988/89 crop year, resulting in a carryover of 13,128 tons. Accordingly, UCCAO reduced their purchases in the 1989 program to 12,312 tons. (The order placed with CAMATREX was for 15,000 tons, but the importer was unable to supply the full amount.) According to UCCAO data as of 30 September 1990, consumption in the 1989/90 crop year dropped even further, to 11,753 tons, so that stock carryover at the end of the 1989 program was almost the same as the previous year at 13,686 tons.

Exhibit E-3 is a breakdown of UCCAO stocks as of 30 September 1990 held by member cooperatives as well as "buffer stocks" held at the union level. Although member cooperatives estimated their fertilizer needs for the 1990/91 crop year at 20,900 tons, UCCAO management decided to place no orders under the 1990 program. They were undoubtedly aware of existing unsold stocks of fertilizer in the country and felt safe in delaying further purchases until the need arose.

In mid-February 1991, just prior to the beginning of the 1991 program, UCCAO reported that their buffer stock amounted to 3,566 tons, not appreciably lower than the 5,012 tons held as of 30 September 1990 (Exhibit E-3). While information on stocks held by UCCAO member cooperatives as of February 1991 was not available, they are apparently adequate for the time being since UCCAO states that they do not plan to place any orders until present stocks are drawn down.

## 2.2 Purchases from CAMATREX

As of February 1991, CAMATREX is still unable to deliver the 2,687 tons remaining from UCCAO's 15,000 ton order placed in 1989. UCCAO has also complained about the quality of the fertilizer purchased from CAMATREX which had been stored outside at the port of Douala. However, since the cooperatives accepted the fertilizer upon pickup at the port by their own trucks, before the quality problem was recognized, UCCAO had no recourse to CAMATREX.

## 2.3 Fertilizer Requirements for Coffee

Members of UCCAO cooperatives have about 110,000 hectares of arabica coffee trees and 58,000 hectares of robusta. Coffee production in a "normal" year is said to be 17,000 tons of arabica and 12,000 tons of robusta. However, in 1990 production was down to about 10,000 tons of arabica and 5000 tons of robusta. Eighty percent of the arabica is said to be old trees in need of replanting. At typical application rates of 400 kg./ha, UCCAO's fertilizer needs on arabica alone ought to be in excess of 40,000 tons. However, as noted above, current consumption of fertilizer is only 12,000 to 13,000 tons. Given the fact that an undetermined amount of this fertilizer is being applied to other food crops, there is a clear indication that planters are underfertilizing or in some cases not applying any fertilizer to coffee trees. There are also reports that farmers are removing or killing coffee trees and planting maize in their place.

Exhibit E-3

UCCAO Fertilizer Stocks as of 30 September 1990

(Metric Tons)

	NPK 20-10-10	NPK 12-6-20	Urea	Ammonium Sulfate	Total
CAPLAME	262	105	632	5	1,004
CAPLABAM	376	1,374	609	0	2,359
CAPLANOUN	191	280	188	0	659
CAPLAMI	1,085	1,548	871	0	3,504
CAPLAHN	241	66	11	0	318
CAPLANDE	426	251	160	0	837
UCCAO Buffer Stock	1,442	2,053	1,517	0	5,012
<b>Total</b>	<b>4,023</b>	<b>5,677</b>	<b>3,988</b>	<b>5</b>	<b>13,693</b>

## 2.4 Profitability of Coffee Production

UCCAO calculations show that an arabica planter would have to achieve yields of 1000 kg. per hectare in order to break even at current producer prices of FCFA 250/kg. These yields can only be reached if cultural practices recommended by UCCAO are followed, including planting in pure stands (no interplanting of other crops), use of proper varieties, and application of recommended amounts of fertilizer and chemicals. UCCAO estimates that a typical farmer with interplanted coffee trees is getting only 500 kg. per hectare (worth FCFA 125,000) and has production costs (if he uses fertilizer, chemicals, and hired labor) of FCFA 496/kg., representing total costs per hectare of FCFA 248,000, clearly a losing proposition. For robusta, yields would have to reach 1200 kg./ha., compared to typical current yields of 650 kg./ha, if the farmer is to break even, according to UCCAO estimates. UCCAO has achieved yields of 2000 kg./ha. of arabica when the Java variety is planted at a density of 2000 trees per hectare. Currently many of the older plantings are at 1500 trees per hectare.

