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Privatization of Fertilizer Marketing in Cameroon:

A Fifth-Year Assessment of

the Fertilizer Sub-sector Reform Program

Technical Report

Richard D. Abbott
and
Edward K. Dey

October 1993

Postharvest Institute for Perishables

College of Agriculture
University of Idaho

PRIVATIZATION OF FERTILIZER MARKETING IN CAMEROON:

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THE FERTILIZER SUB-SECTOR REFORM PROGRAM

TECHNICAL REPORT

Submitted to:

The Technical Supervisory Committee

Fertilizer Sub-Sector Reform Program

and

USAID/Cameroon

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THE POSTHARVEST INSTITUTE FOR PERISHABLES

UNIVERSITY OF IDAHO

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GLOSSARY

AIM	Allied International Marketing Services
BCD	Banque Camerounaise de Développement
BCCC	Banque de Crédit and Commerce Cameroun
BIAO	Banque Internationale pour l'Afrique Occidentale
BICIC	Banque Internationale pour l'Industrie du Cameroon
BMBC	Banque Meridien BIAO Cameroun
CAC	Crédit Agricole du Cameroun
CB	Commercial Bank
CCCE	Caisse Centrale de Coopération Economique
CCEI	Caisse Commune d'Epargne et d'Investissement
FB	Fiduciary Bank
F.O.B.	Free on Board
FSSRP	Fertilizer Subsector Reform Program
GIP	General Information Pamphlet
GRC	Government of the Republic of Cameroon
ha	Hectare
IFC	International Finance Corporation
IFDC	International Fertilizer Development Corporation
kg	Kilogram
L/C	Letter of Credit
MIBL	Meridien International Bank Ltd.
mt	Metric ton
MTLF	Medium Term Lending Facility
NWCA	North West Cooperative Association
ONCPB	National Produce Marketing Board
PSIE	Programme Spécial d'Importation d'Engrais
SAL	Structural Adjustment Loan
SCB	Standard Chartered Bank
SCCB	Standard Chartered Bank, Cameroon
SGBC	Société Générale de Banque Camerounaise
SNI	Société Nationale d'Investissement
SRC	Société de Recouvrement de Créances
TSC	Technical Supervisory Committee of the FSSRP
TSU	Technical Support Unit of the FSSRP
UCCAO	Union Centrale des Coopératives Agricole de l'Ouest
UDEAC	Union Démocratique des Etats de l'Afrique Centrale
UNIDO	United Nations Industrial Development Organization
USAID	United States Agency for International Development

INTRODUCTION

This is the fifth in a series of annual assessments of the Fertilizer Sub-Sector Reform Program (FSSRP) of Cameroon prepared for USAID/Cameroon. This assessment was carried out by the Postharvest Institute for Perishables, University of Idaho.

The principal author of this report, as in the four previous ones, was Richard D. Abbott, agribusiness consultant. The report was co-authored by Edward K. Dey, banking consultant. Field work was carried out by the authors in Cameroon from June 12 to July 10, 1993.

Part One of the report, Assessment of Program Performance, consists of three parts: (1) Findings and Recommendations, including a summary of the Annual FSSRP Seminar/Workshop, (2) Performance of the FSSRP in 1992/93, a review of all aspects of the program during the past year, and (3) a discussion of three special issues which affect the future status of the program.

Part Two, Financial Performance of the Program, deals with the state of the commercial banking sector of Cameroon and its impact on the FSSRP.

Annex A to the report is a discussion of possible financial structures for the proposed Medium Term Lending Facility of the FSSRP.

This "technical" version of the annual assessment also contains six additional annexes (B through G) which report in detail on the activities of all participants in the program, the results of meetings with other Cameroon government organizations and international donor agencies which have or may have some impact on the program, and finally an analysis of proposals for a fertilizer mixing and bagging plant planned for the port of Douala.

The annual assessment was carried out under the supervision of the Technical Supervisory Committee (TSC) of the FSSRP. M. Alinga Ateba Innocent, Secretary General of the Ministry of Plan and Regional Development, is the President of the Committee. We greatly appreciated the assistance of M. Felix Nkonabang, Administrative Coordinator of the FSSRP Technical Support Unit (TSU), and M. Richard Molu, Technical Coordinator of the TSU. The authors also wish to acknowledge the invaluable support provided by the Office of Economic Analysis and Policy Reform Implementation (EAPRI), USAID/Cameroon, headed by Dr. Kifle Negash. Again this year, Mr. Daniel Moore, FSSRP Program Coordinator for EAPRI, provided technical and logistic support during the authors' stay in Cameroon, and also prepared several of the key exhibits in the report.

1. ASSESSMENT OF PROGRAM PERFORMANCE

1.1 Findings and Recommendations

1.1.1 Overall Assessment of the Program

The Fertilizer Sub-Sector Reform Program continues to function well in a generally unfavorable economic climate characterized by low purchasing power of farmers and a general lack of liquidity in the banking sector. Despite these obstacles, program activities have led to the growth of a private sector distribution system which is delivering fertilizer to the users when and where needed -- and at competitive prices.

1.1.2 Principal Findings Concerning the 1992/93 Program

i) Imports and Sales Levels

Imports of subsidized fertilizer under the FSSRP in 1992/93 declined to 22,600 mt from 31,800 mt in 1991/92. The difference is probably not significant, however, since the previous campaign was unusually long -- about 15 months -- while the most recent one was correspondingly short -- about eight months. Sales of fertilizer by importers to distributors were also distorted -- 20,300 mt the past year compared to an estimated 38,900 mt the previous year. A better estimate of current annual consumption of subsidized fertilizer by farmers can be arrived at by taking a rough average of sales over the past two years -- 30,000 to 35,000 mt.

ii) Participation by Banks and Importers

Participation in the program by private sector importers and commercial banks remained at about the same level as last year; three importers and three banks handled all the transactions. A new company, IBE Africa Cameroon, imported for the first time, accounting for 52% of total imports, while IBEX imported 45% of the total. This is a continuation of the previously noted pattern: the import picture is dominated by majority foreign-owned firms who have the resources necessary to finance large purchases. Under the present extremely tight credit situation, smaller Cameroonian-owned firms continue to have difficulty arranging fertilizer importation.

iii) Fertilizer Distribution

The principal difference noted between this year and last is the growth in the distribution sector. Eight companies distributed FSSRP fertilizer, seven of them Cameroonian-owned. Of the eight, five wholesaled fertilizer to networks of retailers located in towns and villages in the West and North West Provinces, with the result that fertilizer is available in these areas virtually year round at the village level. The proportion of FSSRP fertilizer handled by independent distributors increased to 47% from 20% last year, while the proportion distributed by coffee cooperatives remained at about 37%, a radical change from the first year of the program when 100% of imports were distributed by cooperatives.

iv) Role of Commercial Banks

As was the case last year, the tight liquidity situation has led banks to impose extremely stringent collateral requirements for letters of credit, thus restricting access to the program to importers with substantial financial resources. As noted in previous assessments, commercial banks have not played the role in the program originally envisaged for them. The persistent shortage of liquidity in the financial sector has led to the reluctance of banks to release FSSRP importation loans to qualified importers when opening letters of credit. Banks have tended to retain these funds as a way to increase their liquidity. This has encouraged their participation in the program, though not in the way intended. However, banks continue to serve a useful control function by verifying and transmitting import documents.

v) Changes to the General Information Pamphlet (GIP)

At the request of an importer, IBE Africa Cameroon, the Technical Supervisory Committee agreed in April 1993 to a change in the FSSRP regulations, as embodied in the General Information Pamphlet. The modification removed the requirement that an importer apply for an importation loan in order to have access to subsidy funds. This significantly alters the ground rules of the program, which had imposed the requirement at the outset as a way to encourage local importers and distributors to develop lender/borrower relationships with commercial banks. However, given the tight credit situation referred to above, local firms have been largely precluded from developing borrowing relationships as they have been unable to post the kind of collateral required by banks in order to open letters of credit. In fact, both large and small importers appear to prefer the new rules since they can rely on supplier credits to finance imports and avoid the necessity of dealing with banks for credit.

vi) Fertilizer Mixing and Bagging

There is active interest by at least three investor groups in constructing a fertilizer mixing and bagging plant at the port of Douala. It should be possible to realize cost savings of at least 10% -- and possibly eventually by as much as 25% -- by importing bulk fertilizers in shipload lots. Mixing (or blending) of these fertilizers to achieve any number of different N-P-K formulations can meet the needs of all agricultural users, rather than only those of coffee planters, the principal users of the five types now being imported under the FSSRP.

vii) Fertilizer Use on Food Crops

The trend noted in previous annual reports toward greater use of subsidized fertilizer on food crops, as opposed to coffee, continued again in 1992/93. Although recent data on fertilizer application by crop is lacking, this trend was undoubtedly accelerated by the further reductions in coffee floor prices announced during the year. Maize and tomatoes are the two main crops which benefit from this trend.

1.1.3 Recommendations

i.) The Medium Term Lending Facility

The Medium Term Lending Facility (MTLF) should be implemented at the earliest possible opportunity in order to realize the cost savings from local mixing and bagging of fertilizer. Recommendations concerning the MTLF are contained in Appendix A to this report. These include an expanded management role for the Caisse Autonome, rediscounting of loans at the central bank (BEAC), and a number of suggestions regarding administration of the program. It is likewise recommended that consideration be given to the use of an "interest make-up" approach to financing, which would utilize an interest rate subsidy to commercial banks (to lower the cost of the loan to the borrower) as an alternative to direct lending by the MTLF.

ii) Changes to the General Information Pamphlet

The change to the GIP made by the TSC during the course of the 1992/93 campaign, which removed the requirement for opening a letter of credit at a commercial bank in order to access the subsidy fund, should be continued in force. Under current tight credit conditions in Cameroon, many importers -- especially the smaller Cameroonian-owned ones, cannot meet collateral requirements imposed by banks for opening letters of credit. This change will make it possible for importers to seek other ways of financing imports, such as supplier credits, without losing access to subsidies. However, it is strongly recommended that any further changes to the GIP be the subject of discussion at the annual workshop and put into force at the beginning of the following year's campaign. In this way, all participants have equal opportunity to benefit from the changes. This issue is discussed in detail in Section 1.3.1.

iii) Continuation of Subsidies

It is recommended that subsidies be continued at a reduced level for one more year. Removal of subsidies for the 1993/94 year would immediately lead to an increase in fertilizer prices of 15 to 20%. Coming just after another drastic reduction in coffee floor prices, this would have a severe impact on coffee production and on incomes of coffee planters. Continuation of subsides for the coming year would ease the impact of these price reductions and could bridge the gap until a fertilizer mixing and bagging plant is built at Douala and projected cost savings can be passed on to farmers in the form of lower fertilizer prices. A discussion of this issue appears in Section 1.3.2.

iv) Fusion of the FSSRP and the *Programme Spécial d'Importation d'Engrais* (PSIE)

It is recommended that a single supervisory and technical support structure be created for the FSSRP and PSIE programs. This arrangement would be in conformance with the Fertilizer Sub-Sector Reform Program as set out in the GRC - USAID Program Grant Agreement of 1987, which was to create a private sector fertilizer import and distribution system for the whole of Cameroon. This issue is discussed in detail in Section 1.3.3.

1.1.4 The Fifth Annual FSSRP Workshop

The fifth annual FSSRP workshop was held in Douala on July 8 and 9, 1993 under the chairmanship of the Secretary General of MINPAT and President of the TSC, M. Alinga Ateba Innocent. Representatives of the Fiduciary Bank (FB), commercial banks, importers, distributors, cooperatives and farmers participated in the workshop, along with officials from MINPAT, MINAGRI, MINFI, MINDIC and the Littoral Province. A series of resolutions and recommendations were made by participants and are summarized below.

Resolutions

1. The decision by the TSC on 28 April 1993 concerning method of payment for fertilizer was approved by participants. This change in FSSRP regulations allows access to subsidies without the necessity of opening a letter of credit at a commercial bank. Participants concluded that this change would increase the participation of Cameroonian-owned importing firms and contribute to decreasing the cost of fertilizer to farmers.

2. The resolution made at last year's annual workshop concerning harmonization of the FSSRP with the PSIE program in the north was reiterated. Participants expressed their desire that actions to achieve such harmonization be accelerated, and that the government undertake without delay a study of ways in which the fusion of the two programs could be accomplished.

3. The participants noted with satisfaction that more than 95% of the objectives set forth for the TSC at last year's annual review had been attained. They also expressed satisfaction with the level of debate about the program which allowed all participants equal access to information.

Recommendations

1. Measures should be taken to facilitate the participation in the FSSRP by small and medium enterprises. These should include: (a) an easing of conditions required by commercial banks; (b) a more equitable sharing of risks between the program itself, the importers, and commercial banks in proportions to be determined by a tripartite commission (which would also define the mechanisms for accomplishing this purpose); (c) encouragement to small and medium enterprises to form joint ventures with foreign firms; and (d) the installation of a system -- in addition to the direct loans already available -- of loan guarantees by the program to cover commerci' bank loans to participants (in amounts less than the 50% of CIF value direct loan program).

2. The Medium Term Lending Facility (MTLF), which would finance investments in the fertilizer sector such as fertilizer mixing and bagging plants, should be put into place as soon as possible.

3. As to the question of whether an importer should have access to both importation and distribution loans at the same time, participants recommended that: (a) the principle of the two types of loans should be retained but that the program not permit a single company or group of companies to benefit from the two types of loans at the same time; (b) the basis for calculation of a distribution loan should be the local cost of acquisition of fertilizer plus the cost of transportation and storage; (c) interest rates for distribution loans should be decreased.

4. Given the increased level of production of fertilizer in African countries, importers should make every effort to find suppliers within the sub-region in order to minimize transportation costs and thus reduce fertilizer costs to Cameroonian planters.

5. Although in principle subsidies were to be terminated with the 1992/93 season, given the difficult economic conditions in Cameroon participants repeated their recommendation at last year's annual review that subsidies be maintained until prices for export crops improve. Sufficient funds should be made available in 1993/94 to permit subsidy payments equal to 12% of the delivered cost of fertilizer (compared to 15% in 1992/93), assuming imports of approximately 40,000 mt.

6. Since most farmers do not have sufficient knowledge of the importance of fertilizer and the techniques for its use, participants recommended that the extension services of MINAGRI intensify the use of fertilizer demonstration plots on the main crops in each ecological zone with financial support from the FSSRP.

7. In view of the enormous drop in prices of Cameroon's export crops and the absence of an effective marketing network, participants requested government authorities to

give special attention to local processing of products so as to benefit from added value.

8. Concerned to maintain the national heritage of traditional cash crops, participants recommended that government authorities promote Cameroon agricultural products in world markets through diplomatic posts abroad, the objective being to improve the image of Cameroon products. At the same time, the government should encourage a diversification of food consumption within Cameroon.

9. Particular attention should be given to the financing of imports of phytosanitary products, which are a limiting factor in the production of quality agricultural products.

10. Because of certain problems experienced in the past, the expiration date of earmarking of subsidy funds should be 100 days from the date of earmarking.

11. Due to the absence of a telex code system between the Fiduciary Bank and commercial banks, as stipulated in the General Information Pamphlet concerning the release of loan funds, communications between the banks concerned should be by facsimile (fax) with signatures only by authorized persons, followed by confirmation by normal mail.

12. Inasmuch as the Fiduciary Bank reported that it receives many requests for information from companies referred to it by commercial banks, and to which it is unable to respond, it is recommended that commercial banks organize their own information system to permit an improved flow of information both among and within banks and to other entities which may participate in the program.

13. Recognizing that complaints about the program by the three categories of participants (banks, importers, distributors) stem mostly from lack of specific knowledge about the fertilizer market, participants recommended that importers and distributors strictly respect mutual commitments, especially in regard to prices.

14. While appreciating the efforts made by the TSC and USAID to organize a seminar for the training of local entrepreneurs with the help of the International Fertilizer Development Corporation (IFDC), participants requested that everything possible be done to organize the seminar as soon as possible.

1.1.5. Actions on Recommendations in the 1992/93 Annual Assessment

Establish Medium Term Lending Facility:
The facility has not yet been established. However, actions are being taken to realize this objective, as noted elsewhere in this report. As of July 1993, three investor groups have

made proposals to erect fertilizer mixing and bagging plants in the port of Douala -- the type of project which the medium term lending facility is intended to assist. A number of alternative procedures by which the FSSRP could assist in financing such projects are put forward in Annex A to this report and these are expected to be the subject of discussion by the TSC and USAID in the near future.

Prepare Feasibility Study of Bulk Blending Plant
This recommendation also relates to proposals for a mixing and bagging (bulk blending) plant. The consultants felt that it might be necessary to conduct an independent feasibility study of such a plant to resolve differences between competing proposals, and to address such issues as the projected demand for fertilizer in Cameroon and neighboring countries which might be served from Cameroon. Based on the consultants' review of the three proposals currently available, there appear to be substantial differences in projected sales levels and therefore in the economic feasibility of the plants. An independent feasibility study was conducted for the UDEAC zone by UNIDO.

Fusion of the FSSRP and PSIE Programs
This issue remains unresolved, despite discussions and recommendations at the past three annual workshops and in the annual reviews by the consultants. A discussion of the issues involved appears in Section 1.3.3 of this report.

Revision of Legal Agreements Governing the FSSRP
These recommendations have been adopted.

Education Program for Banks, Importers, and Distributors
The recommendation to organize a seminar/workshop with the aid of IFDC is being implemented. The seminar will be held in the coming months.

Improved Information Flow on Fertilizer Marketing in Cameroon
This recommendation is being implemented by the Technical Support Unit (TSU) of the FSSRP. The TSU has begun issuing a periodical called Conjuncture, which has provided readers with information on such subjects as the raw material and technology of fertilizer manufacture, and world and African markets for fertilizer. Another issue summarized the performance of the FSSRP from 1989 to 1993. Other activities are planned for the future.

1.2 Performance of the FSSRP in 1992/93

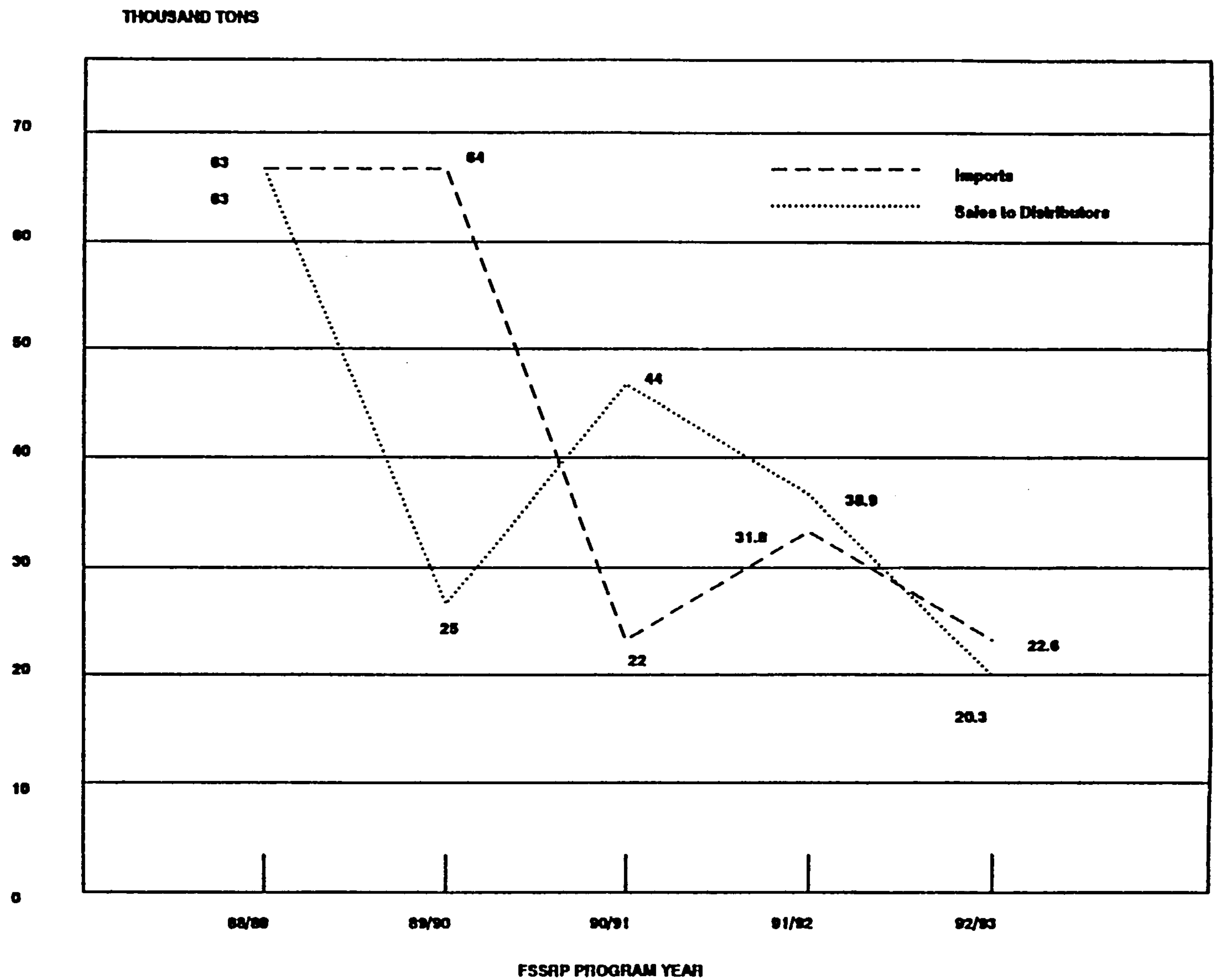
1.2.1 Historical Perspective on Imports and Sales to Distributors

As in the last annual assessment, we give below data showing fertilizer imports, sales by importers to distributors, and variations in importers' stocks since the beginning of the program. These rough figures (exact import figures appear elsewhere in this report) are intended to show broad trends only. The import and sales figures are also plotted on the accompanying graph, Exhibit 1.

Stocks, beginning 1988/89 (mt)	0
Imports, 1988/89	63,000
Sales to distributors, 1988/89	63,000 (approx.)
Stocks, beginning 1989/90	negligible
Imports, 1989/90	64,000
Sales to distributors, 1989/90	25,000
Stocks, beginning, 1990/91	39,000
Imports, 1990/91	22,000
Sales to distributors	44,000
Stocks, beginning 1991/92	17,000
Imports, 1991/92	31,800
Sales to distributors	38,900
Stocks, beginning 1992/93	10,200
Imports, 1992/93	22,600
Sales to distributors	20,300
Ending stocks, 1992/93	12,500

As described in last year's assessment, importers reduced their purchases in 1990/91 in the face of high carryover stocks (39,000 mt) at the beginning of the year. Substantial sales to distributors (44,000 mt) during the year resulted in a reduction of stocks to 17,000 mt at the beginning of the 1991/92 program year and imports rebounded to 31,800 mt. Both imports and sales were considerably lower in 1992/93 than in the previous year.

EXHIBIT 1 FERTILIZER MARKETING TRENDS 1988-1993



In qualification of the figures for the past two years, however, it should be noted that the 1991/92 FSSRP campaign was unusually long, extending to October, so that imports and sales included fertilizer for the September application on coffee.[1] The 1992/93 season was correspondingly short -- October to June. We can estimate current annual consumption of subsidized fertilizer at about 30,000 mt, taking a rough average of sales for the past two years. This is less than half the consumption at the beginning of the program.

The correlation between annual imports and sales is no longer a direct one, since importers have tended in recent years to delay import decisions until as late as possible in the FSSRP program year, and then place orders at the end of the year to avoid losing out on the subsidy. Importers may therefore end the FSSRP campaign with substantial stocks. In fact, in late June 1993 IBE requested a one month extension of their earmarking for a 10,000 mt import of NPK 20-10-10. If approved and the import is carried out, it will radically change the import and stock figures for the year without affecting sales levels.

As noted elsewhere in this report, a further decline in coffee prices, and a continuing lack of liquidity in the rural sector, contributed to low consumption. Last year's assessment predicted sales of 35,000 to 45,000 mt for the 1992/93 year "provided that economic conditions do not deteriorate further". Unfortunately, conditions did deteriorate considerably.

1.2.2 Private Sector Participation in the FSSRP

i. Overview

Exhibit 2 provides an overview of private sector participation in the FSSRP since the beginning of the program. Details on participation at each level in the system is reported in the following paragraphs.

There has been only one Fiduciary Bank since the beginning, though there was a changeover in 1991/92 when Standard Chartered Bank took over from BCCC.

Commercial bank participation has remained at about the same level since the beginning; between two and four banks actually handled FSSRP transactions in each year.

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[1] Because of the extended 1991/92 season, some IBEX imports which were shown as stock when our assessment was prepared in August 1992 actually were sold by October and showed up as sales for 1991/92. This required an adjustment in the figures for 1992/93 beginning stocks shown in last year's report from 13,200 mt down to 10,200 mt and a corresponding increase in the sales figure for last year.

