

PDBBI 213

CLASSIFICATION: UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE  
APPROVAL DOCUMENT  
(PAAD)

1. PAAD Number		[REDACTED]	
2. Country		Cameroon	
3. Category		AEPRP	
4. Date		September 16, 1987	
5. To		6. OYB Change Number	
AA/AFR, Charles Gladson		N/A	
7. From		8. OYB Increase	
AFR/PD, Carol Peasley <i>C. Peasley</i>		To be taken from: N/A	
9. Approval Requested for Commitment of		10. Appropriation Budget Plan Code	
\$17,000,000 (FY 87 Oblig. \$7,500,000)		GES7-87-31631-KG31 (770-61-631-00-50-71)	
11. Type Funding	12. Local Currency Arrangement	13. Estimated Delivery Period	14. Transaction Eligibility Date
<input type="checkbox"/> Loan <input checked="" type="checkbox"/> Grant	<input type="checkbox"/> Informal <input checked="" type="checkbox"/> Formal <input type="checkbox"/> None	87-92	
15. Commodities Financed			
N/A			

16. Permitted Source	17. Estimated Source
U.S. only	U.S.
Limited F.W.	Industrialized Countries
Free World	Local
Cash	Other

18. Summary Description

**I. Program Overview:** The reform program in the fertilizer subsector has been designed to accomplish the following:

- eliminate the fertilizer subsidy
- liberalize the entry of private sector marketing, and
- establish a commercial credit fund

Included in this program will be technical assistance for monitoring and conducting special studies needed to evaluate the impact of the proposed reforms. The total program will be incrementally funded at a level of \$20.0 million of which \$9.0 million (\$7.5 million - program assistance and \$1.5 million project/technical assistance) will be AEPRP/ESF funds and \$11.0 million (\$9.5 million - Program assistance and 1.5 project/technical assistance) will be from development assistance funds already budgetted in the Mission's current OYB. The \$3.0 million for project/technical assistance will be authorized separately and obligated by the Mission through a limited scope grant agreement with the GRC. The program funds will be disbursed in tranches with each disbursement conditioned upon successful performance during the previous funding period.

**II. Policy Reform Special Conditions:** In addition to the standard conditions precedent (legal opinion, designation of authorized representatives, and establishment of separate dollar account), the following conditions and covenants will be included in substance in the Program Grant Agreement:

19. Clearances	Date	20. Action
AA/AFR:WBollinger		<input checked="" type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED Authorized Signature: <i>Langlaeri</i> Title: Acting Assistant Administrator, Bureau for Africa Date: <i>Sept 17, 1987</i>
DAA/AFR:ELSaiers <i>W</i>		
GC/AFR:TCarter DRAFT	9/14/87	
AFR/DP:JWestley DRAFT	9/14/87	
AFR/TR:KSherber DRAFT	9/14/87	
AFR/CCWA:JColes DRAFT	9/14/87	

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ADDITIONAL CLEARANCES:

AFR/PD/CCWAP:JHradsky	<u>DFT</u>	DATE	<u>9/14/87</u>
PPC/PB:RMaushammer	<u>DRAFT</u>	DATE	<u>9/14/87</u>
M/FM/PAFD:ESowens	<u>DRAFT</u>	DATE	<u>9/14/87</u>
AFR/CONT:RKing	<u>DRAFT</u>	DATE	<u>9/14/87</u>

A. Conditions Precedent to Disbursement of the Cash Transfer.

1. First Disbursement Prior to the first disbursement of \$6.0 million under this grant the Government of the Republic of Cameroon (GRC) will:

(a). Promulgate a multi-year plan, in form and substance satisfactory to A.I.D., for the phased elimination of all fertilizer subsidies ("Subsidy Elimination Plan").

(b). Publicly announce a new method, acceptable to A.I.D., of paying fertilizer subsidies such that:

(1) All fertilizer subsidy funds will be provided through the Grantee's official budget documents and processes.

(2) The amount of the grantee's fertilizer subsidy officially budgeted shall be fully deposited in one or more accounts within the commercial banking system in Cameroon and be available for disbursement to eligible importers and distributors no later than January 1 of each year that the subsidy remains in effect.

(3) Eligible private sector fertilizer importers and distributors will be reimbursed on a first-come, first-served basis via the commercial banking system upon proof of distribution to retailers.

2. Second Disbursement Prior to the second disbursement of \$1.5 million under the Grant, the Grantee will, except as the Parties may otherwise agree in writing,

(a) Provide evidence, satisfactory to A.I.D., of the effective establishment and operation of the Fertilizer Credit Fund, and

(b) Provide evidence, satisfactory to A.I.D., of the effective establishment and operation of the Fertilizer Subsidy Fund.

3. Third Disbursement Prior to the third disbursement of \$2.5 million under the Grant, subject to the availability of funds, the Grantee will, except as the Parties may otherwise agree in writing,:

(a) Provide evidence, satisfactory to A.I.D., of continued application of the policy of market liberalization for fertilizer importation and distribution for the 1989 crop year,

(b) Provide evidence, satisfactory to A.I.D., of the continued effective operation of the Fertilizer Credit Fund through the 1989 crop year, and

(c) Provide evidence, satisfactory to A.I.D., of the continued effective operation of the Fertilizer Subsidy Fund for the 1989 crop year.