## 2.5 Financial Condition of UCCAO

Although no financial statements were immediately available for UCCAO, some idea of their financial condition can be gained from data on sales of coffee. Sales of coffee for the 1985/86 crop year amounted to FCFA 30 billion. By 1988/89 sales had dropped to FCFA 13.7 million as coffee production declined. For the 1989/90 crop year, sales were much lower (though figures were not available). Sales of coffee (arabica and robusta together) dropped from 29,000 tons in 1988 to 15,000 tons in 1990.

## 2.6 Comments on the FSSRP

The UCCAO representative posed the question as to why there were so few importers involved in the FSSRP program. He felt that his organization was not being well served by the few companies now importing, and asked if it would be possible for UCCAO to import directly. He was encouraged to raise the issue at the annual review meeting.

## 3. Union des Cooperatives du Littoral (UCAL)

Interviewed: M. Tjek (Commercial Department)  
M. Ekoumelong (Accountant)  
M. Youmbi (Export Department)

UCAL did not import fertilizer under the 1990 program as there was sufficient stock available from previous imports. Disposition of stocks is shown in Exhibit E-4. As of 21 February 1991, 8,678 tons of the 10,000 tons ordered under the 1989 program had been collected by member cooperatives, leaving 1,322 tons still at the port of Douala. UCAL has authorized the cooperatives to pick up all but 299 tons of this amount, but the cooperatives have been slow to do so due to reduced demand from coffee planters. UCAL has no immediate plans to import additional fertilizer.

Exhibit E-4

Distribution of 1989 Program Fertilizer, UCAL

(As of 21 February 1991)

	NPK 20-10-10	NPK 12-06-20	UREA	SULFATE OF AMM.	TOTAL
Total Contract	4,500	500	4,000	1,000	10,000
Total collected	4,536	364	2,862	916	8,678
Percentage	100.80%	72.80%	71.55%	91.60%	86.78%
Distributed:					
COOPACROM	745	26	275	0	1,046
COOPAGRIL	0	0	80	0	80
COOPLACARM	1,243	100	800	100	2,243
COOPLAM	1,320	93	705	653	2,771
COOPLAMEL	948	125	657	113	1,843
COOPROCAM	20	0	25	0	45
COOPRODICAM	20	0	130	0	150
COOVENPROVEX	30	0	0	0	30
SOCOOPACACA	50	0	30	10	90
SOCOOPED Mung	0	0	40	40	80
UCAL Warehouse	160	20	120	0	300
Total Distributed	4,536	364	2,862	916	8,678

UCAL cooperatives produced 4600 tons of robusta coffee in the 1989/90 crop year. Most was marketed through ONCPB but UCAL was authorized to export 1000 tons directly. UCAL succeeded in exporting 884 tons of robusta, reportedly through a Cameroon exporter (CST), and earned FCFA 260 million from the sale. SOCOPAO was the transit agent for the shipment. To finance the cash purchase of coffee from farmers, CST reportedly negotiated an FCFA 100 million loan from BICIC and made the funds available to UCAL for the purchase. Costs incurred in making the sale amounted to FCFA 5 million, of which FCFA 3.8 million was interest on the loan and other charges, and FCFA 1.2 million was for transportation to Douala. ONCPB arrears for past coffee deliveries are being settled, roughly 60% of the amount owed having been paid as of February 1991.

#### 4. COOPROVINOUN

Interviewed: Mr. M. C. Issofa, Manager

##### 4.1 Fertilizer Orders and Stocks

As reported in the second year assessment of the FSSRP, COOPROVINOUN had lifted from the port as of February 1990 only 2,257 tons of an 11,000 ton order placed with CAMATREX. In the twelve months since then, the cooperative picked up another 263 tons from CAMATREX, for a total of 2520 tons. As of mid-February the cooperative reported that they are holding only a very small amount of fertilizer at their own warehouse and that the rest had been sold to members.