Exhibit 2

Private Sector Participation in the FSSRP, 1988/89 -1992/93

Economic Operator	1988/89	1989/90	1990/91	1991/92	1992/93
Fiduciary Bank	1	1	1	1	1
Accredited commercial banks	4	4	4	5	3
of which actually participated	2	4	1	4	3
Suppliers	3	3	3	4	4
Active Importers	14	10	10	13	12
of which actually imported	3	2	1	3	3
Active Distributors	6	16	18	22	many
of which actually distributed	4	10	17	20	"
of which are cooperatives	4	6	6	9	"
of which are "for profits"	0	4	11	11	"
Provinces covered (out of 7)	3	5	5	6	7

The number of participating importers has never been more than three, although as many as 14 have solicited orders from distributors and attempted to arrange financing. The number of suppliers is about the same as the number of importers since importers tend to place orders with one company abroad to obtain the best possible prices and credit terms.

As described below, the most significant changes have occurred in distribution, as private sector participation has increased dramatically at this level.

In the first year of the program, fertilizer sales were exclusively to coffee cooperatives in the Littoral, West, and Northwest provinces. In the second and third years, sales were also made to cooperatives in the Southwest and Center provinces, making a total of five. In the fourth year, sales were also made in the East province, and finally, in the fifth year, the South province also received fertilizer.

ii. Participation by Banks

Three banks participated in the program this year: Crédit Agricole du Cameroun (CAC), Banque Internationale pour le Commerce et l'Industrie du Cameroun (BICIC), and Amity Bank. CAC handled two shipments for IBEX plus the small Africa Imports shipment, while BICIC handled the other IBEX shipment. Amity Bank processed the documents for the IBE import but did not open a letter of credit or make an importation loan.

There were three participating banks last year: CAC, BICIC, and SCB/Crédit Lyonnais. The team interviewed the above four banks, as well as Meridien Bank BIAO (BMBC). Those banks which did not participate this year remain interested in the program and are ready to open letters of credit to any importer who can post sufficient collateral.

The troubled state of the banking sector in Cameroon is discussed in Section 2 of this report.

iii. Participation by Importers

Three importers participated in the 1992/93 program. The breakdown by tonnage is as follows:

IBEX	10,215 mt
IBE	11,780 mt
Africa Import	675 mt
Total	22,670 mt

As of July 1993, IBE was considering an additional 10,000 mt importation and had applied to the TSC for a one-month extension of its subsidy earmarking.

IBEX has been the major importer since the beginning of the program. This is the first year that the newly formed company IBE Africa Cameroon has imported. Africa Import, which had applied last year for an earmarking but was unable to arrange the financing, imported 4,325 mt. However, when the fertilizer arrived at Douala, Africa Import was able to clear only 675 mt from the port. The balance was purchased by IBEX. Nine other firms sought to participate but either did not obtain orders or were unable to arrange financing. One of these, Groupe One, actually received an earmarking but in the end did not import.

Last year there were also three importers: IBEX (25,800 mt), Pelenget (3,000 mt), and ADER (3000 mt). Ten other firms were active, of which three applied for earmarking but did not import. The experience has been that smaller firms have had difficulty arranging the necessary collateral demanded by commercial banks to cover letters of credit, leaving the field open to larger importers who can mobilize supplier credits or foreign bank guarantees.

iv. Participation by Distributors

A key objective of the FSSRP was to create a private sector distribution system for fertilizer in Cameroon. Indications are that this objective is being realized.

Exhibit 3 shows the main elements of the fertilizer distribution system as it existed during the 1992/93 season. There has been an evolution of the system, as will be noted by comparing the exhibit with a similar one in last year's report. The principal changes are as follows:

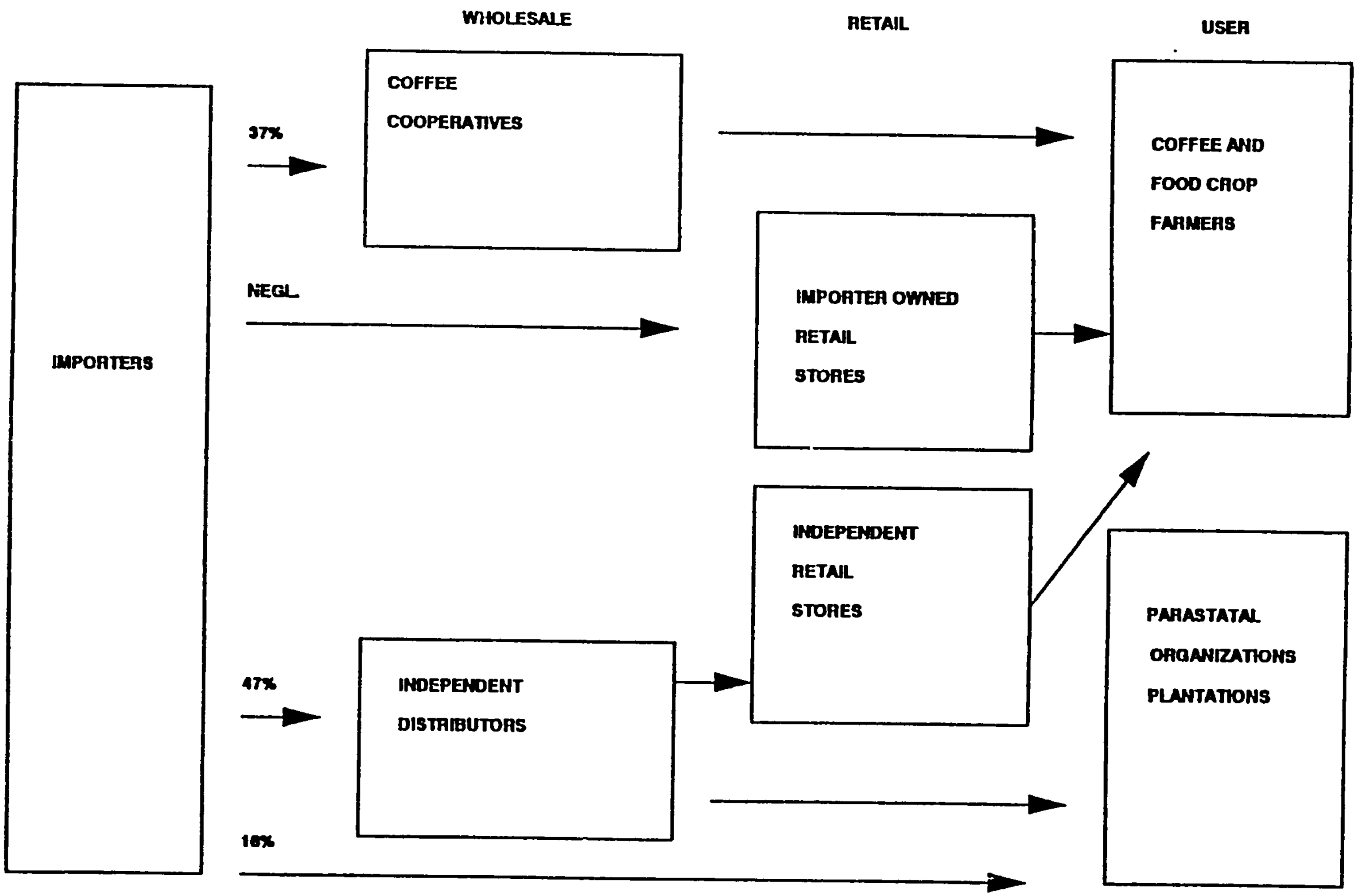
* Coffee cooperatives have decreased in importance as distributors. Only two -- CAPLAME and CAPLAMI -- bought sizeable amounts directly from importers, amounting to 37% of the total sold, roughly the same as last year, but much lower than 1989/90 (65%) and the beginning year of 1988/89 (100%).

* Independent distributors (privately-owned companies) sold 47% of the total, whereas last year it was 20%. This included eight companies, all but one Cameroonian-owned.

* Parastatals (SAFACAM, CAMSUCO, SBM, CDC) and one French-owned banana plantation purchased 16% of the total, about the same as last year.

Of the eight independent distributors, five have established or are in the process of establishing distribution networks in the West and Northwest provinces, the two provinces which consume most of the fertilizer imported. Typically these arrangements include a rented or owned building to serve as a depot, and a series of small merchants in outlying villages who buy regularly from them on a cash basis. Two distributors sold directly from the port of Douala for cash. The eighth company is a long established French-owned firm which maintains its own retail stores in the Littoral and West provinces selling fertilizer and

EXHIBIT 3 FERTILIZER DISTRIBUTION FLOW



agricultural chemicals, though the volume of subsidized fertilizer sold in this manner is quite small.

Another significant development is the setting up of a joint venture between an importer and a fertilizer dealer, involving the extension of credit by the importer for a portion of the purchased fertilizer. This marks the first time an importer has become directly involved in distribution and extended credit to a distributor.

At the retail level, the assessment team has noticed a proliferation of small merchants selling fertilizer in sack lots, (and even some in 5 and 10 kg plastic bags), a considerable expansion of retail sales compared to last year. Again, these merchants are mostly in the West and Northwest Provinces (but also in the Littoral and Center Provinces), and they buy from the distributors described above.

The result of these developments is that fertilizer is now available virtually year round in the high consumption areas to any user with cash to buy it.

1.2.3 Fertilizer Costs and Subsidy Rates

Exhibit 4 shows average CIF cost, delivered cost, retail price, and subsidy rates for the five years of the program. Comparable data for the public monopoly prior to the beginning of the FSSRP are shown for comparison.

CIF costs have shown a general downward trend since the beginning of the program, taking a particularly sharp drop this year due to a large import in bulk at very favorable prices by IBE. This decline is due in part to favorable market conditions, but also to better negotiating by importers and importation in shipload lots rather than partial shiploads. The difference between CIF costs under the FSSRP and under the old FONADER program is particularly striking, pointing up gross inefficiencies in the government monopoly system.

Distribution costs include customs duties, the cost of port handling and transport to the final point of sale, as well as importer and distributor profit margins. This cost also declined steadily, except for this year when lower CIF costs for IBE imports were partially offset by an apparent higher distribution cost. This downward cost trend can be ascribed to several factors: (1) increased efficiency in handling fertilizer by importers and distributors, (2) lower profit margins due to increased competition, and (3) lower costs of transport due to depressed economic conditions in Cameroon. **The trend has also continued despite steadily increasing customs duties which have risen from about 4 percent to 12 percent of CIF value since the beginning of the program.**

In accordance with the objectives of the FSSRP, subsidies have been progressively reduced, dropping from 66.3% of delivered cost under the old FONADER program to 16.5% in the past year, a decrease of FCFA 75,931 per mt (minus 85.7%). However, efficiency gains under the FSSRP reduced CIF costs by an average of FCFA 47,536 per mt (a 48.7%

Exhibit 4

Comparison of Marketing Costs, 1987/88 - 1992/93

	Public Monopoly	Fertilizer Sub-Sector Reform Program					Total Change (%)
	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	
1. Subsidy Disbursed (FCFA billion)	6.0	2.0	1.5	0.5	0.6	0.4	
2. Average Unit Subsidy (FCFA/T)	88,600	31,638	25,030	21,034	15,884	12,669	-85.7%
3. Subsidy Rate (row 2/row 4)	66.3%	36.7%	30.2%	26.3%	20.3%	16.5%	-75.1%
4. Delivered Cost (FCFA/T)	133,600	86,235	82,858	79,960	78,111	76,570	-42.7%
4a. CIF Cost	97,600	56,512	58,031	55,133	54,463	50,064	-48.7%
4b. Distribution Cost	36,000	29,723	24,827	24,827	23,648	26,506	-26.4%
5. Retail Price (FCFA/T)	45,000	54,597	57,828	58,926	62,227	63,901	42.0%

decrease), and distribution costs by FCFA 9,494 per mt (down 26.4%), so that retail prices increased only FCFA 18,901 per mt (plus 42%). This is one of the outstanding successes of the FSSRP: a decrease of over 85% in subsidies has resulted in a retail price increase of only 42%.

1.2.4 Importation Loan Facility Operations

Importation loans are made through commercial banks to importers at an amount equal to 50% of the CIF cost of the shipment, and are due in 180 days. The status of loans granted during the 1992/93 season is shown in Exhibit 5. The IBEX and Africa Import shipments were handled by BICIC and CAC. At the time information was collected in early July 1993, only one such loan had been repaid; the others had later due dates.

These transactions account for 14,450 mt of the 22,600 mt imported. As noted elsewhere in this report, the remaining tonnage was imported by IBE under revised FSSRP rules which did not require the importer to obtain an importation loan (i.e. open a letter of credit) in order to access subsidies.

1.2.5 Subsidy Fund Operations

Subsidy disbursements as of July 1993 are shown in Exhibit 6. As indicated, subsidies were paid on all shipments, including that of IBE. Subsidy rates for the 1992/93 season were as follows:

NPK 20-10-10	FCFA 15,200 per mt
NPK 12-06-20	FCFA 15,600 per mt
Urea	FCFA 12,200 per mt
Ammonium sulfate	FCFA 4,500 per mt

The status of the Subsidy Fund appears in Exhibit 7. Due to a shortage of Cameroon Government funds to replenish the Subsidy Fund, USAID made two FCFA 200 million deposits to the Special Local Currency Account which were then transferred to the Subsidy Fund. This made it possible to disburse FCFA 406 million during the 1992/93 campaign. (Note: This figure includes a potential disbursement of FCFA 152 million from a pending earmark for the importation of 10,000 mt of NPK 20-10-10.)

Exhibit 5
Importation Loan Status
(as of July 1993)

Transaction No.	Commercial Bank	Metric Tons	Importer	Earmark Date	Loan Disbursed FCFA 000	Date Disbursed	Date Repaid
92/93-1	BICIC	2,800	IBEX	4.12.93	72,180	14.1.93	Open
92/93-2	CAC	4,325*	Africa Import	7.1.93	131,584	14.1.93	2.6.93
92/93-5	CAC	3,650	IBEX	12.5.93	111,063	14.6.93	Open
92/93-6	CAC	3,765	IBEX	2.6.93	91,281	pending	-

* Africa Import eventually imported only 650 mt of this amount, the balance being acquired by IBEX.

Exhibit 6

Subsidy Disbursements, 1992/93

Transaction No.	Bank	Importer	Metric Tons	Earmark Date	Subsidy Amount 000 FCFA	Disbursement Date
92/93-1	BICIC	IBEX	2,800	4.12.93	31,850	3.02.93
92/93-2	CAC	Africa Imp.	675	7.01.03	9,960	13.04.93
92/93-4	Amity	IBE	11,779	24.05.93	109,066	7.06.93
92/93-5	CAC	IBEX	3,650	12.05.93	54,305	14.06.93
92/93-6	CAC	IBEX	3,765	2.06.93	49,043	pending
Totals			22,669		254,224	

Exhibit 7
Status of the FSSRP Subsidy Fund, FCFA
(as of 30 June 1993)

1990/91 Campaign (not reported in last Assessment)

Balance available, 28 February 1991	785,096,681
Disbursement, 5 March 1991	126,373,608
Disbursement, 2 May 1991	79,220,000
Interest earned	16,288,060

1991/92 Campaign

Balance available, 29 June 1991	595,791,033
Disbursement 18 December 1991	21,010,000
Disbursement 1 March 1992	59,640,000
Disbursement 7 May 1992	178,020,000
Disbursement 24 August 1992	194,600,000
Disbursement 23 September 1992	56,700,000
Disbursement 07 October 1992	52,700,000
Total subsidy disbursed	**562,670,000**
Interest earned	53,084,687

1992/93 Campaign

Balance available, 30 October 1992	86,205,720
Deposit from SCLA, 17 December 1992	200,000,000
Disbursement, 2 February 1993	31,850,000
Disbursement 22 April 1993	9,960,000
Disbursement, 4 June 1993	109,065,732
Disbursement, 11 June 1993	54,305,000
Deposit from SCLA, 17 June 1993	200,000,000
Disbursement (pending)	49,042,500
Disbursement pending (earmark only)	152,000,000
Total subsidy (to be) disbursed	**406,223,232**
Interest earned (through 30 June 1993)	14,304,993
Balance available (30 June 1993)[2]	96,595,394

[2] June 30 balance less amounts of pending earmarks.

1.3 Special Issues

1.3.1 Modifications to the General Information Pamphlet

In the course of the 1992/93 campaign, the TSC made certain changes to the General Information Pamphlet (GIP). This change allows an importer to bring in fertilizer without opening a letter of credit (L/C) at a commercial bank in Cameroon and was made at the request of IBE Africa Cameroon, a local subsidiary of IBE Group Inc. of the USA.

While the request for a change in the rules by IBE may be understandable from the point of view of the importer, there are implications of this action which give us cause for concern:

* FSSRP rules and procedures, which had been adhered to throughout the past four years by all participants, were changed in the middle of a program year in what appears to have been an arbitrary manner. Other FSSRP participants might at some time in the future succeed in getting the rules changed by the TSC to suit their particular needs, giving them a competitive advantage. If the FSSRP is to fulfill its objective of creating a truly free market in fertilizer, then all have to play by the same rules throughout an entire program year. Only after a full discussion with all program participants, preferably during the annual seminar/workshop, should a rule change be made. This change would then take effect with the next program year and be embodied in a modified General Information Pamphlet.

* The elimination of the L/C requirement, and the parallel elimination of the importation loan, reduces the role of the commercial bank, in cases where the importer chooses not to use an L/C, to one of requesting earmarking of the subsidy, forwarding shipping documents to the FB, and disbursing the subsidy. Without close surveillance by a bank which is extending a loan to an importer, the passing of fraudulent documents becomes easier. During the past year, one importer not using an L/C made a declaration of value to customs which was well below the actual CIF value. While this appears to have been caused by a misunderstanding, the fact is that customs officials did not notice the unusually low value, and it was only noticed when the documents reached the Fiduciary Bank. Another way this could happen is when a supplier ships to a local affiliated company in Cameroon acting as importer -- in effect an intercompany transfer -- and declares an artificially low price in order to reduce customs duties. These points argue in favor of restoring the L/C requirement to the GIP.

* The apparent irregularity in the payment of customs duties on the IBE importation referred to above (Transaction No.92/92-4 as reported by the FB) was called to the attention of IBE Africa Cameroon's representative and acknowledged by him during a meeting at IBE's offices in Douala between the FSSRP assessment team and the IBE staff. When the situation was explained, the representative agreed that customs duty and subsidy payments are two separate matters, that duty is payable on the full CIF value of the shipment, and that the subsidy is payable only after the goods clear customs. While payment of customs duties is not a direct concern of the FSSRP, we wish to point out that the situation as it now

stands did give an unfair competitive advantage to IBE and we feel that it should be corrected.

Finally, it is worthwhile to comment on the question as to whether allowing an importation by other than L/C arrangements favors large importers over smaller importers. In general, it should favor large buyers with good banking relationships and access to supplier credits. In one case last year, this resulted in lower prices to fertilizer users in Cameroon, a positive effect but one which won't necessarily be repeated. Large importers are likely to be better equipped than small ones to set up their own distribution networks or finance a network of independent dealers -- which would benefit the program. Also, large importers are more likely to be able to invest in fixed assets relating to the fertilizer business and to provide technical advice to farmers.

On the negative side, one result of the rules now in effect could be decreased competition if one large company was able to monopolize the market. At this time, however, two large firms are garnering most of the business and they appear to be competing vigorously against each other. This situation has tended to eliminate wholly Cameroonian-owned firms in the past and this shows no signs of changing. In short, there is no obvious negative effect on competition of removal of the L/C requirement.

1.3.2 Continuation of the Subsidy

The possible continuation of some level of subsidy for the coming year is dependent first of all on the availability of funding. Even if funds do become available, the question has been raised as to whether it is desirable to continue the subsidies, at what level, and with what mechanism.

The argument against subsidies is mainly related to abuses of the FSSRP system because of the importance attached to subsidies by competing importers. This has led, for example, to excessive dependence by importers on this mechanism to keep their costs down and, in some cases, attempts to manipulate the system.

Another effect noticed throughout the program is the tendency of importers to request earmarkings for excessive amounts of imports in order to be sure of getting this cost advantage. This has frequently caused distortions in the market, and in one case led to the failure of an importing company.

On the other side, if subsidies were removed entirely for the coming campaign, prices of fertilizer would increase immediately by 15% to 20%. Since its use on some crops, especially coffee, is already marginal, it is likely that fertilizer consumption would decline even further. This would mainly impact robusta production, where returns to the farmer are very low. In the absence of cost and return data on food crops, it is difficult to say what impact higher fertilizer prices would have on production of such crops.

Removal of subsidies will probably occur a year from now in any case since it is unlikely that subsidies could be continued more than one more year. However, the psychological effect of subsidy removal on Cameroonian farmers at this time would be severe, coming as it would a year after coffee floor prices were again reduced. It could be argued that farmers in the coffee producing regions need one more year to accustom themselves to the new lower coffee prices (which hopefully now approach true market prices and will not decrease again by a large amount) before fertilizer prices increase.

A compromise position would be to halve the subsidy and to announce to all participants that this is the last year of subsidy. At a level of 7 to 10% of the retail price, the subsidy will no longer be such a factor in importer decisions.

Should it prove impossible or undesirable to replenish the subsidy fund, or to do so at a reduced level, an alternative approach has been suggested which is worth examining. This would involve suspension for fertilizer of the 5% "minimum tax" on imports. Customs duties on fertilizer are currently between 10 and 12% of the CIF value, which is the equivalent of 7 to 8% on the delivered cost. Suspension of the minimum tax would reduce the cost of fertilizer to importers by 5%, and the delivered cost by 3 to 4% -- given continued competition to assure that most or all of the savings is passed on to the consumer.

Continuing or discontinuing the subsidy would not seem to have an effect on competition among importers. Larger companies already have an advantage, as noted above, and this would not be changed by a decision on future subsidy levels.

1.3.3 Status of the PSIE Program[3]

On 13 January 1993, the Programme Special d'Importation d'Engrais (PSIE) entered a third phase with the signing of a formal *Protocole de Fonctionnement du Fonds de Roulement du PSIE* between the Commission of the European Communities (CEC), the Government of Cameroon (GRC) and SODECOTON. The *Protocole* is the culmination of over a year's work by the CEC to regain control over the PSIE revolving fund and to clarify how and by whom the funds are to be accessed. In the process, the *Protocole* establishes a set of relationships between the CEC, various agencies of the GRC, SODECOTON, and other development agencies in northern Cameroon.

The PSIE had its genesis in the negotiations between the GRC and USAID which led to signing of the FSSRP Grant Agreement in 1987. At that time, USAID determined that there would not be sufficient subsidy funds in the FSSRP to cover all the estimated 90,000 mt consumption of fertilizer in Cameroon. The GRC and USAID then approached other

[3]This section is a summary of a study conducted by Mr. Tjip Walker of the Workshop in Political Theory and Policy Analysis, University of Indiana. (Contained in a memorandum to Daniel Moore of USAID/Cameroon dated 17 July 1993).

donors to make up the shortfall. The CEC was receptive because it offered a way to provide supplemental funding to another program (the FSSRP) and thus would require little CEC staff time, it would be fast disbursing, and would require minimal oversight. However, the idea of supplemental funding eventually lost its luster in the face of CEC skepticism about the FSSRP, which it was felt would turn into an export support program for American fertilizer companies.

By April 1988, the CEC had developed the idea of partitioning Cameroon into two intervention zones, with USAID focusing its resources on the southern seven provinces and CEC concentrating on the northern three. This would allow CEC to rely on traditional financing modalities and would not subordinate CEC objectives to those of USAID. Nonetheless, in an April 1988 meeting between the CEC and the Technical Supervisory Committee of the FSSRP, the CEC delegate stated that the CEC wholeheartedly supported the GRC's objective of privatizing the procurement and distribution of fertilizer and eliminating subsidy payments. The delegate also stated that funds generated under the CEC program would eventually be merged with those of the FSSRP to support fertilizer marketing nationwide.

As the PSIE was eventually constituted, implementation responsibility was given to three parastatal organizations in the north -- SODECOTON, SEMRY, AND MEAVSB -- which CEC had previously supported. This move down-graded the objective of privatizing fertilizer distribution in favor of ensuring that northern farmers had access to fertilizer and strengthening the state and parastatal organizations which provided inputs to them. In practice, SODECOTON was given responsibility for receiving, delivering, and accounting for the fertilizer procured under the program.

As planned, the first phase of the program lasted two years, from 1988/89 to 1989/1990, corresponding to the period specified for the creation of a revolving fund. CEC purchased 53,400 mt of fertilizer during the period which it donated to SODECOTON (77.3% of the total), SEMRY (16.5%) Nord-Est Benoue (2.6%) and the three provincial delegates of MINAGRI (3.6%). Transportation and delivery costs were covered by CEC so that all proceeds from sale of fertilizer could go into the revolving fund. At the end of the two years, the fund amounted to FCFA 3.6 billion. However, SODECOTON chose to retain this fund rather than turn it over to the CEC/Yaoundé as called for in the financing protocol. During the second phase of the program (1990/1991 and 1991/1992) SODECOTON continued to control the revolving fund, using it to order 21,900 mt of fertilizer for its own needs. None was made available to the other organizations.