4. Fourth Disbursement Prior to the fourth disbursement of \$3.0 million under the Grant, subject to the availability of funds, the Grantee will, except as the Parties may otherwise agree in writing,

(a) Provide evidence, satisfactory to A.I.D., of continued application of the policy of market liberalization for fertilizer importation and distribution for the 1990 crop year ,

(b) Provide evidence, satisfactory to A.I.D., of the continued effective operation of the Fertilizer Credit Fund for the 1990 crop year,

(c) Provide evidence, satisfactory to A.I.D., of the continued effective operation of the Fertilizer Subsidy Fund for the 1990 crop year.

5. Fifth Disbursement Prior to the fifth disbursement of \$4.0 million under the Grant, subject to the availability of funds, the Grantee will, except as the Parties may otherwise agree in writing,

(a) Provide evidence, satisfactory to A.I.D., of continued application of the policy of market liberalization for fertilizer importation and distribution for the 1991 crop year,

(b) Provide evidence, satisfactory to A.I.D., of the continued effective operation of the Fertilizer Credit Fund and conduct a special review, satisfactory to A.I.D., of the long term impact of the Fertilizer Credit Fund and;

(c) Make no further provision for subsidy in the distribution and marketing of fertilizer.

## B. Special Covenants

1. The Grant will be free from any taxation or fees imposed under the laws in effect in Cameroon.

2. The Grant will not be used to finance military, paramilitary or police requirements of any kind, including the procurement of commodities or services to be used by the military or police, or to pay principal or interest on loans to or for the military or police.

3. No further price controls will be instituted or expanded in the marketplace which in effect contravene the agreed upon schedule for removing the fertilizer subsidy.

4. The Grantee will abolish its present system of fertilizer import quotas.

5. The Grantee will abolish its present system of allocation of subsidized fertilizers to cooperatives and other users.

6. The Grantee will systematically review smallholder crop price policies and levels to review and determine adjustments needed on at least an annual basis. Reports of these reviews and recommendations issuing from such reviews shall be provided to USAID.

7. Periodically, the Grantee will evaluate with A.I.D. the progress toward attainment of the objectives of the reform program and as necessary will modify from time to time the Subsidy Elimination Plan so as to assure attainment of such objectives.

8. The Grantee will actively promote the expansion of competitive involvement of the private sector in the procurement and distribution of fertilizers.

9. The following definitions shall apply to the fertilizer price subsidy:

(a) average subsidized fertilizer price will be calculated based on the formula  $((1 - S)(P_i + D_c))$  where S is the rate of subsidy expressed as a decimal percentage,  $P_i$  is the C.I.F. landed Douala price and  $D_c$  is the port handling/storage/transport cost similarly weighted, and as weighted for the quantities of fertilizer anticipated.

(b) The subsidy reimbursement to importers and distributors will be defined as a fixed amount per unit of fertilizer distributed within the period of effectiveness of the subsidy.

C. Special Account

1. The Grantee shall establish a Special Account in a bank mutually acceptable to the Grantee and A.I.D. and shall deposit therein currency of the Grantee in amounts equal to disbursements made under the Grant. Funds in the Special Account may be used for such purposes as are mutually agreed upon by A.I.D. and the Grantee.

2. Prior to disbursement of any local currencies from the Special Account for the private sector fertilizer supply credit program, the GRC shall submit to A.I.D., in form and substance satisfactory to A.I.D., agreements between the GRC and participating commercial banks governing the use of such funds. The agreement(s) shall include a description of the financial mechanisms and the terms and conditions by which the funds will be made available to the commercial banking system and its private sector clients. The agreement(s) shall describe the monitoring and reporting requirements and shall stipulate that copies of such reporting requirements will be made available on a timely basis to A.I.D.

D. Waivers

Cash transfer arrangements preclude need for waivers. Deviation from the above conditions precedent and special covenants will require A.I.D./W concurrence.

Drafted: AFR/PD/CCWAP:AVGetson:79069:8/28/87:3530K

PROJECT AUTHORIZATION

Name of Country: Cameroon  
Name of Project: Fertilizer Subsector Reform Program  
Number of Project: 631-0063 (PAAD Reference: 631-K-601)

1. Pursuant to Section 121 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Fertilizer Subsector Reform Program for Cameroon ("Cooperating Country"), involving planned obligations of not to exceed three million United States dollars (US \$3,000,000) in grant funds ("Grant") over a five year period from the date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the project. The planned life of the project is 60 months from the date of initial obligation.

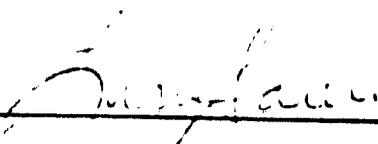
2. The project ("Project") consists of technical assistance activities required to implement and support the Economic Policy Reform Program for Cameroon. It, therefore, contributes to the overall purpose of policy reform in the fertilizer sector.

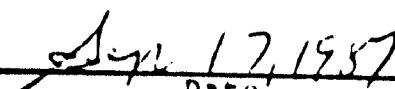
3. The Project Agreement, which may be negotiated and executed by the officer to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority, shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

a. Source and Origin of Commodities, Nationality of Services

Commodities financed by A.I.D. under the Grant shall have their source and origin in the Cooperating Country or in countries which are included in A.I.D. Geographic Code 941, except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services shall have the Cooperating Country and countries which are

included in A.I.D. Geographic Code 941 as their place of nationality, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Grant shall be financed only on flag vessels of the United States, except as A.I.D. may otherwise agree in writing.

  
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Edward L. Sifers  
Acting Assistant Administrator  
Bureau for Africa

  
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Date

**Clearances:**

As Shown on Action Memorandum

Drafted: AFR/PD/CCWAP:AVG:  79069:8/28/87:AFS:3531K