COOPROVINOUN is currently in the market for 2500 tons of fertilizer (1250 tons of Ammonium Sulfate, 750 tons of NPK 20-10-10, and 500 tons of Urea). ADIR has offered a price of FCFA 46,000/ton for Ammonium Sulfate delivered at Nkongsamba, while COOPROVINOUN countered with FCFA 39,000/ton delivered at Douala. Offers were also received from ADER (FCFA 60,000/ton) and UCCAO (FCFA 50,000/ton). The cooperative also has a credit balance of FCFA 3.9 million with IBEX as a result of an advance payment on an order in 1989 which was subsequently cancelled (and transferred to CAMATREX). IBEX has offered to repay this with a combination of NPK 20-10-10 and Urea at a price of FCFA 52,000/ton (for 75 tons). The cooperative wants a price of FCFA 48,000/ton.

##### 4.2 Problems with CAMATREX

COOPROVINOUN states that CAMATREX owes them FCFA 3 million from a payment made to an employee of CAMATREX, a Mr. Simen Pierre, who apparently absconded with the money. A letter from CAMATREX to the cooperative seems to acknowledge this debt but it has not been repaid.

COOPROVINOUN also claims that the real reason for the cooperative's very large order (11,000 tons) from CAMATREX in 1989, when their needs were only about 2500 tons, was that the importer would pay them a fee of FCFA 1000/ton on the extra 8500 tons they ordered. However, the cooperative never received the promised payment.

#### 4.3 Financial Situation

The sale of the 2,500 tons of fertilizer that COOPROVINOUN actually did take caused a larger loss than had been anticipated last year. Because of competition from sales of fertilizer in its area by both UCCAO and Camatrex at about CFA 50,000/ton, COOPROVINOUN was forced to sell at CFA 60,000/ton rather than its original target price of CFA 70,000/ton.

As of 31 January 1991, COOPROVINOUN's sales of fertilizer had allowed it to reimburse about CFA 79 million of its original CFA 100 million fertilizer financing loan from Meridien Bank. With essentially all of the fertilizer sold, this has left COOPROVINOUN with an unpaid principal balance of CFA 21 million plus cumulative interest from October 1989 through January 1991 of almost CFA 12 million (total unpaid balance at 30 January 1991 was CFA 32,369,404). With the exception of three months' financing through the FSSRP distribution loan facility at 8.5%, Meridien has been charging COOPROVINOUN's overdraft account an annual interest rate of 18.5%, debited monthly for a compounded annual rate of 20.2%. COOPROVINOUN would like to use funds from the FSSRP program to fund their overdraft, reducing their interest charges so that they can pay down the principal amount.

The cooperative is hoping that the margins on this year's sales of fertilizer will allow them to recoup this debt. If they are able to get a CIF Douala price of CFA 39,000 per ton on 2,500 tons of Ammonium Sulfate from ADIR ex-Douala, they believe they can dispose of the fertilizer in the Noun Division at CFA 70,000/ton since they do not expect competing sales from UCCAO or others in their area this year. Without subtracting financing costs, this could generate total profits of about CFA 32 million (CFA 70,000 less CFA 39,000 less CFA 18,284 transportation costs from Douala -- based on data reported in the second annual assessment -- to the farmer times 2,500 tons). The proposed financing structure would be to pay ADIR a 30% deposit when they lift the fertilizer from the port, financing the balance through a distribution loan. Although COOPROVINOUN's current overdraft at Meridien bank was its first bank borrowing ever, they feel that they can get the necessary credit from Meridien for a second distribution loan. However, this looked doubtful based on the team's call on Meridien, and they will probably have to locate financing elsewhere.

#### 4.4 Future Developments Affecting the Cooperative

Construction of a tomato paste processing plant in the area, which was delayed last year, is now nearing completion. This is a Cameroon government project financed in part by the Islamic Development Bank, as well as other donors. Several cooperatives in the area, including COOPROVINOUN, are to have shares in the enterprise. Capacity of the plant in terms of raw material is said to be 160 tons of tomatoes daily (presumably one shift per day). It is hoped that the plant will stimulate tomato production in the area, supplementing the fresh tomato market already being exploited by COOPROVINOUN. In view of the availability of cheap imported tomato paste from Italy and other countries, some observers have expressed concern that either the plant will produce product which is too expensive to compete with

imports, or it will be forced to offer such low prices to growers that it will not attract the necessary supplies of tomatoes.