A CEC audit of Phase I of the program, issued in late 1991, called for the establishment of a single PSIE revolving fund located in Yaoundé under the control of CEC and MINPAT, the removal of the provincial delegations of agriculture from fertilizer distribution, and the granting to SODECOTON of the right to conduct the fertilizer tendering process internally without recourse to the GRC's tendering board. These new procedures were set forth in the protocol referred to above, which was finally signed in January 1993. Thus

SODECOTON was forced to give up control of the revolving fund. These new rules govern procurement of fertilizer during the 1993/1994 crop year.

Provisions of the protocol setting forth detailed procedures for the ordering, importation, transportation, distribution and pricing of fertilizer are disturbingly similar to those under the old FONADER/MINAGRI system. A detailed examination of the protocol reveals the following:

- there is no evidence of a commitment to a national, private fertilizer market,
- the privileged status granted to SODECOTON creates barriers to the entry of private distributors in the region,
- the procurement process does nothing to promote private sector development, and
- the state is not precluded from continued involvement in fertilizer marketing.

As it stands, the fertilizer marketing system created under the PSIE Protocol is rigidly administered; it is a throw-back to the discredited system that PSIE and FSSRP were supposed to replace. The northern region accounts for 20 to 25% of fertilizer demand. The persistence of a fertilizer procurement system governed by administrative procedures rather than market forces in such a significant segment of the market undermines the gains achieved under the FSSRP and threatens its sustainability. It is strongly recommended that USAID take active steps to sensitize the GRC and the CEC to the shortcomings of the PSIE and work with both agencies to re-orient the program so that it supports rather than retards the realization of a single, national and competitive fertilizer market.

A principle guiding efforts to re-orient the PSIE should be that "anyone should be able to purchase fertilizer from anyone else on mutually agreeable terms without government interference". A corollary to this principle should be that "any potential entrant into the fertilizer marketing system should be eligible for the same benefits available to any similarly situated entrant". Together these rules -- which have guided the FSSRP since its inception -- establish a level playing field and a competitive market.

It is recommended that USAID take the following actions:

1. Remind the GRC and CEC that the reforms codified in the FSSRP Program Grant Agreement apply to the whole country and not just to the southern seven provinces.

2. Create a single supervisory and technical support structure for the fertilizer sub-sector, embracing both the FSSRP and the PSIE.

3. Draw the line on continued GRC participation in fertilizer marketing (through provincial delegates of agriculture) by reminding the GRC of its commitments

under the FSSRP Program Grant Agreement and its February 1991 position paper on the merger of the FSSRP and the PSIE.

2. FINANCIAL PERFORMANCE OF THE PROGRAM

2.1 FSSRP Financial System and the Banking Sector

Thorough description and analysis of the FSSRP financial system has been made in earlier annual assessments of the Program. Although this system has not changed significantly, it is summarized below for convenience.

The FSSRP provides subsidies and low-cost loans as financial incentives to private-sector importers to import and distribute fertilizer. For virtually all transactions covered by the Program, importers gain access to the subsidies and loans through Cameroonian commercial banks by opening a standard bank letter of credit to import the fertilizer. Upon receipt of shipping documents (required under the letter of credit) which prove that the fertilizer has been shipped or has arrived in Cameroon, the FSSRP low cost loan and the fertilizer subsidy may be disbursed through the commercial bank to the importer.

Credit risk for both the letter of credit and the fertilizer loan is assumed by the commercial bank. This structure is meant to induce the participating commercial bank to treat FSSRP importers as regular customers, lending to reliable borrowers but denying access to FSSRP financing to less credit worthy companies. It is also designed to ensure the Program's funds are not diverted to uses other than importation and distribution of fertilizer.

The health of the banking sector thus has a direct effect on the FSSRP program. Bank decisions to restrict or loosen credit affect access to bank credit by potential FSSRP importers just as they do for other parts of the economy. This is of particular concern in Cameroon where the banking sector has been in a state of crisis for several years. The liquidity and general condition of the banks will be especially relevant to the medium term lending facility.

2.2. Financial Conditions and Banking Environment in Cameroon

Most local observers of the Cameroon economy are pessimistic for the short term economic and financial outlook. Because of continued Government deficit financing, Cameroon has become ineligible for World Bank and other donor financing, further aggravating the weak economic situation.

Inflation is low, and probably declining. In some sectors (i.e. of the domestic economy) prices are actually falling, and deflation may be setting in. The country's financial problems, however, conspire to create a situation where effective bank lending rates are above 20% p.a. Few economies are able to sustain such high real interest rates for long without a devaluation, increased unemployment and labor unrest, and/or declining output.

In the banking sector, the "successful" 1992 reform in fact consisted mostly of rescheduling problem loans, with relatively little new money injected. The Government has failed to meet (re)scheduled repayments of *bons d'équipement* since February 1992. That automatically increases the bad debts of the banking system and decreases bank liquidity.

Taken as a whole, the banking system in Cameroon may be technically insolvent and certainly is highly illiquid. The persistent rumors of an impending devaluation of the CFA franc naturally reduce bank liquidity further, as customers try to keep funds offshore whenever possible. Virtually every week, some bank has difficulties in the daily check clearings. Frequently, banks encounter problems (not of their own making) in disbursing salary payments to civil servants, which aggravates the public's lack of confidence in the banking system.

The local financial community generally feels that some of the bigger banks are among the most illiquid. Nevertheless several of the important banks in Cameroon seem to have relatively good liquidity positions. And management of most of the larger banks seems more independent of outside influences than before. Inevitably, however, if the situation deteriorates further, the problem banks will have an impact on the others. Even the best capitalized, most liquid banks are likely to suffer, since they all are linked through the payments system.

One of the positive developments since the last FSSRP assessment has been distinct improvement in the bank supervision capabilities of the regional central bank. Examinations by the banking commission (COBAC) are considered to be quite professional, focussing on key issues in each bank. The quality of new regulation from COBAC also receive high marks from bankers. The regulators' skill could help minimize the spillover effects of difficulties at individual banks.

In summary, the FSSRP has to rely on a banking system that has by no means overcome the problems of earlier years.

2.3 FSSRP Fertilizer Import Financing Arrangements

2.3.1. Commercial Banks

Under the FSSRP, commercial banks assume the credit risk for fertilizer imports and make the decisions about which fertilizer importers to finance. Especially in the illiquid banking environment outlined above, the banks remain extremely cautious in their lending decisions and take as little risk as possible in fertilizer import financing transactions.

Collateral requirements remain strict for importers that cannot obtain suppliers credit. The banks usually seek 100% security from a combination of cash (from the importers' own resources or from buyers' down payments), foreign bank guarantees or standby letters of credit, and the prospective value of the subsidy payment. The fertilizer itself is increasingly regarded as having little practical value as collateral. Experience during the current program year has taught some banks that even 100% collateralized transactions present a degree of operating risk. They also have learned that, even though it is only an intangible asset, an importer's marketing skill must be taken into account when they make the credit decision.

Further, the banks normally do not release the "loan" proceeds to the customer, as has been described in previous assessment reports. Nevertheless, the program's funds do serve the purpose of providing liquidity to the importers' banks; in the current banking environment that is probably essential in facilitating fertilizer imports.

Importers cannot obtain access to the FSSRP subsidy funds without going through the banking system, either for the normal letter of credit procedure or, where an importer can obtain suppliers credit, through a documentary collection. This involvement of the banks, especially where letters of credit are used, continues to benefit the program: it helps ensure that funds are indeed used for fertilizer and not diverted to other uses. For instance, this past year an importer that tried to bend the L/C procedure was refused access to the program by a commercial bank.

2.3.2 Fiduciary Bank

The change in the Fiduciary Bank in 1992 from the BCCC to SCBC has probably improved operation of the program, by removing commercial banks' doubts about the Fiduciary Bank's own creditworthiness. The Fiduciary Bank has carried out its operational functions properly and efficiently. It has played a useful role in helping explain the mechanics of the program to new commercial bank participants.

In addition, the Fiduciary Bank was actively involved in helping to unravel a situation where a fertilizer importer experienced difficulty in completing payment for a shipment after arrival in Douala. The transaction had to be restructured, and the FB helped organize the new transaction quickly. In another case, the FB helped bring apparent irregular import procedures to the TSC's attention on a timely basis.

2.3.3 Audit of Fiduciary Bank

As recommended in last year's assessment, an outside accounting firm made an independent audit of the former Fiduciary Bank, completing its report in September 1992. The audit report showed no irregularities, some reporting deficiencies, and very modest underpayment of interest to the Program. Detailed calculations of the interest due from the former FB were subsequently made; the SRC has not yet made the requested payment on behalf of the BCCC.

In connection with their assessment of the Program's banking arrangements, the consultants reviewed the auditors' report. They appear to have taken a suitably broad view of their mission and to have conducted a careful review of the accounts. It is gratifying to read that despite the unsavory reputation of BCCI, BCCC's parent, the auditors found no trace of irregularities in BCCC's handling of the Program's accounts and that the interest rate adjustments are relatively small.

2.3.4 Summary

Overall, all FSSRP loans to date have been repaid and the program's funds have been used as intended. One additional commercial bank has participated in the program this year, somewhat expanding banking participation in the fertilizer industry.

More generally, the FSSRP financing structure, using the commercial banking system both for risk-taking and surveillance and monitored by an independent Fiduciary Bank, has helped the Program develop private activity in the fertilizer industry. Because of the tight liquidity situation in the banking sector, the continuing need for a revolving credit fund to provide liquidity for FSSRP transactions seems clear.

2.4 Key Fertilizer Import Financing Issues

Several suggestions for further improving operations of the FSSRP financing structure were developed during the assessment process. Most involve changes to the program's general procedures document (GIP). Some are rather straightforward, others raise issues that require discussion among program participants. (A few are also relevant to the proposed medium term lending (MTLF) facility.) They are listed below.

2.4.1 TSC Instructions to the Fiduciary Bank

Particularly where details of banking practice are involved, it is important to the successful functioning of the FSSRP program that communications from the TSC to the Fiduciary Bank be based on full understanding of financing and banking techniques and be expressed in technically sound language. In order to ensure that result, it would probably be useful to have the representative of the Caisse Autonome d'Amortissement (CAA) on the TSC participate in drafting instructions to the FB and be a signatory on all such correspondence. The consultants recommend the TSC adopt such a procedure and that the GIP be modified accordingly.

2.4.2 Importation without Letter of Credit

This question continues to be raised. Use of an L/C insures maximum integrity for the program including protection against incomplete or altered documents. Should the GIP revert to the earlier procedure whereby L/C's are required for all eligible imports?

2.4.3 Distribution Loan

In the case of a loan that does not cover importation, but only distribution, is the GIP totally clear as to the permissible amount of the loan? Further, do GIP procedures inadvertently allow a competitor to learn an importer's cost? That is, since the distribution loan is limited to "fifty percent of the CIF import value," could a firm discover its competitor's cost by seeking earmarking for a distribution loan (that the distributor does not really intend to use)?

2.4.4 Single Line of Credit

The language of Section V.1 of the GIP states that the FSSRP loan program provides a "single line of credit" to importers or distributors for a loan in an amount of 50% of the CIF value. Does this wording in fact clearly prohibit double financing of the same shipment by an importer and a distributor? If the language is ambiguous, what would be a practical remedy?

2.4.4 Expiry Date for Claiming Subsidy Payment

The GIP has cutoff dates for earmarkings, but none specifically for payment of a subsidy. To ensure that goods tied up in customs do not also tie up an earmarking indefinitely, it would seem useful to add to the GIP a distinct expiry date for subsidy disbursement. A period of 90 days, similar to the earmarking cutoff date, seems appropriate.

2.4.5 Disbursement Procedures: Communications

Section IV.3. of the GIP permits the FB to disburse the subsidy to the CB only on receipt of a coded telex. Several banks suggested also allowing such communications by means of letters by authorized signatories. (Use of faxes, however, probably is undesirable since they do not have adequate legal standing under present regulations.)

2.4.6 FB-CB Agreement: Arbitration

In the agreement between the Fiduciary Bank and the Commercial Banks, arbitration is to be carried out by the TSC. One bank has suggested the local bankers association, APECAM, be used instead. Another bank has commented that APECAM is really not appropriate.

2.5 Medium Term Lending Facility (MTLF)

2.5.1 Current Status

Last year's program assessment included in Appendix A detailed suggestions on the structure of a medium term lending facility to facilitate medium-term lending for capital investment in the fertilizer sector. Investment in blending and bagging facilities could help lower fertilizer costs in Cameroon.

Since the last assessment a draft GIP for the MTLF has been prepared along those lines, including the Fiduciary Bank - Commercial Bank loan structure already used to finance fertilizer imports. On the basis of the draft document, banks have been invited to bid for the role of Fiduciary Bank for the MTLF. Five banks proposed their services, have replied to a detailed questionnaire prepared by the Caisse Autonome d'Amortissement on behalf of the TSC. The CAA has interviewed each bank, and is preparing its recommendations for the TSC. A decision should be made soon.

Meetings held with FSSRP participants during this year's assessment have led the consultants to propose certain modifications of the initial structure. In general, the proposals would tighten certain procedures so as to reduce credit risk, and also endeavor to reduce financial cost to project promoters. Details are given in Appendix A.

APPENDIX A

PROPOSED MODIFICATIONS TO THE
MEDIUM TERM LENDING FACILITY (MTLF)

1. Background

Meetings with FSSRP participants during this year's assessment have developed several suggestions for improvement of the draft loan procedures (as set out in the draft General Information Pamphlet or GIP) and other aspects of the initial MTLF structure. Drawing on those suggestions, recommended changes are given in Sections 2-4 below. Some will require further discussion among program participants before being put in place.

At the outset it is worth recalling that the draft GIP for the MTLF and related documents are derived directly from the GIP for the fertilizer import program (FSSRP), which involves extension of credit for a maximum of 180 days to cover one or two shipments of an imported commodity that usually is readily saleable. The goals and principles of the short term program financial structure include:

- use of a Fiduciary Bank to administer credit through commercial banks,
- full reliance on the banks to evaluate the credit risk, the full burden of which is placed on them,
- requirement for letter of credit and other documentary proof of fertilizer purchase and importation,
- negotiation of most other key details of the import credits, including guarantees and collateral as well as pricing, directly between banks and their customers.

As summarized in Section 2 of this report, the financing structure of the FSSRP has achieved reasonable success in helping the program reach its goals. In particular, all the loans to date have been repaid and program funds have not been subject to any misuse.

Commercial banks and the Fiduciary Bank(s) have worked to ensure procedures were properly followed. In a very difficult financial environment, the revolving credit fund has in fact provided greatly needed liquidity to the banks. It should be recalled, however, that these "loans" in fact never were actually disbursed to the "borrower".

There is every reason for the MTLF to use the successful features of the financial structure from the FSSRP. However, further strengthening of the procedures for the MTLF are needed because there will be a higher level of risk. The MTLF involves a five year credit for what is/are likely to be a new venture(s), perhaps by a relatively young firm(s). Funds will flow out of the banks and be at least partially under the borrower's control. Along with a tightened credit structure, however, the MTLF facility should also seek ways to provide a real reduction in a fertilizer project's financing cost, compared to unsubsidized market rates, so as to improve its chances of success.

2. MTLF Administration

2.1 Role of the Caisse Autonome d'Amortissement

As pointed out in Section 2 of this assessment, the TSC needs to ensure technically sound communications with the Fiduciary Bank. Section 2 recommends that the Caisse Autonome d'Amortissement (CAA), which is the Controller of the TSC, participate in drafting instructions to the FB and be a signatory on all such correspondence.

That recommendation is repeated for the MTLF. The relevant MTLF document(s) should be modified accordingly.

For the MTLF, even more than the FSSRP, it seems logical that the CAA also act as the TSC's internal banking and financing consultant, in particular playing a lead role in reviewing loan proposals before final approval, much as it has taken on the task of reviewing applications for designation as Fiduciary Bank under the MTLF. It is recommended that internal TSC documents, as well as those between USAID and the TSC, be amended to clarify that all financial decisions affecting the MTLF must be reviewed by the CAA as the committee's Controller.

The TSC might want to consider a further step to ensure consistent professional handling of the medium term lending facility: once a credit had been agreed by all concerned, turn the administration of the credit over to the CAA. The CAA would of course bring all necessary matters for decision to the attention of the full committee, and make regular reports in any case. This is exactly how the CAA handles many other Government-sponsored financings, and its experience and personnel would be directly relevant.

There may be other ways as well to achieve the same objective, which is to ensure that the TSC manages the financial and banking aspects of the MTLF in a professional manner. Whatever arrangements are adopted by the TSC, common sense would seem to argue that the committee should take advantage of the financial and banking expertise available to it from the CAA, and formalize loan administration arrangements to reflect that.

2.2 Arbitration

Section 2.4.6 of the body of this assessment refers to comments made by program participants about arbitration by the TSC of disputes between the Fiduciary Bank and the commercial banks. Is a change feasible or desirable for the MTLF? Further discussion is needed on this point.

2.3 Decision on Project Financing Eligibility

Another significant feature of administration of MTLF financing concerns the TSC's initial decisions on whether a project is eligible for financing. See Section 3.2 below for a fuii discussion of this vital point.

2.4 Beyond the FSSRP

The FSSRP is due to terminate on September 30, 1994. Especially if an MTLF credit is put in place, the TSC will need to provide for administration of the MTLF program after that date. The TSC needs to address this issue now. The logical, and practical, approach would be to transfer oversight responsibility for the facility to the CAA.

3. Loan Terms and Conditions

The following changes in the draft GIP and other MTLF documents are recommended primarily to take full account of the additional risk involved in medium term lending under present uncertain economic and financial conditions. Most of the proposals reflect comments made by bankers and officials during the assessment interviews.

3.1 Bank eligibility

In addition to obtaining credit checks on the CB and FB, the TSC should obtain verification that the latest examination of those banks by the Banking Commission (COBAC) of the BEAC had approved the banks' compliance with capital adequacy requirements.

In this connection, bank legal lending limit restrictions (amount of credit allowed to one borrower/group) are to be progressively tightened over the next few years, moving from 75% to 45% of each bank's capital. The ratio will be lowered to 65% as of January 1, 1994.

This forthcoming change could affect the ability of smaller commercial banks to handle MTLF project loans as large as FCFA 400 million (see Article 4: Single Loan Amount, in the draft standard agreement between the Fiduciary Bank and a Participating Bank (PB). That agreement should be amended to add a similar requirement for the PBs to reflect BEAC regulations.

3.2 Procedure for Determining Financing Eligibility

The draft GIP (Section V.2) provides in effect for automatic approval of a financing request if the TSC makes no response to the FB within a month of project submission. This provision is no doubt well motivated, intended to avoid excessive delays in approving projects, particularly after a commercial bank has indicated willingness to take the credit risk and the Fiduciary Bank has made the necessary verifications. It nevertheless seems too lax a procedure for medium term financing in the current financial environment in Cameroon.

The "automatic" approval language in the second paragraph, second sentence of Section V.2 should be revised so that the TSC must reply, positively or negatively, to a financing request within 30 days. If no reply is forthcoming by then, the earmarking commission might be automatically waived or refunded. The TSC would still be required to reply as soon as possible.

3.3 Eligibility for Rediscount at Central Bank (BEAC)

The GIP should include an additional, optional criterion for project eligibility for MTLF financing support (Section V.1): a decision by the BEAC that the loan is eligible for rediscounting. In effect, central bank approval for rediscount affords an additional check on a medium term[1] project's credit worthiness. Therefore, the credit proposal submitted by the CB to the FB should mention whether BEAC rediscounting approval had been sought, as well as the outcome.

Credits meeting that criterion could receive more favorable loan coverage, funding and/or interest terms than loans that are not eligible. (Also see the discussion in Section 4 below on interest rate make-up/bonification.)

3.4 Amount Covered by MTLF Facility

As currently drafted, the MTLF documents allow financing for up to 50% of total project cost. (This is related to the requirement for 50% equity contribution by the investor.) "Project costs" are defined to include land and buildings. However, inflated valuations for real estate are common in many countries and in the current environment in Cameroon it is probably difficult to base sound lending decisions on any valuation, inflated or otherwise.

To minimize the risk related to such situations, it would be desirable to add a further eligibility criterion that limits MTLF lending to a percentage of the participating bank's loan, such as 50% for a loan that is not eligible for BEAC rediscounting.

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[1]The BEAC definition of "medium term" covers loans with final maturities up to 10 years.

3.5 Drawdown of Funds

The GIP should require credit proposals to include a schedule for use of the medium term funds. A separate schedule of significant foreign currency expenditures should be included. Perhaps the FB should comment to the TSC on the plausibility of the drawdown schedules.

Once loan drawdown starts, the FB could release funds to the CB in accordance with that schedule, significant exceptions to require prior explanation provided by the commercial bank. Monitoring justification of the major items of expenditure (e.g. copies of paid invoices) would be a significant part of the FB's role and periodic reporting in the early stages of the MTLF loan.

Would it be practical for the program to require that major foreign procurement be handled through a letter of credit procedure and/or that a local SGS inspection certificate be obtained? These questions have not been discussed in assessment meetings and deserve consideration by program participants.

3.6 Interest rate

The interest rate charged to the commercial bank on MTLF loans should be 5% p.a. (the rate in the draft GIP) for loans that are eligible for rediscount by BEAC. A higher rate should be charged for loans that are not eligible for rediscount; a 2% premium might be appropriate. Also see Section 4 below on the interest rate make-up option, as well as the section immediately below.

3.7 Interest Margin Ceiling

The GIP should probably add a limit on the maximum interest margin (or spread) over net cost of funds that the commercial bank could charge the borrower. One argument says that in practice any "maximum" margin quickly becomes the minimum as well. On balance, the stronger argument seems to be that it is preferable to protect potential borrowers by setting a maximum, and trust that an investor with a sound project may be able to negotiate more favorable terms.

One banker has suggested such a margin cap be fixed at 7%. Subject to further discussion among FSSRP participants, that appears an appropriate figure under current market conditions. The cap should apply to all sources of domestic funding, not only the MTLF funded portion.

3.8 Events of Default

The draft GIP is silent on events of default, including those that might trigger accelerated loan reimbursement. Although this issue was not discussed during the assessment meetings, it would seem normal for the GIP to include a clause specifying the most significant events of default and what the CB's obligations are to the FB if such events occur.

For example, if the borrower defaults on payment of the MTLF loan or on significant debt obligations to other lenders, the commercial bank loan would normally be accelerated. In such cases, the GIP should require parallel acceleration of the CB's remaining obligations to the FB. In particular, the GIP should not allow the CB's payment obligations to the FB to become lighter than the borrower's obligations to the CB.

The Fiduciary Bank should be charged with verifying compliance with such provisions as part of its regular review of the credit.

4. Interest Make-up Option (Interest *Bonification*)

4.1 Background

The April 1991 FSSRP annual assessment recommended that a medium term lending facility to support fixed investment in the fertilizer industry take the form of an "interest make-up margin". However, this approach was apparently rejected at the FSSRP seminar in Limbé in April 1992 in favor of direct lending from FSSRP funds.

Near the end of this year's assessment meetings a financial official encouraged the consultants to consider including this technique as an option in the MTLF facility. It might offer real benefits to all participant in the program, including budgetary savings for the FSSRP itself, satisfactory income for the banks, and significant interest cost savings for project investors.

4.2 Interest *Bonification*

In brief, the interest make up technique makes interest subsidy payments to a lender (i.e. a commercial bank), allowing the borrower to obtain lower interest costs. It does not provide any funding for the loan. Funding sources would be the commercial bank's own resources or, most likely, a rediscount at the central bank (BEAC).

The interest rate make-up margin structure (*bonification* of interest in banking French) 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 current practice in Cameroon, interest rates on medium term bank credit usually are fixed for the life of the loan. This practice corresponds to that of the central bank, BEAC, which charges a fixed rate to the commercial banks when rediscounting their (eligible) medium term loans. For an MTLF credit the make up calculation thus would probably need to be made only once, at the start of the loan, reducing an administrative burden.

Practically, in an MTLF financing using the interest make up structure the borrower would pay interest to the bank at the normally scheduled intervals, but at a rate well below normal market rates. The FB would then pay the bank additional interest at the agreed make up rate. The total would correspond to a previously agreed acceptable market interest rate for such a credit.

For example (and excluding taxes for simplicity), the interest make up might be set at 9.20% p.a., and the borrower's interest rate at 9.30% p.a. In that example, the interest make up corresponds to 80% of the current BEAC medium term rediscount rate (11.50%), and the borrower's interest equals the proposed bank interest margin ceiling (7%) mentioned in Section 3.7 above, plus the unsubsidized part (20%) of the discount rate.