Construction of a cold storage facility is about to begin and is scheduled for completion in February 1992. It will serve as a collection point and temporary storage location for fresh tomatoes destined for markets in Douala and elsewhere.

## 5. South West Farmers Cooperative Union (SOWEFCU)

Interviewed: Mr. Ebako David, Assistant Chief, Finance  
Mr. Joseph Ekosane Mbela, President

### 5.1 Fertilizer Purchases

SOWEFCU did not succeed in arranging financing for fertilizer purchase in 1989, but was able to buy 4,630 tons from IBEX for delivery in August/September 1990, using ONCPB guarantees to effect the purchase. To date, the cooperative has managed to sell less than 100 tons at FCFA 3200 per sack. SOWEFCU management says that farmers are not buying fertilizer "because they have no money to buy it with". As a result the cooperative is planning to dispose of its stock to buyers outside of the cooperative, possibly to private and parastatal plantations in the South West Province. The stock consists of about 2000 tons of Urea, 1750 tons of Ammonium Sulfate, and 750 tons of NPK 20-10-10. The team was shown two warehouses where the fertilizer was stored and it appeared in relatively good condition. SOWEFCU estimates that it has about FCFA 270 million invested in this stock and is anxious to recover as much of this as possible.

### 5.2 ONCPB Arrears

ONCPB arrears owed to farmers for coffee and cocoa delivered in the past have been partially settled. Arrears for the 1986/87 and 1987/88 crop years had already been paid and 58% of the amount owed for 1988/89 deliveries was being paid at the time of the team's visit. However two of the SOWEFCU member cooperatives had not been paid anything and another received only 16% of the amount due because of some confusion in the records. SOWEFCU management felt that payment of these arrears would have little impact on fertilizer sales due to the very low prices for cocoa and coffee, and the farmers' needs for cash to meet other overdue commitments such as school fees.

APPENDIX F  
OTHER CONTACTS

1. World Bank

Interviewed: Ms. Tamara Ames, Economist

1.1 The Banking Sector

Restructuring of the Cameroonian banking sector has been and continues to be a high priority of the World Bank. A "Societe de Recouvrements des Creances" (SRC) was created to assume the bad debt portfolio of Societe Camerounaise de Banques (SCB) as part of the SCB restructuring agreement between Credit Lyonnais and the Cameroon government. SCB emerged recapitalized by Credit Lyonnais and with a clean balance sheet.

The head of the new SRC is French and has the stated goal of recovering the bad debt without seizure and liquidation of debtors' assets, which could undoubtedly be very embarrassing. A rescheduling of loan repayments is the preferred means of recovery and, if feasible, would be much less disruptive. The SRC has recently taken over the residual assets and liabilities of the three liquidated Cameroonian banks, Banque Camerounaise de Developpement, Paribas-Cameroun, and Cambank. The Banque des Etats de l'Afrique Centrale (BEAC, the central bank), has also agreed to reschedule over 15 years its loans to these banks. Deposits with these banks are still frozen and will be paid out as funds from loan repayments are received.

BIAO-Cameroun has been restructured by the Cameroon government, with half its branches closed and a number of personnel laid off. However, it retains its bad debt portfolio, its deposits are frozen, and it is basically inactive until the Cameroon government completes arrangements for its sale to a private investor, probably Meridien Bank. Societe Generale and BNP, the respective French shareholders of the other major local banks, Societe Generale de Banques au Cameroun (SGBC) and Banque Internationale pour le Commerce et l'Industrie Cameroun (BICIC), are currently negotiating terms with the Cameroon government to spin off their bad debt portfolios using the Credit Lyonnais/SCB model. The remaining small banks with international affiliations, Bank of Credit and Commerce Cameroon, Meridien Bank Cameroon, and Standard Chartered Cameroon, do not have the same serious problems with bad debt and are quite liquid.

As the individual banks reach agreement with the Cameroon government concerning the disposition of their bad debt portfolios, banks' liquidity problems should ease, although their attitude toward extending credit, in view of their past experience and the deteriorating economy, should continue to be very discriminating.

## 1.2 Devaluation

The issue of the devaluation of the CFA franc versus the French Franc and the structure of the Franc Zone continues to be central to World Bank restructuring programs in Cameroon and other Franc Zone countries, particularly Cote d'Ivoire. The BEAC zone, comprising Cameroon, Congo, Gabon, Chad, and the C. A. R., still maintains a credit balance in its operational account with the French Treasury. However, this masks structural economic differences between Cameroon, with a chronic deficit, and the petroleum economies of Congo and Gabon with compensating surpluses. Consequently, any devaluation will probably require a realignment of the Franc Zone, with the petroleum economies separating and Cameroon perhaps joining Cote d'Ivoire. Such a realignment would necessitate political agreement between the 13 African Franc Zone countries and France, a significant hurdle.

Nevertheless, the World Bank estimates that the CFA franc, for Cameroon, is overvalued by 40% to 50%, meaning that it is closer to a rate of CFA 100 = FF1 than to the current official rate of CFA 50 = FF1. Because of the continuing macroeconomic imbalances in the Cameroonian economy, a devaluation seems difficult to avoid.

## 1.3 The Coffee Sector

Labor costs in West Africa are approximately twice labor costs in East Asia, according to the World Bank. In large part this might be attributed to the distortions caused by an overvalued CFA. Although the World Bank does not have figures available, it would seem that, at current international levels, the CFA price of coffee at best marginally covers the costs of coffee production in Cameroon. A CFA devaluation may be necessary for any but the largest, most efficient producers of Arabica coffee to survive here. If that is so, demand for fertilizer from the coffee sector can be expected to decline commensurately.

## 2. Banque des Etats de l'Afrique Centrale (BEAC) (Direction Nationale, Cameroon)

Interviewed: M. Sordelet, National Director

### 2.1 Current Condition of the Banking Sector

The dramatic decline in government deposits with the banking sector in Cameroon forced recognition over the last two years of a situation which had been deteriorating throughout the 1980's: commercial banks were carrying an increasingly large portfolio of bad debt owed by both public and private sector borrowers. Without interest or principal repayments on this debt and the withdrawal of government deposits that had been used to fund them, the banks in the worst condition ran out of liquidity and stopped doing business.

The bad debts of Societe Camerounaise de Banques (the local affiliate of Credit Lyonnais), were spun off as a condition for the creation of a new bank, Credit Lyonnais/SCB, with capital from Credit Lyonnais. Three other banks, Cambank, Paribas/Cameroon, and Banque Camerounaise de Developpement were liquidated. The remaining unpaid loans (presumably bad) from these operations were grouped together under a new financial organization, Societe de Recouvrements de Creances (SRC), whose function is to reschedule and obtain repayment of these debts. BEAC estimated that SRC's assets (of rescheduled bad debt) would total CFA 200 billion after they assume the bad debt from the imminent BIAO re-organization. An additional CFA 14 to 15 billion will ultimately be added when the Cameroon government reaches agreement with the other major local banks, SGBC and BICIC. These figures do not include unpaid debt from previous seasonal agricultural loans ("credits de campagne"), which were fixed at CFA 110 billion in 1989 by the World Bank. These debts were covered by funds from French Caisse Centrale, European STABEX, and USAID. The BEAC estimated total credit to the Cameroonian economy at CFA 900 billion, emphasizing the enormity of the problem -- 20% to 30% of total credit is in default.

## 2.2 Societe de Recouvrements de Creances (SRC)

In order to fund the SRC (which essentially purchases the bad debt at 100% of face value), the BEAC has agreed to lend the money to the Cameroon government for a 15-year period at a reduced interest rate, with principal repayment starting after three years. The government, in turn, passes these funds on to the SRC so that the BEAC has no direct exposure.

## 2.3 Deregulation of the Banking Sector

Once the issue of commercial bank bad debt is settled, the BEAC and the government will turn their attention to deregulating the banking sector. This means doing away with the various credit limit guidelines which were established by bank and by sector. This will be replaced by a less direct system of controlling credit, requiring the establishment of reserves for credit extended reinforced by stricter inspections by the BEAC. They also expect to set up an interbank market which will promote direct interchange of funds between banks (rather than always borrowing at the BEAC) and determine a local market interest rate.