Interest make up:	11.50% x 80% =	9.20%
Borrower's rate:	11.50% x 20% =	2.30%
	+ max. margin	7.00
		9.30%

4.3 BEAC Medium Term Rediscounting and Other Funding Sources

Participants in the Limbé seminar in April 1992 reportedly discarded the interest make up approach because refinancing of medium term loans was regarded as too uncertain a source of funding due to over-all credit limits set for each bank. Commercial banks also complained that the refinancing guidelines at the Central Bank are unclear. Since the banks already often charge the maximum rate on short term loans, they had little incentive to make riskier, medium term loans.

Some of those earlier objections may no longer be fully justified. For example, this year a commercial banker told the consultants that BEAC has approved medium term rediscounting even for banks that are up against their short term rediscount ceilings.

A key BEAC official said that in deciding whether a medium term loan is eligible for rediscounting, BEAC emphasizes the financial viability of the investment project and the investor. BEAC has an internal credit manual that codifies the main credit extension criteria as well as the procedure a lead bank (*chef de file*) should follow in assembling and presenting an application to the central bank. Loans in amounts between FCFA 300 and

700 million are considered by a credit committee that meets only four times a year, but approvals for loans below FCFA 300 million can be given on a fairly flexible schedule.

Note that if medium term loan rediscounting at BEAC is not available, it might be possible to set the interest make-up margin between a fixed lending rate and the (fluctuating) short-term interest rates the banks pay for their own borrowings. That would eliminate the bank's risk from funding a long-term loan with short term deposits.

In short, despite the apprehensions expressed at Limbé last year, the rediscount mechanism at BEAC may well be a realistic source of funding for a sound medium term investment project loan. Availability of BEAC funding through rediscounting is most likely the key to using the interest make up procedure.

4.4 Interest rate

Using an interest make up structure, the MTLF would not advance funds to a borrower, hence it would not assume the credit risk inherent in direct lending to a commercial bank. It would pay interest make up over a five year period, earning interest on its own funds meanwhile. The commercial bank would of course have a heightened incentive to lend only to a viable project. In return for a lesser degree of risk and lower cost, therefore, FSSRP could consider a somewhat higher level of interest subsidy than under a direct loan structure. In turn, that would enable the borrower to obtain a still lower total financing cost, helping the viability of the fertilizer investment project.

Loans eligible for rediscount at BEAC could receive a higher interest subsidy than loans that are not eligible. As an illustration, the interest make up for eligible loans could be set at 90% of the BEAC discount rate. The make up on other loans could be set at 75% of the discount rate. At the current discount rate of 11.50%, the subsidy on eligible loans would be 10.35%, on other loans 8.63%. That degree of differential could provide an incentive to the borrower to devise a sound project and structure its financing so as to qualify for BEAC rediscounting.

Taxes, currently about 3% of the loan amount, would be for the borrower's account, as would the bank's interest margin.

4.6 An Alternative to Direct MTLF Lending

The best structure for the medium term lending facility probably is one that uses the interest make up procedure. Despite its potential advantages, the interest make up technique requires outside funding, which by definition is uncertain. There are no prior assurances on BEAC loan rediscount approval and funding availability.

Therefore, the interest make up technique probably should be considered only as an option in MTLF procedures. Borrower and commercial bank would have the choice of using it instead of the direct loan structure, or perhaps even in combination with direct loans if outside funding is available for only part of a project's justifiable borrowing need.

APPENDIX B

FIDUCIARY BANK ACTIVITIES

Standard Chartered Bank Cameroun S.A. (SCBC)

Interviewed: Aleem Rauf Khan, Senior Account Relationship Manager
Lawrence Mofor Njoke, *Fondé des Pouvoirs*
Location/Date: Yaoundé, 18 June 1993

1. Special Local Currency Account

The Fiduciary Bank is charged with the management of the Special Local Currency Account (SLCA). Deposits and disbursements since the beginning of the program are shown in Exhibit B-1 on the following page. Deposits were made by USAID from counterpart funds in 1988 and 1990. Transfers to the Revolving Credit Fund (for importation and distribution loans) were made in 1988 and 1990, and to the Monitoring Fund in 1990. Funds from this account were also used in 1991, 1992, and 1993 to cover expenses of the Technical Support Unit of the FSSRP. The Subsidy Fund was replenished in 1992 and again in 1993 from the SCLA.

2. Subsidy Fund Operations

A summary of the operations of the Subsidy Fund was presented in Section 1.2.5, Exhibit 7. The two FCFA 200 million transfers from the SCLA are shown as having been made on 17 December 1992 and 17 June 1993 respectively. Actual disbursements from the Subsidy Fund during the 1992/93 campaign appear in Exhibit 6 in Section 1.2.6.

4. Importation Loan and Subsidy Disbursements

A complete record of loan and subsidy disbursements under the 1992/93 program by transaction number appears in Exhibit B-2. Every earmarking made is tabulated, including those which were subsequently canceled because the importer failed to arrange an L/C within the required 30 days. This was the case with transaction no. 92/93-3 of Groupe One.

In the case of transaction number 92/93-2, the importer, Africa Import, succeeded in clearing through the port a total of only 675 mt out of 4,325 mt of three types of fertilizer imported. Earmarking for the balance of 3,650 mt, dated 7 January 1993, was therefore cancelled. When IBEX subsequently purchased the remaining amount of fertilizer which was stored in the port of Douala, it was issued an earmarking on 12 May 93 (transaction Number 92/93-5) and received the corresponding loan and subsidy disbursements.

Exhibit B-1
Status of the FSSRP Special Local Currency Account
(as of 30 June 1993)

Calendar Year 1988	FCFA
Counterpart Fund Deposit #1	1,710,000,000
Transfer to Revolving Credit Fund	745,000,000
Counterpart Fund Deposit #2	484,500,000
Interest earned 1988	52,868,802
Balance ending 1988	1,502,368,802
Calendar Year 1989	
Transfer to Revolving Credit Fund	1,032,045,021
Interest earned 1989	92,135,468
Balance ending 1989	562,459,249
Calendar Year 1990	
Counterpart Fund Deposit #1	782,500,000
Transfer to Monitoring Fund	81,906,000
Interest earned 1990	94,606,135
Balance ending 1990	1,357,659,384
Calendar Year 1991	
Transfer to Technical Support Unit	66,600,000
Interest earned 1991	96,580,764
Balance ending 1991	1,387,640,148
Calendar Year 1992	
Transfer to Technical Support Unit	19,400,000
Transfer to Subsidy Fund	200,000,000
Transfer TPRCM (June 2, 1992)	114,180
Interest earned 1992	135,398,590
Balance ending 1992	1,303,638,738
Calendar Year 1993	
Transfer to Monitoring Fund	108,403,000
Transfer to Technical Support Unit	35,500,000
Transfer to Subsidy Fund	200,000,000
Interest earned (ending April 1993)	70,933,551
Balance ending April 1993[2]	1,041,490,378

[2] Does not include FCFA 400 million authorized for transfer to USAID Trust Fund.

LOAN AND SUBSIDY STATUS FORM
CAMPAIGN : 1992/1993
DATE : 16.06.93.

Exhibit B-2

						LOAN						SUBSIDY		
Transac-tion NO	BANK	IMPORTER	TYPE	QUANTITY TONS	EARMARK DATE	LOAN TYPE	LOAN VALUE	DISBURSE. DATE	REPAY. DATE	INTEREST EARNED	LOAN COMM.	SUBSIDY AMOUNT	DISBURSE DATE	STATUS
92/93-1	BICIC	IBEX	UREA 46%	800	04/12/92	IMP.	20 000 000	14/01/93			80 000	9760000	03.02.93	Open.
			UREA 46%	1 700	04/12/93	IMP.	46 750 000	14/01/93				20740000	03/02/93	Open.
			S/A	300	04.12.92	IMP.	5 437 500	14/01/93				1350000	03/02/93	Open.
92/93-2	CAC	AFRICA	NPK120620	375	07/01/93	IMP.	)131 584 375	14/01/93	02/06/93	2179793	80 000	5850000	13/04/93	Closed*.
		IMPORT	UREA 46%	150	07/01/93	IMP.	)	14/01/93	02/06/93			1830000	13/04/93	Closed.
			NPK201010	150	07/01/93	IMP.	)	14/01/93	02/06/93			2280000	13/04/93	Closed.
			NPK120630	2 125	07/01/93	IMP.	)131 584 375	14/01/93	02/06/93			33150000	Cancelled	See 92/93-5
			NPK201010	850	07/01/93	IMP.	)	14/01/93	02/06/93			12920000	Cancelled	See 92/93-5
			UREA 46%	675	97/01/93	IMP.	)	14/01/93	02/06/93			8235000	Cancelled	See 92/93-5
92/93-3	CAC	GROUPE ONE	NPK201010	10 000	29/03/93	IMP.	255 000 000	N/A	N/A	N/A	N/A	152000000	N/A	Earmark cancelled.
			UREA 46%	7 000	29/03/93	IMP.	178 500 000	N/A	N/A	N/A	N/A	85400000	N/A	No L/C within
			S/A	5 000	29/03/93	IMP.	85 000 000	N/A	N/A	N/A	N/A	22500000	N/A	30 days period.
92/93-4	AMITY	IBE AFRICA	NPK201010	10 000	24.05.93	No loan	N/A	N/A	N/A	N/A	N/A	152000000	N/A	Earmarked.
		CAMEROUN	UREA 46%	7 279	24.05.93	No loan	N/A	N/A	N/A	N/A	N/A	88815732	07/06/93	Closed.
			S/A	4 500	24.05.93	No loan	N/A	N/A	N/A	N/A	N/A	20250000	07/06/93	Closed.
92/93-5	CAC	IBEX	NPK120620	2 125	12/05/93	Distrib	65 078 125	14/06/93				33150000	14/06/93	Open.
			NPK201010	850	12/05/93	Distrib	25 818 750	14/06/93				12920000	14/06/93	Open.
			UREA 46 %	675	12/05/93	Distrib	20 165 625	14/06/93				8235000	14/06/93	Open.
92/93-6	CAC	IBEX	NPK201010	3 000	02/06/93		78 750 000	01/07/93				45600000		Open.
			S/A	765	02/06/93		12 431 250	01/07/93				3442500		Open.
TOTAL :				58 319						2179793				

*AFRICA IMPORT cleared goods partially from Customs and out of a total subsidy of CFA 265 000 which was earmarded for them, they have requested for a disbursement of 9 960 000 which was paid on 23/04/93. Due to inability of AFRICA IMPORT to clear remaining consignment of goods, the latter was transferred in favour of IBEX ie CFA 54 305 000 to be paid to IBEX once they clear goods from Customs.

*Partial disbursement of subsidy CFA 109 065 732 for the importation of 4 500 T Urea x 4 500 CFA 20 250 000
7 279 978 x 12 200 CFA 88 815 732

Subsidy O/S for 10 000 T NPK20 10 10 x 15 200 = CFA 152 000 000.

A word of explanation is required concerning transaction no. 92/93-4. Here the importer, IBE Africa Cameroun, in accordance with the revised GIP (Version 5.1), imported without opening an L/C with a local bank and therefore was not required to take out an importation loan. Subsidies were, however, paid to the importer.

Exhibit B-3 is a record of actual imports which cleared the port, together with information on the foreign suppliers, the disposition of the fertilizer (name of principal distributors who purchased the fertilizer from the importer, or indication that the importer sold the fertilizer at wholesale or retail), the cost of the imported fertilizer, and the port arrival and clearance dates. This tabulation therefore excludes those transactions listed in Exhibit B-2 which did not result in an actual importation.

In Exhibit B-3, the numbered transactions are broken down by type of fertilizer, as for example 92/93-1-1,2 and 3. This is a convenient way to present the data, because in one case, transaction number 92/93-1, the ammonium sulfate arrived on a different ship, as indicated by the different arrival dates.

Since the format of these two tables is somewhat different than used in the previous year's assessment, we have included comparable data for 1991/92 in Exhibits B-4 and B-5. The figure for total imports, 31,600 mt, is slightly different than the 31,800 mt reported in last year's assessment. This discrepancy is explained in the footnote to Exhibit B-4.

5. Effectiveness of FSSRP Banks

Qualitatively, only BICIC seems really to understand how the program's banking arrangements are supposed to work. The four other commercial banks that have participated in the program so far - Meridien, Crédit Agricole, SCB/CL, and Amity - have in effect relied on the Fiduciary Bank for education and guidance on how they should handle their FSSRP transactions. In addition, on the controversial IBE import, Amity seemed almost to be making an effort to give as little information as possible in response to SCBC's queries. (See below.)

6. IBE Transaction

Mr. Khan gave his impressions of the discussions and correspondence on this transaction, as follows. In reviewing the import documents, SCBC noticed the low value declared to Cameroonian customs, at variance with the value on the invoice. SCBC queried Amity Bank, Amity failed to reply. SCBC wrote the TSC for guidance on May 25 and subsequently met with the TSC on the matter. In the meeting with SCBC the committee orally instructed SCBC to obtain a clarification from Amity. In its letter to SCBC of May 27, Amity refrained from giving an explanation of the price discrepancy.

FERTILIZER SUB-SECTOR REFORM PROGRAM
IMPORTATION STATUS FORM
CAMPAIGN : 1992/93
DATE : 16.06.93.

Exhibit B-3

Transac-tion NO.	IMPORTER	SUPPLIER	DISTRIBUTOR	CONTRACT DATE	CONTRACT VALUE/T	FERTILIZER TYPE	QTY (T)	CIF/TON	CIF VALUE	ARRIVAL DATE	CLEAR DATE
92/93-1-1	IBEX	INTERORE	Wholesaler	N/A	53 000	UREA 46%	800	50 000	40 000 000	13/11/92	20/01/93
92/93-1-2	IBEX	INTERORE	Wholesale	N/A	53 000	UREA 46 %	1 700	55 000	93 500 000	13/11/92	20/01/93
92/93-1-3	IBEX	INTERORE	Wholesaler	N/A	48 000	S/A	300	36 250	10 875 000	10/01/93	20/01/93
92/93-2-1	AFRICA IMPORT	MULTI-FOODS	SOCATRA	17/12/92	56 500	NPK12-06-20	375	64 000	24 000 000	10/12/92	23/04/93
92/93-2-2	AFRICA IMPORT	MULTI-FOODS	SOCATRA	17/12/92	53 700	UREA 46%	150	63 500	9 525 000	10/12/92	23/04/93
92/93-2-3	AFRICA IMPORT	MULTI-FOODS	SOCATRA	17/12/92	56 700	NPK20-10-10	150	64 500	9 675 000	10/12/92	23/04/93
92/93-4-1	IBE AFRICA CAMEROUN	IBE TRADE CORP.	GROUPE ONE, ADIR COMPLEXE JBN/Retail	N/A	Unspecified	UREA	7 280	24 000	174 720 000	22/03/93	14/04/93
92/93-4-2	IBE AFRICA CAMEROUN	IBE TRADE CORP.	GROUPE ONE, ADIR COMPLEXE JBN/Retail	N/A	Unspecified	S/A	4 500	12 000	54 000 000	22/03/93	14/04/93
92/93-5-1	IBEX	MULTI-FOODS	Wholesale/Retail	N/A	N/A	NPK120620	2 125	64 000	136 000 000	10/12/92	23/04/93
92/93-5-2	IBEX	MULTI-FOODS	Wholesale/Retail	N/A	N/A	UREA 46%	675	63 500	42 862 500	10/12/92	23/04/93
92/93-5-3	IBEX	MULTI-FOODS	Wholesale/Retail	N/A	N/A	NPK2101010	850	64 500	54 825 000	10/12/92	23/04/93
						TOTAL :	18 905				

* CIF prices are for per metricton bulk cargo.

FERTILIZER SUB-SECTOR REFORM PROGRAM
LOAN AND SUBSIDY STATUS FORM
CAMPAIGN : 1991/1992
DATE : 31/05/93

Exhibit B-4

						LOAN						SUBSIDY		
Transaction NO.	BANK	IMPORTER	TYPE	QUANTITY EARMARKED (TONS)	EARMARK DATE	LOAN TYPE	LOAN VALUE	DISBURSE DATE	REPAY. DATE	INTEREST EARNED	LOAN COMM.	SUBSIDY AMOUNT	DISBURSE DATE	STATUS
91/92-1	BICIC	IBEX	NPK120620	1 100	14/11/91	IMP.	28 875 000	06/12/91	15/05/92	601 563	62 563	2101000	18/12/91	Closed
91/92-2	BICIC	IBEX	NPK201010	2 450	27/12/91	IMP.	71 968 750	27.01.92	15/05/92	1 381 613	145 001	4630500	25.02.92	Closed
		IBEX	UREA	750	27/12/91	IMP.	20 949 375	27/01/92	15/05/92			1117500	25.02.92	Closed
		IBEX	S/A	300	27/12/91	IMP.	5 573 100	27/01/92	15/05/92			216000	25.02.92	Closed
91/92-3	BICIC	IBEX	NPK201010	2 600	06/03/92	IMP.	70 265 000	07/04/92	08/10/92	1 756 621	175 663	4914000	07/05/92	Closed
91/92-4	BICIC	IBEX	UREA	1 800	06/03/92	IMP.	50 400 000	05/05/92	11/11/92	1 260 000	126 000	2682000	07.05.92	Closed
			UREA	(200)*	06/03/92	IMP.	N/A	N/A	N/A	N/A	N/A		Cancelled	No importation.
91/92-5	BICIC	IBEX	NPK201010	5 400	06/03/92	IMP.	172 125 000	21/04/92	26/10/92	4 303 125	430 312	10206000	07.05.92	Closed
91/92-6	SCBC/CL	ADER	NPK201010	2 000	05/05/92	IMP.	63 750 000	12/10/92	21/04/93	2 356 250	235 625	3780000	12/10/92	Closed
			UREA	1 000	05/05/92	IMP.	30 500 000	12.10.92	21.04.93			1490000	12/10/92	Closed
91/92-7	CAC	AFRICA IMPORT	NPK201010	4 500	05/05/92	IMP.	145 125 000	N/A	N/A	N/A	N/A	8505000	N/A	Earmark cancelled, no L/C within 45-day period.
			NPK120620	2 000	05/05/92	IMP.	64 000 000	N/A	N/A	N/A	N/A	3820000	N/A	
			UREA 46%	1 500	05/05/92	IMP.	47 625 000	N/A	N/A	N/A	N/A	2235000	N/A	
91/92-8	CAC	GROUPE ONE	UREA 46%	3 000	05/05/92	IMP.	73 500 000	N/A	N/A	N/A	N/A	4470000	N/A	Earmark cancelled, no L/C within 45-day period.
						IMP.								
91/92-9	BICIC	IBEX	NPK201010	2 400	05/05/92	IMP.	72 720 000	03/07/92	05/12/92	2 938 000	293 800	4536000	21/08/92	Closed.
			NPK120620	1 600	05/05/92	IMP.	44 800 000	03/07/92	05/12/92			3056000	21.08.92	Closed.
91/92-10	CAC	PELENGET	NPK201010	3 000	05/05/92	IMP.	80 700 000	N/A	N/A	N/A	N/A	5670000	N/A	Earmark cancelled, no L/C within 45-day period.
91/92-11	CAC	AFRICA IMPORT	NPK201010	2 475	23/06/92	IMP.	79 818 750	N/A	N/A	N/A	N/A	4677750	N/A.	Earmark cancelled,
			NPK120620	1 100	23/06/92	IMP.	35 200 000	N/A	N/A	N/A	N/A	2100000	N/A	no shipment within
			UREA 46%	825	23/06/92	IMP.	26 193 750	N/A	N/A	N/A	N/A	1229250	N/A	90-DAY period.
91/92-12	BICIC	IBEX	NPK201010	3 200	23/06/92	IMP.	96 960 000	21/08/92	03/03/93	4 431 600	492 400	6048000	21/08/92	Closed.
			NPK120620	1 500	23/06/92	IMP.	42 000 000	21/08/92	03/03/93			2865000	21/08/92	Closed.
			UREA 46%	1 500	23/06/92	IMP.	40 500 000	21/08/92	03/03/93			2235000	21/08/92	Closed.
			S/A 21%	1 000	23/06/92	IMP.	17 500 000	21/08/92	03/03/93			720000	21/08/92	Closed.
91/92-13	CAC	PELENGET	NPK201010	3 000	23/06/92	IMP.	80 700 000	11/09/92	18/03/93	1 815 750	201 750	5670000	25/09/92	Closed.
			TOTAL :	50 200						20844522	2163114			

* 2 000 Tons of UREA earmarked but only 1 800 Tons imported.

FERTILIZER SUB-SECTOR REFORM PROGRAM
IMPORTATION STATUS FORM

CAMPAIGN : 1991/92
DATE : 31/05/93.

Exhibit B-5

Transaction NO.	IMPORTER	SUPPLIER	DISTRIBUTOR	CONTRACT DATE	CONTRACT VALUE/T	TYPE	FERTILIZER QTY (T)	FERTILIZER CIF/TON	CIF VALUE	ARRIVAL DATE	CLEAR DATE
91/92-1-1	IBEX	ERGIC Int'l	Jardins de Foumbot	25.09.91	58 000	NPK12-06-20	1 100	52 500	57 750 000	09/11/91	05/12/90
91/92-2-1	IBEX	ERGIC Int'l	SPNP	05.12.91	62 875	NPK20-10-10	2 450	58 750	143 937 500	30/01/92	02/02/92
91/92-2-2	IBEX	ERGIC Int'l	SPNP	05.12.91	59 950	UREA	750	55 850	41 887 500	30/01/92	02/02/92
91/92-2-3	IBEX	ERGIC Int'l	SPNP	05.12.91	49 250	Ammonium Sulfate	300	37 155	11 146 500	30/01/92	02/02/92
91/92-3-1	IBEX	ERGIC Int'l	(Wholesale)	N/A	52 000	NPK20-10-10	2 600	54 050	140 530 000	15/04/92	06/05/92
91/92-4-1	IBEX	INTERORE	(Wholesale)	N/A	51 000	UREA	1 800	56 000	112 000 000	20/04/92	05/05/92
91/92-5-1	IBEX	INTERORE	(Wholesale)	N/A	52 000	NPK20-10-10	5 400	63 750	344 250 000	24/04/92	24/04/92
91/92-6-1	IBEX	SOCOPOTA	(Wholesale/Retail)	N/A	Unspecified	NPK20-10-10	2 000	63 750	127 500 000	03/08/92	21/08/92
91/92-6-2	IBEX	SOCOPOTA	(Wholesale/Retail)	N/A	Unspecified	UREA	1 000	61 000	61 000 000	03/08/92	21/08/92
91/92-9-1	IBEX	INTERORE	(Wholesale)	N/A	52 000	NPK20-10-10	2 400	60 750	145 800 000	02/06/92	29/07/92
91/92-9-2	IBEX	ERGIC Int'l	(Wholesale)	N/A	53 000	NPK12-06-20	1 600	56 000	89 600 000	20/07/92	26/06/92
91/92-12-1	IBEX	INTERORE	(Wholesale)	N/A	52 000	NPK20-10-10	3 200	60 750	194 400 000	02/06/92	29/07/92
91/92-12-2	IBEX	INTERORE	(Wholesale)	N/A	53 000	NPK12-06-20	1 500	60 750	91 125 000	28/07/92	28/07/92
91/92-12-3	IBEX	INTERORE	(Wholesale)	N/A	51 000	UREA	1 500	54 000	81 000 000	28/07/92	28/07/92
91/92-12-4	IBEX	INTERORE	(Wholesale)	N/A	45 000	Ammonium Sulfate	1 000	35 000	35 000 000	28/07/92	28/07/92
91/92-13	PELENGET	UNIFERT	MWCA/Retail	30/04/92	46 900	NPK20-10-10	3 000	53 800	161 400 000	31/08/92	14/09/92
						TOTAL :	31 600		1 838 326 500		

Before SCBC could progress further with Amity on the subject, the TSC's June 7 letter to SCBC arrived, instructing the bank to ignore the problem and disburse the subsidy payment. This was in contradiction to the substance of the earlier meeting, but clearly was an official authorization to proceed with the payment. So SCBC made the payment.

The consultants have reviewed copies of this correspondence. It tends to bear out Khan's version of the events. SCBC seems to have carried out its role as Fiduciary Bank quite professionally. Further, its queries of Amity Bank show evidence of a sense of "fiduciary" responsibility to the FSSRP that is commendable.

7. Comments on GIP and Inter-bank Agreements

Before the meeting, Mr. Khan had prepared six suggested improvements to the General Information Pamphlet (GIP) and the standard inter-bank agreement, based on experience over the past year.

Distribution loan: Khan says the permissible amount as defined in the GIP is not totally clear in the case of a loan that does not cover importation, but only distribution. Further, GIP procedures inadvertently could allow a competitor to learn an importer's cost: since the distribution loan is limited to "fifty percent of the CIF import value," the competitor could find out that value by seeking earmarking for a distribution loan.

Import without an L/C: The GIP (IV.3, p. 4) requires the supplier's invoice, b/lading, certificate of quantity and quality, and customs documents. Khan suggested a local SGS certificate and pointed out that without an L/C there is no assurance that the invoice submitted is the original invoice. Should the GIP revert to the earlier procedure whereby L/Cs are required for all eligible imports?

Expiry date for claiming subsidy payment: The GIP has cutoff dates for earmarkings, etc., but none specifically for payment of a subsidy. If an importer does not manage to clear part or all of a shipment through customs, he cannot claim the subsidy. But there is no limit on how long he has to get the fertilizer through customs and make his claim. As the GIP is presently drafted, in theory, he has forever to claim the subsidy. And in case of a delay, the amount of the earmarked subsidy is blocked and unavailable for other transactions.

A distinct expiry date for disbursement of the subsidy would eliminate this potential problem. And in case of a delay caused by events beyond the importer's control, the importer could always request an extension from the TSC. In reasonable cases, the TSC would have every reason to grant the request. Khan suggested a period of 90 days, similar to the earmarking cutoff date.

"single line of credit...": Section V.1 of the GIP states that the FSSRP loan program provides a single line of credit to importers or distributors for a loan in an amount of 50% of the CIF value. Khan says that in fact Section V.3.b. could operate in such a way as to allow a distributor to obtain a loan for a fertilizer shipment against which an importer had also obtained a loan - resulting in 100% financing on the same goods. There is potential here for abuse of the program's intent, he pointed out. We failed to agree in today's meeting on the real degree of difficulty caused by the GIP's language in this area, or on a practical remedy.

Disbursement procedures: Section IV.3. permits the FB to disburse the subsidy to the CB only on receipt of a coded telex. Khan suggested redrafting to permit either a fax or a letter by an authorized signatory of the CB. After discussion, our consensus was to propose addition of letters by authorized signatories, but not faxes.

FB-CB Agreement: arbitration: In the agreement between the Fiduciary Bank and the Commercial Banks, arbitration is to be carried out by the TSC. Khan said banks in Cameroon typically use an inter-bank forum, the APECAM, to arbitrate matters of this type. The suggestion to arbitrate under the APECAM therefore appears to be worthy of further consideration.

Further action: These suggested changes, most of which seem to have merit, will probably be put on the agenda for the seminar held in Douala at the end of the FSSRP review, for discussion among the relevant parties and adoption where appropriate.

8. Audit of Bank of Credit and Commerce Cameroon (BCCC)

A key recommendation in last year's review called for an audit (the first ever) of the Program's bank accounts with the Fiduciary Bank, BCCC. This recommendation took on special significance because of that bank's liquidation and the international scandal surrounding its ultimate parent bank, BCCI.

The audit, dated 21 September 1992, was carried out by Akintola Williams, the local correspondent of a major international (Big Six) accounting firm. It showed no irregularities, some reporting deficiencies, and very modest underpayment of interest to the Program. In particular, the audit recommended that henceforth the TSC prepare and maintain its own set of books of account on its deposits with the Fiduciary Bank.

Subsequently, detailed calculations were made of the amounts owing to the Fund because of interest underpayments. The calculations showed that additional interest due by the two Fiduciary Bank(s)[3] on the Program's three bank accounts amounted to a net total of FCFA 3.8 million.

3

After BCCC was closed by the authorities, Standard Chartered Bank Cameroon (SCBC) became the Fiduciary Bank. USAID's calculations cover both institutions.

In connection with their assessment of the Program's banking arrangements, the consultants reviewed the auditors' report. They appear to have taken a suitably broad view of their mission and to have conducted a careful review of the accounts. It is gratifying to read that despite the unsavory reputation of BCCI, BCCC's parent, the auditors found no trace of irregularities in BCCC's handling of the Program's accounts and that the interest rate adjustments are relatively small.

As for the actions called for as a result of the audit, as of early July 1993 neither has been completely carried out. The TSC has not yet produced a set of books. The Cameroon Government agency responsible for BCCC's debts, the SRC, has been requested by the CAA on behalf of the TSC to pay the money due the Fund. However, no request has yet been made to SCBC to pay the amount due the Fund.

Looking to the future, it is important that the Program assume more responsibility for monitoring its bank accounts than it has so far, and follow the accountants' recommendation in this area.

APPENDIX C

COMMERCIAL BANK ACTIVITIES

1. Crédit Agricole du Cameroun (CAC)

Interviewed: Thomas Helfferich, *Membre du Comité du Direction*
Awono Polycarpe, *Sous Directeur des Opérations Bancaires*
Onguene Alphonse Ndi Ngono
Location/Date: Yaoundé, 16 June 1993

1.1 Fertilizer Transactions

CAC handled fertilizer importation by IBEX and Africa Import during the year. Details on these transactions, as reported by CAC, appear in Exhibits C-1 and C-2. CAC also requested earmarking for an import by Groupe One, which was subsequently canceled. A discussion of these transactions follows.

1.2 Africa Import/IBEX Transaction

There was detailed discussion of a 4,325 mt fertilizer import originated by one of CAC's customers, Africa Import, that in effect had to be bailed out by another customer, IBEX. At the time CAC opened the import L/C, they knew that Africa Import was small and inexperienced with this segment of the fertilizer market. However, CAC took comfort from what seemed to be a firm order placed with Africa Import by the cooperative UCCAO, which had been generally considered the best managed of Cameroon's coffee cooperatives and a fully satisfactory credit risk. In fact, UCCAO and many of its member cooperatives were in financial difficulty and some of the stronger ones had lost confidence in UCCAO management and had begun placing orders for fertilizer directly with importers. This trend was reported in last year's annual assessment but was apparently not available to CAC.

In this transaction, CAC took 100% security for the L/C: FCFA 70 million cash collateral from Africa Import, FCFA 130 million in a counter-guarantee from DG Bank in New York (backed up by a guarantee or L/C from an Indiana bank of the fertilizer supplier, Multi-Food), and the FCFA 64 million balance to come from the FSSRP subsidy.

CAC thus paid out under the L/C when the f.o.b. bill of lading was received. However, along the way UCCAO, Africa Import's customer, had walked away from its order and consequently Africa Import could not raise the funds to clear the fertilizer through Cameroon customs. Negotiations among CAC, Africa Import, the Fiduciary Bank, and IBEX led to an amicable solution, however. Africa Import had enough funds to pay for about 675 mt of the fertilizer. IBEX picked up the remaining 3,650 mt. Technically, the Africa Import transaction was prepaid and IBEX initiated a new one.

Exhibit E-1

Banque Commerciale Table 1
Déboursements des Subventions et des Prêts à l'Importation

Nom de la Banque CREDIT AGRICOLE DU CAMEROUN

Importateur: AFRICA IMPORT.

Campagne 1992/1993

Type D'Engrais	Tonnes	Valeur ('000 FCFA)	L/C Date	Subvention Montant ('000 FCFA)	Date Débourst. Subvention	Prêt à L'Import. Montant ('000 FCFA)	Date Débourst. Prêt	Date de Remboursement
NPK 12.06.20	375	22.968	02/9/92	1.830	23/4/93	76.562	13/01/93	26/5/93
NPK 20.10.10.	150	7.500	02/9/92	2.280	23/4/93	30.375	13.01.93	26/5/93
UREE 46 %	150	8.962	02/9/92	5.850	23/4/93	24.647	13.01.93	26/5/93
TOTAL				9.960		131.584		

NB : Le prêt AFRICA IMPORT a été accordé pour la totalité des engrais, soit 4.325 tonnes, pour un montant de FCFA 131.584.375 à échéance initiale au 12.7.93, mais remboursé par anticipation le 26/5/93 ; Tandis que la subvention n'a été accordée que pour la quantité dédouanée figurant dans ce tableau, soit 675 tonnes.

Exhibit C-2

Banque Commerciale Table 1

Déboursements des Subventions et des Prêts à l'Importation

Nom de la Banque..CREDIT..AGRICOLE. DU CAMEROUN

Importateur:..IBEX..CAMEROON

Campagne 1992/1993

Type D'Engrais	Tonnes	Valeur ('000 FCFA)	L/C Date	Subvention Montant ('000 FCFA)	Date Débourst. Subvention	Prêt à L'Import. Montant ('000 FCFA)	Date Débourst. Prêt	Date de Rembourse-ment
NPK 12.06.20.	2.125	130.156	02/9/92	33.150	14/6/93	65.078	14/6/93	11/12/93
NPK 20.10.10.	850 3.000	51.637 157.500	02/9/92 25/5/93	12.920 45.600	14/6/93 -	25.818 78.750	14/6/93 - -	11/12/93 -
UREE 46 %	675	40.331	02/9/92	8.235	14/6/93	20.165	14/6/93	11/12/93
SULFATE D'AMONIUM	765	24.862	25/5/93	3.442	-	12.431	-	-
TOTAL				103.347		202.242		

N.B. Les quantités d'engrais N.P.K 12.06.20, N.P.K. 20.10.10 et UREE 46% objet de la L/C du 02/9/92 soit 3.650 tonnes représentent les quantités non dédouanées par AFRICA IMPORT et dont le relais a été pris par IBEX, après remboursement par anticipation du prêt AFRICA IMPORT à la date du 25/6/93.

IBEX then applied at CAC for an importation loan, but this could not be issued until Africa Import's loan was repaid by CAC. Once that was done, CAC got approval to issue a new loan to IBEX. (Initially this was referred to by the FB as a distribution loan, but it is in effect the same as any other importation loan.) This FCFA 111 million loan to IBEX is still outstanding. Details on the transaction appear in the FB reports in Appendix B.

CAC and Standard Chartered, the Fiduciary Bank, apparently found an effective technical solution to a thorny legal/letter of credit banking problem. In addition to the technical lessons, CAC says they now understand the intangible credit lesson as well: even with 100% collateral, the bank must verify the depth of the importer's marketing contacts and skills.

In fact, despite the security package on this transaction, CAC was partly at the mercy of the customer: in order to restructure the transaction it was necessary first to get Africa Import to agree to endorse the L/C over to CAC. Had Africa Import balked at that step, as a practical matter CAC would have had great difficulty in quickly getting sufficient legal control of the situation to claim and re-sell the fertilizer and/or restructure the deal.

In order to reduce credit risk as much as possible, in other transactions CAC tries to obtain endorsed drafts issued under a notarized agreement between buyer and seller and endorsed over to the bank. This is the structure underlying the outstanding IBEX credit. The bank greatly prefers this structure to taking security in the form, for example, of a guarantee over fixed or other tangible assets. With a credit based on endorsed drafts, in case of credit problems funds naturally flow into the bank without difficulty. With tangible security, the bank must seek redress from the courts, with inevitable delays as well as less-than-certain collateral values in case of a forced sale.

1.3 Groupe One Transaction

Initially CAC had made the earmarking request for a fertilizer import by Groupe One, the financing for which is now booked at Amity Bank. CAC looked at the contract between Groupe One and IBE for reassurance on the credit risk. However, CAC reached the conclusion internally that Groupe One would have difficulty in marketing the fertilizer. Since IBE was offering terms that in effect reduced Groupe One's cost to near-zero, there was no problem in "financing" the import. Thus CAC did not open an L/C for Groupe One, and consequently CAC had no banking risk on them.

When Groupe One sought to move the banking business (i.e. payments and a possible credit fund loan) to Amity Bank, CAC had no credit risk to cover and accepted the move without fuss. CAC has not even sought to recover costs or fees for having handled the earmarking request. Reading between the lines of CAC's explanation, it was clear they are not impressed with Groupe One's current capabilities and financial situation.

1.4 Financial Information, Shareholders

Strong growth continues, with total assets now at FCFA 32 billion, up almost 70% from last year. Loans outstanding total FCFA 19 billion, deposits are at FCFA 22 billion, capital funds are FCFA 4.8 billion (a strong position for such a small bank). Term loans (over 1 year final maturity) total FCFA 7-8 billion, of which over half consist of Government-backed loans to civil servants for furniture and appliance financing. CAC has four branches at present, intends to open about 4 full-service branches next year and about as many part-time satellite branches, all in the western part of Cameroon.

The German Government agency DEG holds 18% of the capital, and has three votes on the Board of Directors. The Cameroon Government holds 45% of equity directly, and another 35% is held by parastatals. Helfferich said the Government will likely reduce its percentage share next year. Technically, this will occur through a debt:equity swap for outstanding debt that the Government is unable to service.

Helfferich emphasized that the Government of Cameroon and its agencies have scrupu: usly respected the agreement with the German Government to refrain from interfering with the bank's credit or deposit decisions. Thus, despite the high proportion of Government and parastatal share ownership, day-to-day management of the bank is paradoxically free from Government interference.

1.5 Interest in Fiduciary Bank role

CAC is one of five candidates for the role of Fiduciary Bank (FB) under the Medium Term Lending Facility program. As of the date of our meeting, the decision on the FB was pending with the Caisse Autonome. Last year, CAC had bid unsuccessfully to be Fiduciary Bank for the FSSRP when the program was seeking a replacement for BCCC. Mr. Helfferich stated firmly that CAC has a keen interest in winning the designation as Fiduciary Bank under the medium term program, and no interest at all in being a lender under that program.

CAC is aware of the interest of three investor groups in a bulk blending facility, and in fact has already received a dossier on this from FERIDA (unsolicited). Given the volumes of fertilizer involved, they do not believe that more than one such plant would be justified. Helferrich feels that IBEX is the best qualified because of their five years of experience in fertilizer importing and marketing. He noted that the IBEX plant would be several times larger than that planned by Ferida.

1.6 Interest Rates

Lending rates for agricultural loans are currently set at 19% p.a. net of tax, 22% p.a. all-in. Obviously, few investment projects, agricultural or other, have a rate of return that justifies such a borrowing rate. (Some poultry and livestock raising projects might, Helfferich said, nevertheless show such a return.) The bank is therefore now discussing with the authorities an interest rate subsidy mechanism for rural credit that would get the all-in rates down to 10-14%. Financing for the rural credit loan subsidy could come from the taxes levied on all bank loans - about 3% in total.

1.7 FCFA Devaluation Prospects

Mr. Helfferich pointed out that devaluation would bring no benefits unless other restrictive measures were adopted simultaneously. There is no doubt in his mind that devaluation would help exports in short order. The problems, of course, lie in the effect on prices of imports. Middle class salaried employees in urban areas and civil servants would experience reduced living standards because of higher import prices.

In Mr. Awono's opinion, any decision to devalue the CFA franc must also take account of likely responses in Nigeria. In his view the Naira might be devalued the day after an FCFA devaluation. If so, he felt much of a CFA devaluation exercise would prove to be pointless since trade with Nigeria would continue to be negatively affected, and smuggling would continue.

1.8 FSSRP Subsidies

CAC officials were concerned about the possible termination of fertilizer subsidies next year. They felt that the effect on coffee production would be disastrous, particularly if devaluation occurred. Their view was that a ratio of fertilizer prices to coffee prices be established as a parity, and that means be found to maintain that parity through fertilizer subsidies indefinitely.

2. BICIC

Interviewed: Arthur Kamssue, Assistant Credit Manager
Location/Date: Douala, 24 June 1993

2.1 Fertilizer Transactions

BICIC handled one transaction during the year. an importation by IBEX of 2,800 mt. The breakdown by type and value is shown in the accompanying Exhibit C-3. The importation loan was disbursed on 13 January 1993 and is due on 13 July 1993. The importation was made in two shipments, the first arriving on 13 November 1992 and the second on 10 January 1993. The subsidy was disbursed by BICIC to IBEX on 3 February after both shipments had cleared customs.

Exhibit C-3

Commercial Bank Table 1
Subsidy and Importation Loan Disbursements

Name of Bank. BANQUE INTERNATIONALE POUR LE COMMERCE ET L'INDUSTRIE DU CAMEROUN "B I C I C"

Importer: IBEX Sarl

Fertilizer Type	Tons	Value ('000 FCFA)	L/C Date	Subsidy Amount ('000 FCFA)	Date Subsidy Disb.	Import Loan Amount ('000 FCFA)	Date Loan Disb.	Date Loan Repaid
UREE 46%	800	40 000	10.11.92	9 760	03.02.93	20 000	13.01.93	-
UREE 46%	1 700	93 500	14.12.92	20 740	03.02.93	46 750	13.01.93	-
S/A 21%	300	10 875	14.12.92	1 350	03.02.93	5 437	13.01.93	-

The collateral that BICIC required was, unusually, less than 100% cover for the risk. There was a down payment, and BICIC has put the subsidy in a blocked account. Payments under IBEX's sales contract will be domiciled at BICIC (meaning that IBEX cannot touch those payments until their loan is repaid). Pricing is relatively favorable, and IBEX's loan interest charges are in effect reduced by deposit interest earned on the blocked subsidy payment. BICIC also handled a non-subsidized fertilizer import for IBEX.

One prospective importer asked BICIC to issue an irrevocable letter of credit to the supplier and then, once the subsidy had been collected, to agree to revoke the L/C. M. Kamssue turned them down out of hand. (From the FSSRP viewpoint, this amounted to a perfect example of how a commercial bank can in effect serve as a policeman to help protect the integrity of the program.)

2.2 Bank Loan Portfolio

BICIC was "restructured", not "recapitalized", and so retains a large number of uncollectible loans (FCFA 60 billion out of a total portfolio of FCFA 175 billion).

Historically BICIC has followed a conservative policy in taking bad debt provision. The State-related loans have already been provisioned at the 45% level; the bank's target is 60%. In order to reach this goal, the bank is discussing a loan "swap" program with the SRC. Currently, loans to the State and parastatals total roughly FCFA 60 billion, which is not far from 1/3 of the bank's total balance sheet.

2.3 Fiduciary Bank - Commercial Bank Relations

We asked M. Kamssue for his advice about acceptable form of communications between the FB and CBs. At present, the GIP allows only exchange of tested telexes. He confirmed that this is awkward, since frequently the bank handling the import - e.g. BICIC Douala - has no test key arrangement in place with Standard Chartered (SCBC) in Yaoundé.

We asked his opinion about authorizing the use of fax messages. He pointed out that in Cameroon (as in many other countries) a fax message has no value in a court. He feels it would be an improvement to amend the GIP to authorize use of a letter signed by an authorized signatory. This is operationally feasible, since the banks all have the signature book of the other banks, even when they do not have test key arrangements in place.

3. Meridien Bank BIAO (BMBC)

Interviewed: Ferdinand Ngong-Kemoum, Corporate Department
Location/Date: Douala, 24 June 1993

3.1 Fertilizer Transactions

BMBC did not participate in the 1992/93 campaign. IBEX is a customer of the bank, but not for FSSRP transactions. There was also a small transaction for ADIR.

Ngong said that there had been problems with an IBEX transaction, and that he was disappointed with their performance. IBEX had a small overdraft (FCFA 20 million) after settlement of an earlier import transaction a year ago but still has not paid up, even though, according to Ngon, they do not contest their debt to the bank. Overdraft interest continues to accumulate, bringing the total outstanding now to FCFA 30 million.

The CAMATREX lawsuit is still not resolved and NWCA has never received its money paid for fertilizer not delivered.

When organizing fertilizer import credit, the bank no longer assigns any value to the fertilizer itself for purposes of collateral. It just is not practical for the bank to consider taking over the fertilizer and selling it. This is one illustration of stricter standards for collateral. Ngon recalled that in 1988-89 the bank would only look for cash collateral of 30%, plus the subsidy, plus the "value" of the fertilizer.

3.2 Banking Environment

The banking system as a whole has increasing liquidity problems. Management of the biggest banks still probably suffers from the influence of the Government, which has such a significant portion of their capital. Of the large banks, only Crédit Lyonnais and Meridien are really private in capital and management.

The banking supervisors from COBAC have just spent a couple of weeks at Meridien. They give an impression of real professionalism. This would be a welcome change from the past. Bank management will know soon enough if this is borne out in practice, once COBAC's reports have been completed and distributed. Ngon pointed out that COBAC reports to the regional BEAC, which probably helps account for their apparent independence of judgment.

3.3 Medium Term Credit

Several of the "medium term" credits on Meridien's balance sheet (FCFA 14 billion as of 31 January) used to be "short term" but have been rescheduled or simply reclassified. This reduces the need for taking reserves against those assets.

In evaluating requests for medium-term credit, the bank has two over-riding criteria. First, does the project being financed make sense technically? Second, what about the entrepreneur -- is he personally involved in the success of the project, and does he have enough financial strength to be able to take care of the inevitable surprises and complications that arise during a medium-term project? These days, it is hard to find credit applications that satisfy those criteria.

Ngon confirmed that BEAC reviews a bank's medium-term credit proposals for credit risk before approving rediscount facilities to back up such loans. BEAC's criteria inevitably are a bit different than those of the commercial bank, as they focus especially on whether a bank's balance sheet can handle an additional medium-term loan. BEAC's approval of such a loan includes stipulation of the maximum lending margin that the commercial bank may take.

We discussed with Ngon how the FSSRP might structure its medium term lending facility to reduce lending risk. How might FSSRP use to its advantage BEAC oversight of banks' medium term loans? Conclusion: it might make sense for the MLTF to require that qualifying loans first be approved for rediscount by BEAC.

SGBC and BICIC, which had not been "privatized", were in the worst shape. BMBC has access to the Central Bank rediscount facility, and in fact loan agreements with clients state that the loan will be granted "provided the Central Bank will rediscount the loan". According to Ngong, BEAC has complained that there are not enough bankable projects brought to it.

4. Amity Bank

Interviewed:	Lawrence L. Tasha, Director General
	Thomas T. Amibang, Treasurer
	J.J. Quan, Finance and Administrative Director
Location/Date:	Douala, 24 June 1993

4.1 Fertilizer Transactions

Amity Bank is the bank used by IBE Africa Cameroon, the importer of 7,280 mt of urea and 4,500 mt of ammonium sulfate which arrived on 22 March 1993. IBE's imports as reported by Amity Bank are shown in the accompanying Exhibit C-4. As noted elsewhere in this report, this fertilizer was imported from Ukraine in bulk at unusually low prices, FCFA 16,500/mt for ammonium sulfate, and FCFA 36,200 for urea.

Subsidies for this shipment were paid to IBE through Amity Bank on 9 June 1993. The FB states that IBE earmarked subsidies for an additional import of 10,000 mt of NPK 20-10-10 on 24 May 1993, but the fertilizer has not yet been ordered by IBE. According to the revised GIP, the earmarking expires after 30 days if no bill of lading is issued by that date. So technically this earmarking is no longer valid. IBE has told Amity that they are "arranging shipment and we'll fax you proof of shipment."

Exhibit C-4

Banque Commerciale Table 1

Déboursements des Subventions et des Prêts à l'Importation

Nom de la Banque..AMITY..BANK..CAMEROON S.A.

Importateur:...IBE.AFRICA.CAMEROON

Campagne 1992/1993

Type D'Engrais	Tonnes	Valeur ('000 FCFA)	L/C Date	Subvention Montant ('000 FCFA)	Date Déburst. Subvention	Prêt à L'Import. Montant ('000 FCFA)	Date Débourst. Prêt	Date de Rembourse-ment
AMMONIUM SULPHATZ	4500	74 250	-	20 250	09/06/93	-	-	-
UREA	7279,978	263 535	-	88 815	09/06/93	-	-	-
	11779,978	337 785		109 065				

AMITY BANK CAMEROON S.A.
B.P. 2705 Douala, Cameroon

4.2 Groupe One/IBE Transaction

The Groupe One/IBE transaction, for which Amity is the main commercial bank, was reviewed in considerable detail. Throughout, the Amity people contended that they acted as they should have. They maintain that the issue of the customs duty payment is not for them to police, provided documents appear in order.

Since Amity is a newly established bank, they could not qualify as a CB under the FSSRP as long as the importer had to use the letter of credit procedure to import. This was the case for Groupe One. Groupe One, they said, was already a customer of Amity Bank, but required an L/C, hence approached Crédit Agricole. When the TSC amended the GIP to no longer require an importer to use L/Cs, Amity then could qualify. That background helps explain how they entered the picture when the IBE transaction came up, IBE also being a customer of Amity.

Mr. Quan said they ran a routine credit check on IBE Group Inc. through a New York correspondent when the IBE account was established. IBE is privately owned, so little information is publicly available. IBE is a trading company which does several hundred million dollars in business annually, mostly in Latin America and Eastern Europe.

IBE Africa Cameroon was incorporated as an SARL in "early 1993." Ownership is 65% IBE Group Inc. and 35% ENTRECOM International, a Nigerian based firm. To date, the only activities conducted by IBE Cameroon that Amity knows of are the fertilizer imports.

There was a lengthy discussion of the customs duty issue. Our hosts professed to be surprised that the Fiduciary Bank would raise the question, and said in effect that the subject was none of the business of the Fiduciary Bank or of Amity Bank. Under questioning, Quan did say that after receiving the query from the FB, they did (nevertheless) query IBE on the matter. It was at that point that they learned that IBE felt that customs duty should be paid on the invoice value of the fertilizer <u>less</u> the (anticipated) subsidy.