The BEAC sets the interest rate for its loans to local commercial banks, the "taux de base", which serves as a basic reference rate for the banking sector (currently at 11% p. a.). They also set maximum interest rates (currently 18.5% pre-tax or about 21% after tax for a maximum net margin of 7.8%). Other bank fees and commissions (e.g. for letters of credit) are set by the "Conseil National de Credit". Although this group is physically located at the BEAC they are actually a quasi-governmental committee presided over by the Minister of Finance. They are scheduled to look at deregulating bank fees and commissions in the near future as well.

#### 2.4 1991 "Credits de Campagne"

BEAC stated that there had been a delay in making available their seasonal rediscount facilities to finance this season's purchases and export of coffee. The Cameroon government delayed its decision on the official purchase price for coffee until January 28. This, in turn, held up the BEAC's decision about how much credit to make available for coffee exports. Once this decision was announced, BEAC invited local banks to submit files proposing lines of credit for use with specific coffee exporters. Although almost the entire expected volume of coffee exports was accounted for, only 10 of 33 officially sanctioned exporters participated. Credits should be made available in the very near future. Unfortunately, this delay would seem to undermine the efforts made by donor agencies to pay off ONCPB arrears. Unable to sell the coffee crop (again) for cash, the farmers' confidence in coffee as an investment is again undermined. Furthermore, the farmer does not have cash at this critical time to pay for fertilizer (the first "epandage").

As mentioned by BICIC, this year's "credits de campagne" were allocated among Credit Lyonnais/SCB (CFA 45 billion), BICIC (CFA 40 billion), and CCEI (CFA 15 billion). Conspicuous by its absence is SGBC, which has traditionally been the bank the most deeply involved in the agricultural sector. BEAC noted that SGBC was not able to participate because they had reached their credit limit at the BEAC and, probably, their parent bank, Societe Generale, was not willing to lend them additional funds. However, this situation had come to pass because SGBC is still financing CFA 10 billion in unpaid arrears from last year's coffee exports, unpaid by the government.

#### 2.5 Medium-Term Financing

BEAC clarified that they do have refinancing facilities for medium term credit. The applied interest rate is the same as the current short term rate, but is fixed at that level once the credit is accorded. With some exceptions, up to 50% of the cost of industrial equipment can be refinanced at these rates for viable, well-considered loans. Of course, there is no incentive to do so since a bank earns the same amount on a short term or medium term loan, although the latter is inherently riskier.

BEAC thought the interest subsidy program to encourage medium term investment was a good one. They advised extreme caution in administering such a program to prevent abuse.

## APPENDIX G

### LIST OF PERSONS CONTACTED

#### BANKS

- BCCC: Mr. Muhammad Khan, Assistant General Manager  
Mr. Mustafa Boodhoo, Manager, Operations and Credit  
Mr. Thomas Amibang, Loan Officer
- BICIC: M. Arthur Kamssue, Assistant Credit Manager - Douala  
M. Placide Tedom, Branch Manager - Bafoussam
- Meridien Bank: Mme. Gisele Mouloung, Credit Manager
- SCB/Credit Lyonnais: M. Alain Raffiot, Director, Yaounde Branch
- Credit Agricole du Cameroun: Mr. Hubert Rauch, Managing Director

#### IMPORTERS

- IBEX Cameroon SARL: Mrs. Rose Mbonde, Administrator
- CAMATREX: Mr. Alamayehu Aligaz, Deputy General Manager
- ADIR/Groupe One: M. Roger Epassy, General Manager, ADIR  
M. Emmanuel Ndongo, General Manager, Group One
- FERIDA: Mr. Bonaventura Mbida-Essamam, General Manager
- ADER Cameroun S.A.: M. Bernard LeBlanc, Director General  
M. Daniel Wolff, Administrative and Financial Director

#### DISTRIBUTORS

- NWCA: Mr. Ghogomu Tapisi, General Manager  
Mr. John Ndi Akwar, Chief, Farm Support Service
- UCCAO: M. Djieya Emmanuel, Assistant Director of Operations
- UCAL: M. Tjek, Commercial Department  
M. Ekoumelong, Accountant  
M. Youmbi, Export Department
- COOPROVINOUN: M. M.C. Issofa, Manager
- SOWEFCU: Mr. Ebako David, Assistant Chief, Finance  
Mr. Joseph Ekosane Mbela, President

OTHER CONTACTS

World Bank: Ms. Tamara Ames, Economist

BEAC: M. Sordelet, National Director