4.3 Bank Operations

Mr. Tasha, obviously pleased, reported that Amity Bank had made its first monthly profit ahead of schedule, and continues to be profitable. He attributes this success to cost control and very prudent lending -- in fact, relatively little lending. They are normally a placer of funds. BEAC pays 9.75% p.a. on deposits with fixed maturities of 10, 20, or 30 days. Amity's other main deposit bank is Crédit Lyonnais, where they can make placements as short as overnight; rates currently are also 9.75% p.a.

4.4 FSSRP Medium Term Lending Facility

Mr. Tasha recommended that the GIP for the MTLF have a cap on the permissible lending spread that a commercial bank could charge the borrower, and suggested a maximum of 7%.

There was a good discussion of this point. First, without a cap the banks would be too tempted to charge the maximum possible, which is over 20% to the customer at present. This simply is too high for any start-up industrial project to service (or survive). Second, if the MLTF gives the lending bank a below market cost of funds, the cap would not necessarily become the floor as well (this was our argument in today's discussion), there could be some competition among banks for a good deal, etc.

Other relevant points: BEAC used to set spreads for banks' term loans, but no longer does; BEAC's most recent spread was 7½%. Amity's current marginal cost of funds is about 10% p.a., and typical spread on loans is 7-8%. Under today's conditions, Tasha said they would make a medium term loan with a fixed rate, not a floating rate.

At least for the purposes of discussion, Tasha and Quan seemed to think that a bank could be induced to lend medium term to a fertilizer-related project if the MTLF in effect cut their cost of funds in half for half the loan amount. Under current conditions and adopting Tasha's idea of a capped spread of 7%, that would give a blended rate to the borrower of about 14½% p.a. They though something like that could be do-able.

Finally, Amity naturally raised the question whether the GIP for the MLTF should require L/Cs be used when equipment imports, etc., are being financed. They prefer not.

5. SCB Crédit Lyonnais Cameroun (SCB/CL)

Interviewed: Jose Gramage, Regional Director
Location/Date: Douala, 23 June 1993

5.1 Background

SCB/CL, generally regarded as the most liquid of the large banks in Cameroon, has participated only once to date in the FSSRP, handling an import two seasons ago for ADER. The bank also is one of five candidates for the role of Fiduciary Bank under the proposed medium-term facility. Mr. Gramage did not appear to have any direct knowledge of the program. Mr. Gramage himself, a French expatriate, has been here three years and seemed quite on top of local banking practices.

We therefore used the opportunity of the meeting to test with him certain ideas on structuring the MTLF, as well as to acquaint him with the program itself and how his bank might participate.

5.2 "Arbitration" of Differences Between CB and FB

Under the procedures used for the short-term program, differences between a commercial bank and the Fiduciary Bank are to be settled by the TSC. In a meeting last week, the FB had suggested finding a more neutral "arbiter" and suggested a professional banking group, the APECAM.

Mr. Gramage said APECAM is not a particularly suitable body for that role. APECAM is simply the local bankers' association (including specialized financial institutions). Its meetings typically include the managing directors of the banks, who discuss topics and problems of common interest. Its "decisions" are not binding. Gramage mentioned cases where individual banks had failed to abide by their own agreement on certain matters. In his judgment the only suitable arbiter for purposes of disagreement between FB and CB would be the court system (with all its potential imperfections).

5.3 Deposit Insurance, Bank Supervision

Cameroon has no system of deposit insurance, either via a specific institution like the FDIC in the US or a Government-sponsored inter-bank arrangement as in France.

The banking commission, COBAC, is now active in bank supervision. His head office is constantly reminding the regional managers such as himself to maintain high credit standards, etc., so as not to run afoul of the COBAC. Granted, banks' financial position under current country conditions causes most of them to be in technical violation of certain balance sheet ratios but they now do take the COBAC supervision seriously.

Permission for commercial banks to have access to rediscounting facilities at the central bank reinforces the authorities' closer supervision of banks' lending activities. Paradoxically (and as we had been told by a French aid official in Yaoundé) at present SCB/CL does not have access to rediscounting of short-term paper at the BEAC - because it is in better financial shape than most of the other banks. For the other banks, credits to large corporate and other borrowers are reviewed name-by-name at BEAC in this context; loans to names deemed non-creditworthy are not eligible for rediscount.

5.4 Medium Term Loans, FSSRP MLTF Facility

For medium and long term credits, SCB/CL as well as the other banks can rediscount paper deemed of acceptable quality. Where BEAC deems a risk excessive, this privilege is not granted.[4] Current rediscount rate is 9.75%. To illustrate the relative importance of term loans to SCB/CL, Gramage said that of the total loan portfolio (including overdrafts) of FCFA 69 billion, FCFA 14 billion is medium or long term.

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4. The central bank thus in effect makes an independent credit judgment on term loans. The MTLF might take indirect advantage of this practice by requiring that loans be approved for rediscount at BEAC in order to be eligible for the MTLF.

In analyzing medium and long term credit proposals, banks in Cameroon usually focus on just two points: 1) can the project being financed really pay for itself? and 2) how can the bank structure the deal so as to intercept all possible cash flows (and keep them away from company control) until loan repayment? The latter concern, Gramage said, is of course not usually in the customers' best interest. Somewhat surprisingly, Gramage said there is less concern with evaluating guarantees and collateral supporting term credits than in usual European banking practice.

Best rate on medium and long term loans in Cameroon currently is 15.25% p.a. plus tax, usual rate is 18% p.a. plus tax. Technically, tax is calculated in two steps: 10.99% of the rate net of tax; to the sum of the bank's rate plus the 10.99% is added another 1% flat tax. Main benefit of the MLTF structure as presently envisaged would be to reduce funding cost to the lending bank to a cost below that of the rediscount rate at BEAC, producing a blended rate that could be less exorbitant for the borrower.

Once he understood the main lines of the MLTF, Gramage showed some interest. A SCB/CL customer that currently handles animal feed, Société Provanderie du Cameroun, could be interested in adding a fertilizer blending and bagging facility. Gramage offered to send us contact information before we leave Douala, so we could visit the company during our tour next week.

6. Standard Chartered Bank Cameroon S.A. (SCBC), Douala Head Office

Interviewed: John Taylor, Administration and Finance Manager
Location/Date: Douala, 24 June 93

6.1 Background

The meeting was arranged to review certain aspects of the current banking environment. Taylor is a long-time expatriate in the SCBC organization, having worked in Libya before arriving in Cameroon three years ago. At SCBC Cameroon he has responsibility for internal audit and controls as well as domestic and international payments.

6.2 Banking System

Taylor confirmed other bankers' comments about an impending liquidity crisis. Virtually every week, some bank has difficulties in the daily check clearings. Frequently at the clearings, a bank that is having problems just clears the checks for which it has enough liquidity that day, then goes home. If things are particularly bad, a bank may simply not show up at the clearing on a particular day. The best known cases among the bigger banks have indeed been BICIC and SGBC, although both seem to be having less difficulty in the last two or three weeks.

Inevitably, as things deteriorate further the problems of the banks having difficulties will have an impact on even the best-managed banks since they all are linked with each other through the payments system.

Taylor is not optimistic for the short run. The heart of the immediate problems facing the banks is the Government's fiscal problem - civil service paychecks get progressively later each month, sometimes payment is for only part of the salary due. (A few civil servants are as much as two years behind in receiving their pay.) Current political problems probably add another layer of complication as well.

Anecdotally, he confirmed the over-valuation of the FCFA franc. He recently gave a day off to a bank clerk to buy a motorbike. The clerk wanted to visit his family's home in Western Cameroon, where bikes procured from Nigeria cost less than 25% of what they cost in Douala.

6.3 Supervision of Banking System

Taylor is quite favorably impressed with the quality of the bank examiners from the new banking commission, COBAC. Their inspectors have spent a few weeks at his bank just recently, asked all the right questions, consistently went to the heart of the matter - in a word, they were real professionals. Surprise inspections now are conducted, the inspectors truly know what to look for in areas like foreign exchange dealing.

Likewise, new regulations that have been issued from time to time by COBAC are accurate and realistic. Previously, regulations were masterpieces of drafting elegance but impossible to apply.

In both inspections and regulations, COBAC's work is a vast improvement over its predecessors. Taylor attributes this to the reporting relationship COBAC has to the central bank, BEAC: COBAC comes under the regional BEAC.

Taylor, too, has heard that COBAC will be moving soon to shut down one of the smaller banks (referred to as The First). He understands this move is to take the form of a merger with another highly troubled bank, IBAC, with the bad loans of the combined entity then moved off to the SRC. Neither bank has a significant share of total deposits, so the forced merger probably can be brought off without too much disruption for the public.

APPENDIX D

ACTIVITIES OF IMPORTERS

1. Historical Perspective

A summary of all FSSRP importations since the beginning of the program, by fertilizer type, tonnage, cost, and importing firm appears in Exhibit D-1. Of the five types included in the program, NPK 20-10-10 accounted for over 42% of imports, urea 30%, ammonium sulfate 15%, and NPK 12-06-20 11%. No NPK 10-30-10 was imported. Analyses of the data appear in various sections of this report.

2. IBEX

Interviewed: Mrs. Rose Mbonde, Administrator
Ntgousse Douba Desire, Assistant Administrator
Nhantaing Akimeje Theodore, Financial Officer
Location/Date: Douala, 22 June 93

2.1 Importation and Stock Situation

Imports for the 1992/93 campaign are shown in Exhibit D-2. The 10,215 mt includes a final shipment of 3000 mt of NPK 20-10-10 and 765 mt of ammonium sulfate which is scheduled to arrive Douala 7 July. The 3,650 mt taken over from Africa Imports is also included (see Africa Imports report for details). Imports were only 40% of last year's level of 25,800 mt.

A cost comparison with the previous year's program shows that IBEX imported NPK 20-10-10 at an average of FCFA 52,500 per mt in 1992/93 (one shipment only) compared to FCFA 60,400 in 1991/92. Urea cost IBEX an average of FCFA 53,400 per mt in 1992/93 and FCFA 55,300 the previous year. Ammonium sulfate cost slightly more this past year, FCFA 40,700 per mt vs. FCFA 35,500 per mt. These figures show that for the two most important types of fertilizer imported, NPK 20-10-10 and urea, IBEX negotiated prices which were 3% to 13% lower than the previous year. (These average costs exclude fertilizer which IBEX took over from Africa Import and which was purchased at the low uniform price of FCFA 48,000 per mt.)

The IBEX stock situation (in mt) for the 1992/93 campaign is shown below.

	NPK 20-10-10	NPK 12-06-20	Urea	Ammon Sulf	Total
Stocks, 10/92	2,979	950	0	310	4,239
Imports	3,850	2,125	3,175	1,065	10,215
Total Avail.	6,829	3,075	3,175	1,375	14,454
Distributed	3,582	712	2,967	450	7,711
Stocks, 6/93	3,247	2,363	208	925	6,743

ANNUAL BREAKDOWN BY TYPE IMPORTED AND CIF PRICE

Exhibit D-1

YEAR: 1988/89

Qty (T)	CIF cost (CFA/T)	Total Value (CFA)	Importer
16,300	63,650	1,031,195,000	[illegible]
5,000	62,500	312,500,000	ADER
5,000	64,994	324,970,000	Amimo
26,300	63,257	1,663,665,000	
7,000	61,600	431,200,000	[illegible]
5,000	61,000	305,000,000	ADER
12,000	61,350	736,200,000	
0	n/a	n/a	
0	n/a	n/a	
6,500	51,250	333,125,000	[illegible]
700	51,250	35,875,000	[illegible]
7,000	51,000	301,000,000	ADER
5,000	62,500	307,500,000	Amimo
18,200	54,044	983,500,000	
3,500	30,300	112,330,000	[illegible]
6,000	39,300	273,000,000	[illegible]
9,500	38,300	373,330,000	
63,000	56,512	3,194,715,000	

YEAR: 1989/90

Qty (T)	CIF cost (CFA/T)	Total Value (CFA)	Importer
11,000	60,909	670,000,000	[illegible]
2,730	66,300	181,343,000	HEX
5,500	66,300	365,750,000	HEX
4,000	66,300	264,000,000	HEX
23,230	62,853	1,481,393,000	
500	66,300	33,250,000	HEX
1,500	66,300	99,700,000	HEX
2,000	66,300	133,000,000	
0	n/a	n/a	
0	n/a	n/a	
11,000	55,600	611,630,000	[illegible]
4,990	54,404	271,919,000	HEX
8,920	37,000	332,130,000	HEX
24,942	56,160	1,400,919,000	
7,000	41,357	136,700,000	HEX
11,000	37,915	417,300,000	[illegible]
14,000	39,306	554,300,000	
64,172	58,013	3,571,414,000	

YEAR: 1990/91

Qty (T)	CIF cost (CFA/T)	Total Value (CFA)	Importer
3,277	64,000	209,328,000	HEX
3,434	64,000	247,136,000	HEX
3,400	66,756	226,950,000	HEX
12,851	64,736	700,614,000	
1,492	64,000	95,488,000	HEX
1,492	64,000	95,488,000	
0	n/a	n/a	
0	n/a	n/a	
5,178	51,000	263,978,000	HEX
1,700	31,900	54,200,750	HEX
6,885	46,222	318,236,750	
1,575	40,000	63,000,000	HEX
1,575	40,000	63,000,000	
22,803	55,133	1,257,338,750	

YEAR: 1991/92

Qty (T)	CIF cost (CFA/T)	Total Value (CFA)	Importer
2,430	60,156	145,997,500	HEX
5,400	63,750	344,250,000	HEX
2,000	54,000	140,130,000	HEX
3,000	66,750	340,200,000	HEX
3,000	55,000	164,000,000	[illegible]
3,000	56,500	157,500,000	Acma
21,000	59,716	1,257,017,500	
1,000	57,500	57,500,000	HEX
3,400	54,000	171,600,000	HEX
4,300	53,663	231,130,000	
0	n/a	n/a	
0	n/a	n/a	
730	55,000	41,057,500	HEX
2,000	56,000	112,000,000	HEX
1,500	54,000	81,000,000	HEX
1,000	61,000	61,000,000	ADER
5,230	56,560	295,057,500	
300	37,833	11,346,500	HEX
1,000	35,000	35,000,000	HEX
1,300	35,497	46,346,500	
31,000	54,464	1,831,201,500	

YEAR: 1992/93

Qty (T)	CIF cost (CFA/T)	Total Value (CFA)	Importer
150	60,750	9,112,500	A Import
630	50,250	31,657,500	HEX
3,000	51,500	153,500,000	HEX
4,000	54,000	210,230,000	
375	61,500	22,968,750	A Import
2,135	61,200	130,756,230	HEX
2,500	61,250	153,125,000	
0	n/a	n/a	
0	n/a	n/a	
800	50,000	40,000,000	HEX
1,700	55,000	93,500,000	HEX
150	59,750	8,962,500	A Import
675	59,750	40,331,250	HEX
2,300	60,250	138,575,540	HEX/Cam
10,000	56,364	323,470,290	
300	30,250	9,075,000	HEX
4,500	28,400	130,115,000	HEX/Cam
765	31,500	24,082,500	HEX
4,000	28,144	138,990,000	
21,385	50,800	1,043,833,290	

5 yr Total	
86,401	42.70%
22,972	10.90%
0	0.00%
62,001	30.90%
31,171	11.37%
202,879	

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April 29, 1993

Exhibit D-2

IBEX Fertilizer Imports, 1992/93 Program

Shipment No.	Supplier	Type	Metric Tons	CIF Cost per ton, FCFA	Total Cost, 000 FCFA	Ship	Arrival Date	Customs Clearance Date
1	Interore	Urea	800	50,000	40,000	Agios Nicolas	27 Oct 92	13 Nov 92
2	Interore	Urea	1,700	55,000	93,500	Estrella	11 Jan 93	20 Jan 93
	"	Am Sulf	300	36,250	10,875	"	"	"
3	(Ex-Africa Import)	Urea	675	48,000	32,400	Beata Leonhard	21 Dec 92	17 May 93
	"	12-06-20	2,125	48,000	102,000	"	"	"
	"	20-10-10	850	48,000	40,800	"	"	"
4	ERGIC	20-10-10	3,000	52,500	157,500	Steve	7 July 93	pending
	"	Am Sulf	765	32,500	24,863	"	"	"
Totals			10,215		501,938			

The beginning stocks figure is higher that reported as ending stocks for the 1991/92 campaign in the last annual assessment by 3,340 mt. The reason is that a decision was made to extend the campaign to October 1992 after completion of the field work in August (the original end date). Thus the 3,340 mt reported as sold by IBEX but not yet delivered becomes in fact part of the amount distributed during the last campaign. The company's stock at the end of the season was 2,500 mt higher than at the beginning, due mainly to the fact that the last shipment arrived so late.

2.2 1992/93 Sales Record

IBEX's sales during the 1992/93 campaign are shown in Exhibit D-3.

IBEX has orders for an additional 6,350 mt as follows:

CAPLAMI - 3000 mt of NPK 20-10-10, 1,500 mt NPK 12-06-20
CAPLAME - 750 mt of 12-06-20
SPNP/SBM - 200 mt urea, 900 mt ammonium sulfate

The balance of 393 mt would be sold to small distributors. If these sales are carried out the breakdown by type of buyer would be as follows:

Coffee cooperatives - 6,173 mt (43%)
Banana plantations - 2,050 mt (14%)
Small distributors - 6,231 mt (43%)

The trend toward sales to small distributors reported in last year's assessment continues. Over 40% of sales (shown as *divers*) went to dealers in the Foumbot, Dschang, and Banyo (Adamoua Province) areas, while 43% went to coffee cooperatives and 14% to banana plantations. This represents a major shift in marketing compared to the previous year when cooperatives and other large enterprises purchased three quarters of the fertilizer imported by IBEX (though the total was much larger).

In the Foumbot area, IBEX will enter into a joint marketing venture in September 1993 with a businessman named El Hadj Mamouda to operate a fertilizer retail store. Prices are to be FCFA 51,000 per mt for NPK fertilizers and FCFA 48,000 per mt for ammonium sulfate. In Dschang, IBEX sold 423 mt to the CAPLAME cooperative, but also substantial amounts to private dealers who sell at retail mainly at the weekly market in Dschang. These dealers typically own trucks which they haul produce to the Douala market, and return with fertilizer purchased from IBEX. Purchases are in lots of 7 to 8 mt at prices up to FCFA 55,000/mt. Sales in Banyo are to dealers who pick up fertilizer in Douala and sell to large corn farmers in the Adamoua. In addition, IBEX is considering setting up a joint marketing venture in Bamenda with John Ndi Akwar, a former employee of NWCA who has since gone into business for himself. He has organized 16 groups of women farmers who are pooling their fertilizer purchases, which could amount to as much as 600 mt.

Exhibit D-3

Importateur Table 3

Distribution des Engrais de la Campagne 1992/1993

(Tonnes Métriques)

Nom de l'Importateur: I B E X

Client	NPK 20-10-10	NPK 12-6-20	Urée	Sulfate D'Ammonium	Total
S.B.M.			360 T	160 T	520 T
S.P.N.P.			350 T	80 T	430 T
CAPLAMI			500 T		500 T
CAPLAME	423 T				423 T
DIVERS	3 159 T	712 T	1 757 T	210 T	5 838 T
TOTAL	3 582 T	712 T	2 967 T	450 T	7 711 T

Mrs. Mbonde feels that IBEX can compete successfully with other importer/distributors. In Foumbot, a dealer selling IBE fertilizer is located next to the Mamouda/IBEX store and the joint venture has matched IBE's low prices, for example, FCFA 2,600/sack for Urea.

IBEX has plans for a mixing and bagging plant in Douala, which would be a joint venture with Hydrochem/France, with financial assistance from PROPARCO (France) and DEG (Germany). Hydrochem already operates such a plant in Abidjan. A feasibility study recently completed indicates that the plant must count on sales to cotton projects in Chad -- a market of about 22,000 mt. It may, however, prove difficult to finance the project because competitors have already lined up external financing from the leading international financial organizations, such as IFC, the African Development Bank, and the Islamic Development Bank.

2.3 Banking Relationships

For first few years of FSSRP program, IBEX used BICIC for all imports. They progressively discovered that BICIC was over-charging. To service its many letters of credit, IBEX opened separate accounts at the bank, some of which had sizeable deposits, others showed overdrafts. Despite an apparent agreement with the bank to consider balances on a net over-all basis, BICIC charged overdraft interest on the debit balances without any allowance for the credit balances.

IBEX has recently shifted much of its business to Crédit Agricole, which apparently has a more flexible pricing policy. Further, BICIC would not consider any portion of IBEX's fertilizer inventories as valid collateral for import credit; Crédit Agricole does.

On the negative side, Crédit Agricole's head office in Yaoundé has very tight operational controls over the Douala office, using tested telexes between the two offices to authorize L/C opening, disbursements, etc. Further, nothing can be approved if both of the German expatriate managers of Crédit Agricole are absent. Progressively, IBEX has learned to adjust to this formalistic approach.

2.4 Credit to Customers

Generally, as with the other importers we have met, IBEX sells only for cash. Typically, a small customer will take delivery in Douala with payment in banknotes, which IBEX deposits immediately at the Crédit Agricole office nearby.

However, IBEX now plans to undertake a joint venture with in Foumbot with a businessman named El Hadj Mamouda, who has bought fertilizer from IBEX in the past. IBEX has learned progressively to trust him even if he is sometimes slow in paying, because his customers in turn typically are facing unforeseen payments difficulties themselves. In the new joint venture arrangements envisaged for Foumbot, IBEX will give Mamouda 50% credit on each fertilizer delivery, with payment due in 60-90 days. The two parties will share the rent on the building. IBEX has worked out an interesting payments/cash management arrangement with Mamouda: he will deposit sales proceeds into the special-purpose IBEX account opened at CAC Bafoussam. He is to make these deposits every two weeks, and Crédit Agricole Bafoussam is to inform IBEX in Douala of the deposit balance. This arrangement should allow IBEX to monitor Mamouda's stock vs. payments position, without looking over his shoulder every step of the way, which would risk undermining the confidence necessary for the success of the joint venture.

3. IBE Africa Cameroon

Interviewed:	Dele Olanubi, Managing Partner, IBE Africa (and CEO, ENTRECOM Int'l, New Jersey) Mrs. Roseline Obenge, Marketing Manager Mrs. Angele Egbe, Finance Director
Location/Date:	Douala, 25 June 1993

3.1 Background

IBE Africa Cameroon is a joint venture of IBE International (65%) and a New Jersey firm called ENTRECOM (35%). The parent company is IBE Group Inc. of New York, which engages in barter trade, shipping, and chemicals. Dele says they are the largest shipper of methane gas in the world. Other subsidiaries of the IBE Group are IBE Trading Co. and Transboy. IBE Africa also has interests in Nigeria and Ghana. Mr. Dele apparently owns much or all of ENTRECOM, whose specialty is arranging business ventures between US firms and firms in Africa.

Referring to the "bilateral agreement" signed between IBE Group and the Cameroon government, Dele said that press reports had distorted the substance of Mr. Silverston's discussions here. He said the company planned to do about $5 million business annually in Cameroon. They expected to do a kind of countertrade, using funds generated from the export of Cameroon commodities to import fertilizer. This would involve extending up to $5 million in credit to private Cameroon companies. There would be no direct involvement of the Cameroon government. Asked how this might work, Dele said that IBE might place fertilizer on consignment with buyers of coffee and in effect barter the fertilizer for coffee. This suggests that the $5 million credit referred to above would be extended by the parent company to IBE Cameroon to enable this kind of barter arrangement to function.

Mr. Dele said that IBE would also be making investments in fixed assets in Cameroon in the future. One such investment could be their own bagging (and perhaps mixing) facility here. IBE's experience with quai-side bagging of the urea and ammonium sulfate already imported was not a success, he said. Costs had been much higher and their profit margin on sales smaller than expected, which might lead the company to build their own bagging facility here, if not also mixing.

3.2 Fertilizer Transactions

The record of IBE's imports in 1992/93 appear in Exhibit D-4. The supplier was IBE Group Inc. in the U.S. and the shipment originated in Ukraine. The fertilizer was imported in bulk and bagged at quai-side. Prices paid -- FCFA 36,200 per mt for urea and FCFA 16,500 per mt for ammonium sulfate -- are unusually low, even for bulk shipments.

At the close of the 1992/93 season, in June 1993, IBE had made the following sales in mt:

	Urea	AmmonSulf	Total
Groupe One, for:			
CAPLAME	1,000	200	1,200
CAPLABAM		200	200
CAMSUCO	1,000		1,000
Others	1,670	310	1,980
JBN, for NWCA	1,117	40	1,157
CDC/Del Monte	210		210
Pelenget	115	12	127
SAFACAM	40	10	50
Total	5,152	772	5,924
Balance in stock	2,127	3,728	5,555

Groupe One originally scheduled to act as importer for this shipment (see below), was the principal distributor. Pelenget and JBN are also distributors who sold at wholesale to others. CDC/Del Monte and SAFACAM, both parastatals, are direct users of fertilizer.

3.3 Changes in the General Information Pamplet

We discussed with Mr. Dele IBE's role in getting the GIP changed to allow imports without opening a letter of credit. Dele said that originally Groupe One was to act as importer of IBE fertilizer; and that this company had applied to Crédit Agricole for a letter of credit for the importation but had been turned down. He said that CAC had said they were "skeptical" about Groupe One. Rather than be blocked in this way from importing IBE then decided (once incorporated locally) to act as importer. The parent IBE company would supply the fertilizer on credit, which meant that IBE Cameroon did not need a letter of credit to finance the import. IBE then successfully lobbied the Cameroon government to get the FSSRP rules changed to allow this.

Exhibit D-4

IBE Imports, 1992/93 Program

Supplier	Type	Metric Tons	FCFA/mt	Total cost, 000FCFA	Ship	Arrival date	Customs clear. date
IBE Group Inc.	Urea	7,279	36,200	263,500	Platon	12 Apr 93	15 Apr 93
"	AmmonSulf	4,500	16,500	74,250	"	"	"
Totals		11,779		337,750			

Mr. Dele said that he had no objections in principle to opening a letter of credit but he saw no reason to impose that requirement on a company with the resources IBE had at its disposal and he felt that it did not contribute to the kind of good working relationships he hoped to create in Cameroon. Dele said they could easily have arranged for their US bank (he mentioned Bankers Trust) to issue a guarantee in favor of Crédit Agricole, so as to support the "escrow account" structure they originally wanted.

We questioned Dele closely about several aspects of fertilizer import transactions. In particular, we asked what his reaction would be if the GIP reverted to the previous requirement that all imports be handled through letters of credit. He replied that, on the one hand, this would not present a problem for IBE Africa Cameroon, which now has adequate cash in Cameroon to put up as collateral with a bank opening the L/C (which was not the case for the first transaction). On the other hand, IBE has already signed a "$5 million bilateral trade agreement" with Cameroon and thinks that as a result the L/C procedure is completely superfluous for them.

As to the proposed shipment of 10,000 mt of NPK 20-10-10, for which the earmarking was about to expire, Dele said he was returning to New York that evening and that the issue would be decided at an IBE board meeting on July 6/7.

3.4 Customs Payment Problem

Mr. Dele did not seem to be aware of the discrepancy in the declared value to customs of the first fertilizer shipment. It was explained to him that IBE had declared a customs value equal to the CIF cost of the fertilizer minus the subsidy -- FCFA 12,000 per mt for ammonium sulfate instead of FCFA 16,500 per mt, and FCFA 24,000 per mt instead of FCFA 36,200 per mt. Mr. Dele said that he agreed with our statement that the subsidy and customs payment were two separate matters, and that the subsidy is paid only after the shipment clears customs at its full CIF value. He said his only concern had been that customs authorities were trying to get him to pay customs on the value after bagging, which in fact was done after clearing customs.

4. Africa Imports

Interviewed: Maurice Kamgaing, President
Location/Date: Douala, 22 June 93

4.1 Background

Africa Import is a trading company owned by Mr. Kamgaing, his family, and a few close associates. He imports rice and flour, and claims that he is the main importer of flour from France into Cameroon. Multi-Foods in the U.S. is the supplier of flour. He also purchases abroad consignments (*lots* in French) of distressed merchandise of all types for sale in Cameroon. Kamgaing also owns the Beausejour Hotel in Douala.

4.2 Fertilizer Imports

The 1992/93 campaign marked the first time Africa Import (AI) had imported fertilizer. The supplier was Multi-Foods of the USA. Africa Import ran into difficulty because they relied on a contract with UCCAO for 4,400 mt (originally 13,500 mt, then reduced to 8,800 mt, then reduced again to 4,400 mt), which the cooperative union later canceled when it was unable to finance the purchase. AI took delivery of only 650 mt of a 4,325 mt shipment and abandoned the rest. The commercial bank, Crédit Agricole, took possession of the balance and sold it to IBEX. As noted in the report on Crédit Agricole, the bank was forced to cancel AI's earmarking for the tonnage not picked up, and received FB authorization for an earmarking in favor of IBEX for the remaining 3,650 mt. Africa Imports reportedly sold its 650 mt to small merchants, some for cash and some on credit. Mr. Kamgaing hopes to continue in the FSSRP program next season, but only at a small level.

4.3 Banking Relationships

Africa Import's main banks apparently are SGBC and SCBC. Relationship with Crédit Agricole is new, arising from the FSSRP fertilizer transaction that turned out to be so difficult.

Mr. Kamgaing took pains to point out that the general manager of his prospective customer for the fertilizer order, UCCAO, was dismissed shortly after the transaction came undone. That import was based 50% on a local guarantee to Crédit Agricole from Africa Import and 50% on a suppliers credit from Multi-Foods. Kamgaing said that for flour imports he has an on-going relationship with Multi-Foods that is easy to manage, including regular supplier credit. The fertilizer transaction was more complicated for him than his other import deals.

5. ADER

Interviewed:	Christophe Yanwouo, Commercial Officer
Location/Date:	Douala, 21 June 1993

5.1 Background

ADER is a subsidiary of a French company, SCPA, part of the Potasses d'Alsace group. The Cameroonian shareholders of ADER are private. The company itself is about five years old. Its predecessor company, SEPCAE, was 50% State-owned, 50% SCPA-owned and went bankrupt. ADER imports and distributes goods, primarily products of the Potasses d'Alsace group. A sister company in Senegal, Senchim, produces *complexe* fertilizers.

Total annual sales run FCFA 3.5-4 billion, the bulk of which goes to a small group of large customers, especially in fertilizer. As a result, one big contract can shift the sales figures from one year to the next by FCFA 500 million. Fertilizer accounts for 20-25% of sales, the other main product lines being agricultural chemicals, pesticides, and related machinery.

5.2 Fertilizer Transactions

Of 1991/92 subsidized fertilizer imports of 2000 mt of NPK 20-10-10 and 1000 mt of urea, 600 mt of 20-10-10 remain (no urea). SODECAO was the biggest buyer. Purchases included 650 mt which was distributed to SODECAO employees being laid off, provided they had a viable plan to use it.

The price to SODECAO was FCFA 70,000/mt for both types, delivered to the customer. The price to large customers picked up at Douala was FCFA 60,000 to 62,000 per mt (3000 to 3100 per 50 kg. sack equivalent). For 10 kg bags sold to small merchants or farmers the price is FCFA 80,000 to 90,000 per mt (4000 to 4,500 per sack).

About 80% of ADER's sales are made from the Douala headquarters, and the balance from its three depots in other towns. Yaoundé and Bafoussam account for about 10% each, while there are virtually no sales made from the Nkongsamba depot. This is due to the dominant role of coffee cooperatives as fertilizer distributors in that area, he said.

ADER plans to import 2000 mt of urea under the FSSRP next year. They feel that they over-ordered 20-10-10 last time, and that it would have been better to order more urea.

Last year ADER also imported non-subsidized fertilizer, as follows:

Potassium chloride (KCl) - 1000 mt
Potassium sulfate - 200 mt (for pineapples)
Kieserite (MgO) - 200 mt
plus small amounts of other types.

They recently responded to a SODECOTON tender for 6000 mt of urea and 16,000 mt of NPK fertilizers. ADER recently sold 2,500 mt of KCl to SOCAPALM.

Asked to estimate the demand from banana plantations, Mr. Yanwouo gave the following figures for SPNP and SPM combined (no estimates for CDC/Del Monte available):

Ammonium sulfate - 800 mt
Urea - 2,400 mt
KCl - 3,500 mt
Dolomite - 1,400 mt
"Scori" - 200 mt

To summarize, subsidized fertilizer types amounted to 3,200 mt out of a total of 8,300 mt.

As to the future, Mr. Yanwouo said that IBE's entrance into the picture made it difficult to forecast ADER's sales. The fertilizer obtained by IBE in Eastern Europe is much lower in cost than anything ADER's parent company in France, Potasse d'Alsace, could offer.

5.3 Finance and Banking

ADER's two main banks are SCB/CL and BICIC. Last year's FSSRP imports were made through Crédit Lyonnais. Unlike other smaller, less well established FSSRP importers, ADER did not have to put up specific guarantees or collateral to induce the bank to open the import L/C. Financing arrangements were made within the company's existing bank credit line with Crédit Lyonnais (the line even includes an overdraft option).

The only banking problem with this transaction involved documentary requirements for release of the subsidy, between the commercial bank and the Fiduciary Bank. (This was surprising to ADER since a similar transaction in an earlier year went off without these hitches.)

APPENDIX E

ACTIVITIES OF DISTRIBUTORS

1. UCCAO

Interviewed: Nzefa Tsachoua Pierre, Director General
Souop David
Location/Date: Bafoussam, 29 June 93

As shown by the figures below, UCCAO sold only 35 mt of fertilizer during the past year (whereas they once sold 20,000 to 30,000 mt per year).

	NPK 20-10-10	NPK 12-06-20	Urea	Total
Beginning stocks	513	91	7	61
Purchases	0	0	0	0
Sales	21	7	7	35
Ending stocks	492	84	0	576

Earlier in the year, UCCAO received offers from importers for 13,500 mt, which was later reduced to 8,000 mt, and then to 4,500 mt. Africa Import won the order, but after it had ordered the fertilizer and it arrived in the port, UCCAO canceled the order. It is reported that UCCAO was unable to provide importers with sufficient collateral. In the end, the only UCCAO cooperatives who were in a position to buy significant amounts of fertilizer (CAPLAME, CAPLAMI and CAPLABAM)) bought directly from importers and distributors rather than through UCCAO.

These results reflect the profound changes which UCCAO is undergoing. Due to the bad financial situation of the cooperative union, there has been a major reduction of staff and a cessation of activities in many areas. While they still market some arabica coffee, they have ceased purchasing fertilizer and are disposing of the small stock left over from purchases two years ago. Extension activities have been largely eliminated.

According to Mr. Nzefa, a board of directors meeting scheduled for 30 June will decide on the future of UCCAO. He believes that for reasons of economies of scale, UCCAO should again be charged with marketing of coffee and purchase of fertilizer for its members. If so, there will need to be tight control over some cooperatives who mismanaged their operations and still owe UCCAO money. There was also a suggestion that because of the lack of confidence in UCCAO by the two strong cooperatives, CAPLAME and CAPLAMI, it could be that UCCAO would form with its member cooperatives a temporary association to act in their name to make purchases and sales. The implication is that these cooperatives do not have enough confidence in the central union to entrust it with the management of operations.

2. CAPLAMI

Interviewed: Mbou Samuel, Director General
Location/Date: Bafoussam, 29 June 93

2.1 Fertilizer Transactions

According to Mr. Mbou, CAPLAMI placed orders with IBEX in April and June 1993 for 5,500 mt of fertilizer, which had all been delivered. This does not correspond with information supplied by IBEX, which indicates that out of a total order of 5,000 mt, 500 mt of urea had been delivered as of the date of our meeting, and that 3,000 mt of 20-10-10 and 1,500 mt of 12-06-20 had yet to be delivered. Possibly Mr. Mbou was including some deliveries from the previous year in his figures.

Purchases and remaining stocks break down as follows:

	Purchased	Stocks
NPK 20-10-10:	3,000 mt	1,400 mt
Urea:	1,500	500
NPK 12-06-20:	1,500	1,000
Total	5,500	2,900

Management believes that they will not need any additional fertilizer for the 1993/94 season but have an option with IBEX to purchase additional 20-10-10 in September if needed.

According to data submitted by IBEX, about 3,500 mt of the amount delivered actually came from imports from the 1991/92 season.

CAPLAMI's purchase price CIF Douala, estimated delivered cost (Douala price plus FCFA 7000 per mt transport cost to Bafoussam, but excluding additional handling charges) and prices charged to cooperative members are as follows:

	Purchase price 000 FCFA/mt	Est'd delivered cost 000 FCFA/mt	Est'd delivered cost FCFA/sack	Sale price
NPK 20-10-10	53,000	60,000	3,000	3,000
Urea	51,000	58,000	2,900	3,000
NPK 12-06-20	54,500	61,500	3,075	3,500

The figures indicate that the cooperative is barely breaking even on these sales. Even so, it represents a significant departure from past practice, since last year it sold all types of fertilizer at FCFA 2000 per sack, representing a large subsidy. Another change is that sales are made for cash to members and non-members alike at the same price. In fact about half of total sales went to retailers (*revendeurs*).

The DG reported that importers and distributors actively sought orders from CAPLAMI. Five firms made offers, even though no formal bids were requested. Four of these were IBEX, Groupe One, Top-Ex, and Aviacam.

2.2 Banking and Finance

CAPLAMI normally works with two banks: SCB/CL and BMBC. Mr. Mbou said they were quite strict on the financing arrangements for fertilizer purchases from IBEX, which required bank guarantees (*cautions*) for the full amount of the purchases before delivery. The banks required 100% cash collateral to back up their guarantees. The banks blocked the necessary amount in CAPLAMI's current account, and requested a guarantee fee of 2% per month. Mbou said no and the banks withdrew the fee requirement.

The banks did not pay CAPLAMI any interest for the blocked deposit (technically justified, no doubt, because demand accounts in Cameroon are non-interest-bearing by regulation).

CAPLAMI used to offer some credit to its planters for their fertilizer purchases, but now requires full payment in cash.

The DG estimated that because of declining coffee prices and increasing prices, demand in the area was now about 1/2 what it was last year. He felt that a further reduction in the subsidy level would worsen the situation.

2.3 Extension Activities

CAPLAMI has a program to improve the quality and quantity of arabica production by working with a selected group of the better coffee planters, that is, those who achieve yields greater than 500 kg/ha. These planters are advised to plant pure stands at recommended spacing, to apply recommended amounts of fertilizer, pesticides, and herbicides, and to deliver coffee cherries in good condition to pulping stations operated by the cooperative. It should be possible to get 2000 kg/ha, according to the DG. It is hoped that these planters will serve as examples to others.

3. CAPLAME

Interviewed: Zambou Tapondjou Samuel, *Chef, Service Achat, Transport et Approvisionnement*
Location/Date: Dschang, 30 June 93

3.1 Fertilizer Transactions

The following figures on fertilizer purchases, sales and stocks (in mt) prepared by CAPLAME cover the period from 30 September 1992 to 29 June 1993:

	NPK 20-10-10	NPK 12-06-20	Urea	AmSulf	Total
Beginning stocks	1267	35	232	22	1556
Delivered to date	473	-	599	260	1332
Sales	1096	31	219	29	1375
Stocks, 29 June 93	643	4	612	253	1513
Deliveries in progress	-	-	401	140	541
Total purchases	473	-	1000	400	1873

Purchases from IBEX and IBE during the past year, as reported by these two importers, total 1,873 mt, which suggests that the cooperative purchased 500 mt elsewhere. However, no such purchase was reported by the cooperative. The above figures, if correct, indicate consumption of 1,375 mt by members of CAPLAME, which compares to about 1800 mt last year (September to September).

CAPLAME states that an additional purchase of 2000 mt of NPK 20-10-10 is planned before September, because they do not have enough in stock for the fall application on coffee.

Purchases were from IBEX (20-10-10) and IBE/Groupe One (urea and ammonium sulfate). Total delivered cost (to the various supply centers operated by the cooperative) can be estimated by adding other costs as reported by CAPLAME. To the cost at the port of Douala, it is necessary to add a shipping cost of FCFA 8000 per mt plus a handling charge of FCFA 15/sack (300/mt). Since some shipments have to be handled twice (and possibly more), we assume an average handling cost of FCFA 500/mt, for a total shipping and handling cost of FCFA 8,500.

	Cost, Douala (per mt)	Ship/Handling (per mt)	Total (per mt)	Total (per sack)
20-10-10	53,750	8,500	62,250	3,113
Urea	52,000	8,500	60,500	3,025
AmmonSulf	38,000	8,500	46,500	2,325

3.2 Fertilizer Prices and Subsidies

CAPLAME sells all fertilizers to its members only at FCFA 2,500 per sack (except for ammonium sulfate which sells for FCFA 2150 per sack), which means that it is subsidizing NPK 20-10-10 and urea at the rate of FCFA 500 to 600 per mt and ammonium sulfate at FCFA 200 per mt. Mr. Zambou said that it was the policy of the cooperative to subsidize fertilizer to partially compensate members for the low returns on coffee. Fertilizer is rationed to members according to the tonnage of coffee delivered the previous year. The price is much lower than the FCFA 3,500 per sack price charged by private merchants in the area. This was confirmed by a visit to a small store in Bafou, where the merchant stated that he was only able to sell small quantities at that price to vegetable farmers who were not members of the cooperative or to cooperative members desiring "additional" fertilizer.

It was suggested to Mr. Zambou that the sale of cheap fertilizer to coffee farmers was not in keeping with the FSSRP objective of liberalizing fertilizer marketing in Cameroon. If CAPLAME wanted to continue to subsidize its members, why not instead pay them a premium for coffee they deliver to the cooperative, and sell fertilizer at the true cost? (It should be noted that CAPLAME already pays FCFA 250 per kg of arabica coffee, FCFA 50 above the GRC's mandated floor price.) Without the necessity to ration the subsidized fertilizer, they could sell much greater quantities to anyone who wanted to buy and break even or make a profit on the sales. The current practice is distorting the market. Non-coop members resist paying the very large price difference (FCFA 1000 per sack) and it encourages cooperative members to resell their subsidized fertilizer to others. Mr. Zambou himself stated that demand in the Menoua Department could be as high as 15,000 mt. At the end of the meeting, Mr. Zambou said he felt that it was a good idea and he would discuss it with management.

3.3 Banking and Finance

Terms of payment for the fertilizer purchases from IBEX in November/December 1992 were as follows: CAPLAME had to give IBEX a bank guarantee (*caution*) for the full amount when placing the order. SCB/CL, CAPLAME's bank, blocked the corresponding amount of funds in the company's current account; no bank guarantee fee was charged. CAPLAME paid 100% cash upon delivery of the fertilizer.

Terms of payment for purchases from Groupe One were quite different. Initially, Groupe One had little credibility and CAPLAME's bargaining position was more favorable. No down payment or guarantee was required when the orders were placed. Payment in full was made as deliveries were made. CAPLAME's first order with Groupe One was small (50 mt), as they wanted to test the supplier. Upon satisfactory delivery of the first order, CAPLAME placed an order for a larger amount, awaited delivery before ordering a further, still larger amount. Following this pattern, the last order was for 1,000 mt; delivery was satisfactory.

3.4 Results of CAPLAME Activities

Mr. Zambou said CAPLAME's annual sales last year were roughly FCFA 2 billion level, down drastically from the FCFA 8 billion of only a few years ago. Last year the company made a net profit, he said. Unlike CAPLAMI, the other strong cooperative in the UCCAO grouping, CAPLAME has no direct contacts with the coffee brokers, all dealings being handled by UCCAO. There are no plans he knows of to change this in the immediate future.

CAPLAME markets no other food crops for its members at present. Management is thinking about how the cooperative might take on marketing of corn also produced by its member planters, but has no definite plans yet. The company does sell certain basic products to its members, presumably at favorable prices: corrugated roofing, cement, rice, etc.

4. CAPLABAM

The team did not interview officials of the CAPLABAM cooperative. However, we did receive the following report on changes in fertilizer stocks (in mt) during the 1992/93 campaign.

	NPK 20-10-10	NPK 12-06-20	Urea	AmSulf	Total
Stocks, beginning	1	0	0	0	1
Purchases	100	110	200	220	630
Sales	101	109	123	219	552
Ending stocks	0	1	77	1	79

Fertilizer sales by the cooperative is much reduced compared to 1991/92 when 2,758 mt were purchased by members -- and well below the estimated needs of 3,000 mt reported by management last year. Management reported last year that the cooperative was suffering from a shortage of working capital to buy fertilizer, and this may account for the low figures.

5. North West Cooperative Association (NWCA)

Interviewed: Munang Samuel Mufua, Head, Materials and Supplies
Location/Date: Bamenda, 1 July 93

5.1 Background

NWCA's offices are now located at the former NPMB compound at Nkwen, near Bamenda. Some of the NWCA unions have also taken over NPMB mill houses and pre-control facilities at other locations. NWCA's warehouse is still in the center of Bamenda, behind the old office location. Also during the past year, NWCA greatly reduced its staff to cut expenses.

5.2 Distribution System

The eleven cooperative unions which make up NWCA estimate their annual requirements and report them to NWCA in July. NWCA combines these requirements, adds an additional amount for estimated sales by unions to non-members, and places orders with importers. Upon arrival at Douala, NWCA picks up the fertilizer in its own or hired trucks and ships it directly to the warehouses of the unions, from where it is distributed to the primary societies and on to the farmers. Farmers receive cash for their coffee when delivered later, and the cost of the fertilizer is netted out against the value of the coffee delivered. Thus NWCA receives payment for the fertilizer in the form of coffee, which means that it has in effect extended credit to its members for up to six months. This system of cash payment for coffee replaces the previous system of delayed payments for coffee when the NPMB was still operating, and which so disrupted coffee marketing in the province. The credit system was made possible by a fund of FCFA 750 million provided to NWCA through the PRAMS I Project of USAID.

5.3 Fertilizer Purchases

Following are the purchases of fertilizer made by NWCA since 30 June 1992:

2000 mt of NPK 20-10-10 from Pelenget in Sept. 92 at FCFA 49,500/mt
700 mt of NPK 20-10-10 from Pelenget in Sept 92 at 55,000/mt
500 mt of urea from Complexe JBN in June 93 at 49,500/mt.

Following is the record of purchases, sales, and stock changes (in mt) as reported by NWCA for the period 1 July 92 to 30 June 93.

	NPK 20-10-10	NPK 12-06-20	Urea	AmSulf	Total
Beginning stocks	0	0	0	885	885
Purchases	2700	0	500	0	3200
Sales	2275	0	298	402	2975
Ending stocks	425	0	2022	483	1110

A comparison with sales for the previous year is difficult since data was compiled on a calendar year basis. During the previous annual assessment, NWCA reported sales of 1,436 mt during 1991 and 4,574 mt in 1990. This would suggest that sales have approximately doubled over last year, but are still only 65% of what they were in 1990.

In the next few weeks, NWCA will determine its fertilizer needs for the coming year. At present time, there is not enough NPK 20-10-10 for the September and March applications on coffee. They are waiting for the unions to state their requirements, and expect that the order could be as much as 1000 mt. It is doubtful if there will be any need for urea; we were told that farmers in this province are still not accustomed to using it. There are no plans to order any more ammonium sulfate.

5.4 Prices and Margins

NWCA has established an equitable though complex system of prices and margins at each level of the cooperative structure. Figures for the 1992/93 program year are shown in Exhibit E-1. To the basic price for each type of fertilizer, NWCA adds a transport cost which varies according to the location of each of the eleven unions. NWCA also fixes the margins each union can charge, the transport cost to the cooperative society, and the society's margin, to arrive at a selling price by type for each cooperative society.

NWCA has several competitors distributing fertilizer in the North West, including Pelenget and Akwar International (whose operations are reported on in this section of the annual assessment). NWCA is well aware of this and has set its retail Bamenda price for NPK 20-10-10 to be competitive with the others at FCFA 3,200/sack. The unions must also compete in the provincial towns where they are located, since sub-distributors of the competing firms also operate there.

5.5 Coffee Sales

NWCA continues to market its coffee directly, this being the second full year of such operations. The floor price for arabica dropped from FCFA 250/kg to 200/kg during the past year, making it even less profitable for the coffee planter. NWCA will market something in excess of 2000 mt this year, which is less than last year.

Exhibit E-1

NORTH WEST COOPERATIVE ASSOCIATION LIMITED

SELLING PRICES FOR 1992/93 FERTILIZERS

N°.	UNION	N.W.C.A. PRICES			TRANS-PORT	UNION MARGIN			TRANSPORT TO SOCIETY	SOCIETY MARGIN			UNION AREA SELLING		
		N.P.K.	S/A	UREA		N.P.K.	S/A	UREA		N.P.K	S/A	UREA	N.P.K.	SA	UREA
1.	Santa	3,200	2,850	3,260	40	50	235	20	50	25	25	20	3,365	3,200	3,390
2.	Central	3,200	2,850	3,260	25	50	250	20	50	25	25	20	3,350	3,200	3,375
3.	Bali	3,200	2,850	3,260	100	50	175	20	50	25	25	20	3,425	3,200	3,450
4.	Pinyin	3,200	2,850	3,260	100	50	175	20	50	25	25	20	3,425	3,200	3,450
5.	Ndop	3,200	2,850	3,260	150	50	125	20	50	25	25	20	3,475	3,200	3,500
6.	Moghamo	3,200	2,850	3,260	150	50	125	20	50	25	25	20	3,475	3,200	3,500
7.	Mbengwi	3,200	2,850	3,260	100	50	175	20	50	25	25	20	3,425	3,200	3,450
8.	Kom	3,200	2,850	3,260	200	50	75	20	50	25	25	20	3,575	3,200	3,550
9.	Nso	3,200	2,850	3,260	200	50	75	20	50	25	25	20	3,525	3,200	3,550
10.	Oku/Noni	3,200	2,850	3,260	250	50	25	20	50	25	25	20	3,575	3,200	3,600
11.	Nkambe	3,200	2,850	3,260	250	50	25	20	50	25	25	20	3,575	3,200	3,600

6. SOWEFCU

Interviewed: Egbe Anthony Mbu, Acting General Manager
Motale Sakwe, Head of Administration and Finance
Location/Date: Kumba, 28 June 1993

The situation at SOWEFCU has not improved since our visit last year. If anything, it is more desperate than before. Staff has been greatly reduced. No fertilizer is bought or sold and tonnage of coffee and cocoa handled by the cooperative continues to decline. Financial resources are virtually nil.

The ill-advised purchase of 4,753 mt of fertilizer in September 1990 has been disposed of at a reported loss of FCFA 70 million. SOWEFCU continues to wait for settlement of ONCPB arrears, which they claim still amounts to FCFA 1.7 billion, or 40% of the original total. The disbursements which have been made have gone directly to farmers, and none to the cooperative. Due to much reduced volume of product handled by SOWEFCU, not much revenue can be generated with which to operate. In some cases, the levies which member cooperatives are supposed to pay to SOWEFCU to market their coffee have not been paid. Management states that if they do not receive some ONCPB arrears payments by the end of the year, they will have to close their doors.

The cooperative marketed 1900 mt of cocoa and 3500 mt of robusta coffee, a total of 5,400 mt, during the 1992/93 season. This compares to about 6000 mt the previous year, and 7,264 mt the year before that. Most of the reduction is in coffee, as cocoa production is more or less stable. Though prices for both are low, cocoa is less labor intensive and uses fewer inputs so farmers continue to exploit their stands. Many robusta stands are more or less abandoned, according to SOWEFCU management.

Two of the cooperatives with the largest volume of product, MUFCOOP and LAFCOOP, now market their coffee and cocoa directly in Douala -- in part because they are located closest to Douala, but probably also because they have lost confidence in SOWEFCU. The cooperative union 'so must compete for coffee with local buying agents, some of them reportedly coming from Moungo Division of the Littoral Province. These buyers are able to pay cash and the farmers deal with them for that reason, even though prices may be lower than the official minimum price. For example, buyers are paying farmers FCFA 150/kg for cocoa instead of the floor price of 200/kg but it is in cash. (Floor prices for robusta are FCFA 100/kg for superior quality and 80/kg for lower grades.

7. UCAL

Interviewed: Urbain Wandji Ngounou, Commercial Officer
Location/Date: Nkongsamba, 28 June 1993

UCAL has not purchased any fertilizer since 1989 when they purchased 10,000 mt and took delivery little by little over the next two years as money become available. This fertilizer has since been sold. This year there was a plan to purchase 1200 mt of NPK 20-10-10 and 800 mt of urea, but Mr. Wandji says that when the floor price for robusta dropped to FCFA 100/kg this year, the member cooperatives decided against purchasing anything through UCAL. One cooperative, COOPLAM in Nkongsamba, purchased 500 mt, according to Mr. Wandji, and is selling urea at FCFA 2950/sack and ammonium sulfate at FCFA 2350/sack. (These figures were later confirmed in a visit to COOPLAM.) Some local merchants are reportedly selling both types at FCFA 2500/sack, though Wandji says there is not much interest. The basic reason for the lack of interest is that many planters are unwilling to spend any money on robusta (for labor for weeding, or for fertilizer) at the current low prices. Much of the fertilizer sold in Moungo is going on corn, according to Mr. Wandji.

Nevertheless, UCAL handled 3,500 mt of robusta this year for its member cooperatives, which compares to 5,880 mt last year and almost 10,000 mt in 1988/89. Mr. Wandji stated that UCAL had access through its member cooperatives to a network of robusta growers looking for markets, the team urged him to contact IBE, who claim that they are interested in linking the purchase of coffee and the sale of fertilizer.

8. Groupe One

Interviewed: Jean Paul Essam Engaa, *Sous Directeur*
Location/Date: Yaoundé, 16 June 93

Groupe One is associated with IBE Africa Cameroon, the supplier and importer (through IBE/Cameroon) of the largest shipments to Cameroon during the 1992/93 campaign -- a total of 11,780 mt of urea and ammonium sulfate as of this date, with a likely additional shipment of 10,000 mt of NPK 20-10-10. It is not known if there is any formal connection between the two companies, but they appear to be working closely together. Groupe One at present is IBE's main distributor in Cameroon.

Essam reported the approximate disposition by Groupe One of fertilizer imported by IBE to date as follows:

Urea: 7,280 mt imported, of which approx 4000 mt sold, and 2000 mt ordered but not yet delivered.

Ammonium sulfate: 4,500 mt imported, of which 1300 mt sold and another 2,100 mt ordered but not yet delivered.

(Note: Figures obtained from IBE show sales by Groupe One to be 3,670 mt of urea, and 710 mt of ammonium sulfate.)

This fertilizer was obtained by IBE from Ukraine and Russia, reportedly as part of trading deals involving sale of other products by IBE to these countries. It was imported in bulk and bagged at quai-side. In answer to our question, Essam stated that the total cost of getting the product to Cameroon and stored in sacks in the port was about FCFA 47,000/mt for urea and FCFA 35,000/mt for ammonium sulfate.

Principal customers were CAPLABAM, CAPLAME, Pelenget, and SAFACAM (oil palm plantation). These large buyers pay on 30 day terms. Small customers are picking up 50 to 100 mt lots and are required to pay cash. In some cases, Groupe One delivers to these smaller customers and charges them separately for the transport. Complexe JBN was mentioned as one of these small customers.

Essam stated that prices to all customers are FCFA 51,000/mt for urea and FCFA 38,000/mt for ammonium sulfate. If true, this would indicate a profit margin on the sales price of only 7.8% on both types.

Essam remarked that it was not IBE/Groupe One's policy to make large profits on fertilizer, rather it was a desire to serve the needs of Cameroon's farmers which motivated them. He said the proceeds of sales of fertilizer sales would remain in Cameroon and be used to purchase and export Cameroon products such as coffee and cocoa.

9. Pelenget

Interviewed:	Peter Njontor Ngufor, Director
Location/Date:	Yaoundé, 17 June 93
	The Farmers House, Bamenda,1 July 93

9.1 Fertilizer Transactions

During the 1991/92 campaign, Pelenget imported 3000 mt of NPK 20-10-10 through CAC. This past year the firm acted only as a distributor. Mr. Ngufor had planned to import 10,000 mt of fertilizer but could not arrange an L/C through CAC. Instead he is purchasing fertilizer imported by IBE. Thus far he has taken delivery of 150 mt of urea and 15 mt of ammonium sulfate from them, which is being sold through his Bamenda store. (A 4000 mt warehouse is also planned.) He wants to buy 3000 mt of 20-10-10 from IBE but the importation has not yet taken place. IBE told him that the price would be FCFA 51,000, but Ngufor thinks that if and when it becomes available that the price will be closer to FCFA 60,000/mt. In the meantime, he is very concerned about what he perceives as a shortage of 20-10-10 in the country.

9.2 Finance and Banking

Financing arrangements for last year's fertilizer imports under the FSSRP are of interest. Crédit Agricole issued the import letter of credit against a three-part package of guarantees intended to cover the transaction by more than 100%; that is, more than FCFA 153 billion. First, Pelenget put up a "cash" guarantee for FCFA 40 million, in the form of a guarantee from a foreign bank where Pelenget apparently already has deposits. Second, they arranged a notarized mortgage pledge of a commercial building. The value of this mortgage was considered to be FCFA 116 million. Third, the company pledged rents due to it from Crédit Agricole itself, which occupies premises in a Pelenget-owned building.

In addition to these guarantees, the bank required a 20% down payment from the cooperative to which Pelenget planned to sell two-thirds of the fertilizer. Finally, the bank was not willing to consider the prospective subsidy payment (FCFA 56 million) as part of its guarantee package. (For an import transaction with another customer this year, Crédit Agricole took the prospective subsidy into account. Perhaps the change in the Fiduciary Bank, to a bank with a better reputation, accounted for CAC's more "lenient" approach this year.)

Pelenget approached Crédit Agricole this year for a similar credit. The bank again took what Mr. Ngufor considers a hard line on guarantees. In addition to the pledged building, the bank wanted a firm buyer as well. Over all, Mr. Ngufor said it just would have been simpler to seek a supplier credit. In the end, he did not proceed with an application (partly because he had thought IBE would succeed in importing fertilizer at lower cost than he could arrange.)

Of interest in understanding local banking practice, Ngufor explained that he has kept in place the mortgage pledge on the building used as part of the guarantee package for last year's fertilizer import financing. Reasoning is as follows. In order for the bank to be totally certain of its ability to take over the building in case of payment difficulty, the pledge must be subject to an agreement executed by a *notaire*. This is a costly process. Now that he has gone to the trouble and expense of arranging the notarized mortgage, Ngufor prefers to keep the pledge in effect so that he can use it as a borrowing/credit base for any future financing needs. This would save time and is in effect a way to amortize the high notarial cost.

More generally, Ngufor complained that bank practices are far from transparent. In any slightly complicated transaction, he says he is never totally sure of the basis for bank charges, or the way they are calculated. Large debits are passed to the account with minimal or no explanation on the debit advices or statements, to the point where he says he is not totally convinced that Pelenget really did get the financial benefit of the low interest rate on the subsidized portion of last year's FSSRP financing.

Mr. Ngufor wondered aloud whether the Caisse Autonome d'Amortissement might not usefully replace the TSC as financial supervisor/operator of a revised FSSRP program in the future. In his experience in financial transactions with the CAA, they are consistently efficient, speedy, and professional. Those are not always hallmarks of the TSC, in his view.

9.3 Fertilizer Subsidies

In response to a question concerning the effect of removing subsidies entirely next year, Ngufor said it would be much better to remove them gradually -- "the drop should be gentle", he said. He suggested that the farmers could live with a 10% level, compared to the current 15% level. As to the future of the Revolving Credit Fund, he felt that it should be administered by a Fiduciary Bank as before, but under the supervision of the Caisse Autonome, in whom he had confidence.

9.4 Bamenda Store

At Bamenda, the team visited Pelenget's store, "The Farmers House", and a warehouse in another part of town. Receipts and sales since September 1992 (in mt) are as follows:

Type	Date Recv'd	Amount	Remaining	Sold
NPK 20-10-10	Sept. 92	115	5	110
Urea	May 93	115	98.6	16.4
AmSulf	May 93	12	7.5	4.5

Prices are FCFA 3,200 to 3,300 per sack for NPK 20-10-10, depending on quantity, 3,200 for urea, and 2,500 for ammonium sulfate.
The local manager reported a high demand for NPK 20-10-10. The only reason they had any stock left of this type was because it was wet and unsalable. Farmers don't like the red color 20-10-10 they are now selling; they are used to the white color. The store also stocks seed and ag chemicals. The manager reported that Pioneer corn seed was selling well.

Most of the stock is in a newly constructed warehouse in another part of town, which appears to be well built and secure. A new truck belonging to the company is stored there. It is used to pick up fertilizer from Douala, though private transporters are also hired as needed.

10. Complexe JBN

Interviewed:	Jean Baptiste Ndzie, Director
	Mme. Winefrede, Administrator
Location/Date:	Douala, 25 June 93

Operating strictly on a cash basis, JBN bought small amounts of fertilizer during the 1992/93 campaign from IBE and IBEX and delivered it directly to the customer. Purchases and sales (in mt) were as follows:

	Urea	AmSulf	NPK 12-06-20	NPK 20-10-10	Total
Purchases:					
From IBE	1027.5	79	-	-	1106.5
From IBEX	59	348	55	60	522
Totals	1086.5	427		55	1628.5
Sales:					
NWCA	500	-	-	-	500
CAPLABAM	-	220	-	-	220
COOPAMOR	-	55	-	-	55
CAPLANOUN	-	43	-	-	43
Others	576.5	109	55	60	800.5
Totals	1076.5	427	55	60	1618.5

Ten mt of urea remain unaccounted for in these figures submitted by JBN.

For purchases from IBE, JBN paid 51,000/mt for urea and 38,000/mt for ammonium sulfate. According to information from IBEX, they matched the IBE price for urea to most of their customers, but reportedly charged FCFA 47,000 for sulfate and FCFA 54,000 for NPK fertilizers.

Prices charged by JBN averaged 57,000/mt for NPK and urea fertilizers, and 42,000/mt for ammonium sulfate. Small buyers paid cash on delivery; the cooperatives made periodic payments after picking up several loads at the port. Some sales were made on a delivered basis, in which cases JBN hired a trucker to make the delivery. Trucking costs continue to decline -- the cost for Douala to Foumbot is now only FCFA 6000/mt.

JBN was quite concerned about the fact that IBE was selling to any buyer at the same prices distributors like JBN were paying. In other words, there appeared to be no difference between their wholesale and retail prices. (Note: It is not clear whether these sales are being made by Groupe One as IBE's main distributor, or by IBE directly -- or indeed whether there is any difference between the two.)

JBN lost several sales for this reason. We were shown orders from the following buyers, which were subsequently canceled when they found they could go to IBE and pay FCFA 51,000 for urea and FCFA 38,000 for ammonium sulfate.

CAPLABAM: 3000 mt NPK 20-10-10, 1000 mt AmSulf, 500 mt urea
CAPLAHN: 1500 mt urea, 1000 mt NPK 20-10-10 (JBN quoted FCFA 57,000/mt for each)
CAPLANOUN: 2000 mt urea, 2000 mt NPK 20-10-10 (JBN quoted FCFA 56,000/mt for each)
MAISCAM: 150 mt urea (JBN quoted FCFA 60,000/mt for each)

JBN remains hopeful of expanding its ag inputs marketing, eventually adding agricultural chemicals to its product line.

11. IDS Cameroon

Interviewed:	Francois Nguimkeng, Director C. Njontso, Commercial Director, Bafoussam Roger Eric Nguena, *Responsable*, Bafoussam
Location/Date:	Yaoundé, 18 June 93 Bafoussam, 1 July 93

This is a new fertilizer distribution company formed in March 1993 with headquarters in Bafoussam. The company is owned and financed by an acquaintance of Mr. Nguimkeng, whose name he would not reveal.

Nguimkeng is from Dschang and had formerly worked for SODECOTON in the north where he learned about fertilizer use. He expressed great concern for the plight of Cameroon farmers and said it was his mission to help them by making fertilizer available when needed at a reasonable price -- and accompanied by advice on how to use it profitably. Local cooperatives such as CAPLAME and CAPLAMI were not serving farmers adequately, he said. Nguimkeng feels that diversification of production away from coffee and into food crops is the only hope for the small farmer. He particularly favored peppers (*piment*).

According to Nguimkeng, IDS has established a network of seven retailers (*revendeurs*) in villages in the Foumbot and Dschang areas who are supplied from his Bafoussam depot. He stocks NPK 20-10-10, urea and NPK 12-06-20 fertilizer which are wholesaled to his retailers at FCFA 3,100 per sack. Retailers are supposed to sell the fertilizer at FCFA 3,350 per sack. He also sells at retail from his Bafoussam store at the FCFA 3,350 price. All his purchases and sales are on a cash basis.

IDS's sales and stock record (in mt) for 1992/93 is as follows:

	NPK 20-10-10	NPK 12-06-20	Urea	Total
Beginning stocks	0	0	0	0
Purchases	326.25	12.75	134	473
Sales	155.5	3	118.6	277.1
Ending stocks	170.75	9.75	15.4	195.9

Nguimkeng pointed out that these figures represent only two and a half months of operation, since there was a delay in receiving his fertilizer from Africa Imports. The price paid for urea was FCFA 54,000/mt. He was critical of the FSSRP, which he blames for this delay. He also criticized the program for what he said was the poor quality of the urea he got from Africa Import. The problem seemed to be "non-homogeneity" of the product.

IDS plans to purchase additional fertilizer from IBE during the coming year -- 80 mt of NPK 20-10-10, 15 mt of urea, and 5 mt of NPK 12-06-20.

The team visited the Bafoussam operation, which is in a new and still unfinished building. The ground floor will be used for salesroom and offices. A large number of sacks of NPK 20-10-10 and urea are stored on the bottom floor, accessible by truck from a street behind the building. The person in charge confirmed the FCFA 3350 price, which he said was for purchases of less than 20 sacks.

12. FME Cameroun

Interviewed:	Francois Youmsi M., Co-Director General Andre Fotso, Co-Director General Christophe Njontso, Manager, Bafoussam
Location/Date:	Douala, 25 June 1993 Bafoussam, 1 July 93

In 1992 this company took over the fertilizer and ag chemical business of Rhone-Poulenc, including distribution points in Yaoundé and Bafoussam. Recently they also became a distributor for Pioneer in five provinces (SW, NW, West, Littoral). FME also has other product lines, including office equipment and accounting services. Sales amount to FCFA 900 million, and there are 30 employees. During the past year FME purchased and sold 500 mt of NPK 20-10-10 and urea to its customers. Suppliers included IBEX, Africa Import, IBE, and ADER. FME expressed interest in taking out a distribution loan in the future. Their bank is CCEI.

The team visited the Bafoussam store, which is currently stocked with seeds (mostly Pioneer corn seed) and some ag chemicals. The store has been out of fertilizer for about a month. The manager stated that during the six months since the store opened, sales from this location were about 100 mt of urea and 100 mt of NPK 20-10-10. Prices for NPK 20-10-10 range from 3200 to 3700/sack, depending on quantity. The manager says that FME is developing a network of 20 sub-distributors in the West and North West Provinces.

13. El Hadj Mamouda and Co.

Interviewed:	El Hadj Mamouda
Location/Date:	Foumbot, 29 June 93

Mamouda is a small distributor of fertilizer based in Foumbot. As reported in the IBEX contact report elsewhere in this report, Mamouda has a tentative arrangement with IBEX to distribute fertilizer in the Noun Division of the West Province beginning in September. According to IBEX the deal would involve IBEX and Mamouda sharing the rent on a warehouse in Foumbot, and IBEX would provide fertilizer to Mamouda, half on credit and half for cash. Prices paid by Mamouda would be FCFA 51,000/mt for NPK fertilizers and FCFA 48,000 for ammonium sulfate.

Mamouda told the team that he planned to act as supplier to retail merchants in the Foumbot area, and in addition he would provide technical advice on application of fertilizer on different crops. He sees his task as educating the farmers, who now know little about fertilizer. As an example, he said that farmers had become used to buying NPK 20-10-10 in white bags, and now that another importer is offering the same fertilizer in yellow bags, they don't want to buy it.

Mamouda is a former employee of FONADER and since then has held a variety of different jobs. He recently went into the fertilizer business and claims that he sold 600 mt of fertilizer between January and June this year in the West Province and in the Moungo Division. With fertilizer received from IBEX on credit, he has developed a business with coffee processors whereby he delivers fertilizer in lots up to 25 mt, and is paid after about two weeks when the coffee processor sells fertilizer to planters in exchange for coffee. This demonstrates the spread effect of supplier credit extended by importers.

The team visited several fertilizer retailers in the town of Foumbot who buy from Mamouda. There are now an estimated 10 retailers in Foumbot town, plus others in outlying areas. This is a dramatic increase from last year and reflects the increasing importance of Noun as a producer of vegetable crops.

The stores visited had from 10 to 20 mt of stock, and one was selling NPK 20-10-10 at FCFA 3500 to 3800/sack and urea at FCFA 2800/sack. Some of this fertilizer was in sacks with UCCAO markings which Africa Import had intended to sell to UCCAO before their order was canceled. IBEX subsequently bought the bulk of this order and some of it went to Mamouda. IBE fertilizer was also on sale in one store we visited, and Mamouda complained that he was being undersold by this cheaper product (e.g. urea at FCFA 2500/sack).

14. <u>ADER Regional Depot</u>

Interviewed: Jean Ngatcha, Manager
Location/Date: Yaoundé, 17 June 93

The Yaoundé depot services the Center, South, and the northern provinces of Cameroon. They handled about 2000 mt of NPK 20-10-10 and 1000 mt of urea during the past year. The depot also stocks a wide variety of agricultural and industrial chemicals, as well as non-subsidized fertilizers such as DAP, TSP, K2O, Kieserite, and KCl. Other ADER depots are in Bafoussam (serving the West and North West provinces) and Nkongsamba (Moungo Dept. of Littoral Province, and South West Province).

The main buyer was SODECAO (cocoa cooperative) which received some credits from an IBRD loan. Large shipments such as this go directly from Douala to the customer. The depot sells from stock mostly to small vegetable farmers in 5 kg bags, though there are some maize farmers with as much as 50 ha who buy larger quantities in full sacks from them. Annual sales are 150 to 200 mt of NPK 20-10-10, 75 to 100 mt of urea, and 10 to 15 mt of NPK 12-06-20. Prices range from FCFA 3500 per sack for large quantities to 5000 per sack for small quantities. Sales are down this year compared to last year. Ngatcha says that farmers simply lack the money to buy.

15. <u>ADER Regional Depot</u>

Interviewed: Mr. Bankoue, Director
Location/Date: Nkongsamba, 28 June 1993

Mr. Bankoue manages both the Nkonsamba and Bafoussam depots of ADER, which sell a broad range of agricultural chemicals and fertilizers. He reported that Moungo is different than other areas in that farmers tend to use fertilizer only on coffee and not on food crops as they are not used to using it on these alternative crops. In the more intensively-farmed areas in other departments, fertilizer is much more widely used.

ADER sells NPK 20-10-10 and urea at FCFA 3500/sack, but sales are slow. Coffee planters do buy herbicides, though only about 30% of the weed removal from coffee stands is done this way -- another 50% is cleared with hand labor, and the rest left uncleared.

The team later visited Mr. Bankoue at his Bafousam outlet, where similar products are stocked but sales are reportedly better. This location handles a lot of vegetable seed, as they are not far from the Noun Dept., the most intensive vegetable growing area in the country.

16. <u>Akwar National & International Enterprises</u>

Interviewed: John Akwar, Director
Location/Date: Bamenda, 1 July 1993

John Akwar is the former Chief of Service for Farm Support for NWCA. During his time with NWCA, Mr. Akwar acquired substantial experience in fertilizer marketing and distribution, as well as a thorough understanding of the fertilizer market in the North West Province. Leaving NWCA this past year, Mr. Akwar formed his own company, Akwar

Enterprises, which is now in direct competition with his former employer, NWCA, in the fertilizer market.

Akwar Enterprises is based in Bamenda, where it has a sales depot. In addition, Akwar maintains sales depots in Bali, Wum, and Mbengwi (all located within the North West Province). All sales depots are located in rented buildings, and appear to be limited in storage capacity. Mr. Akwar also makes sales through local periodic markets in the Bamenda area (i.e. at Bambui) and has established fertilizer marketing relationships with womens' cooperatives in Bui Division (also North West Province).

Akwar buys fertilizer in Douala for his stock, and has sold approximately 500 mt since entering the market. He carries urea, NPK 20-10-10 and ammonium sulfate. Retail prices out of his Bamenda depot are FCFA 3400 per sack of NPK 20-10-10 and urea, and FCFA 3000 per sack for ammonium sulfate. Sales are in cash, although Mr. Akwar is apparently exploring the possibility of providing a credit facility to the womens' cooperatives with whom he works. Aside from fertilizer, Akwar Enterprises also sells locally manufactured soap.

APPENDIX F

OTHER FINANCIAL AND DONOR ORGANIZATIONS

1. World Bank

Interviewed: Robert Blake, Principal Economist
Location/Date: Yaoundé, 17 June 93

1.1 Structural Adjustment Loan (SAL), Economic Conditions

For more than 12 months now Cameroon has not met the Bank's conditions for disbursement of the third $50 million tranche of the SAL, originally approved in 1989. Some progress has been made in agricultural marketing, for instance, but performance has been poor in areas involving the civil service, public investment and management of public enterprises.

The key problem area is management of public finances, where performance probably is worse this year than last. The receipts shortfall is at least 50%. Virtually all external debt servicing has ceased, except for payments to the IMF. Consequently foreign donors including the World Bank, French aid, and African Development Bank have suspended program assistance. Civil servants are being paid late, etc.

1.2 Banking sector

Blake pointed out that the "successful" 1992 banking reform in fact consisted mostly of rescheduling problem loans, with relatively little new money injected. The Government has failed to meet (re)scheduled repayments of *bons d'équipement* since February 1992. That automatically increases the bad debts of the banking system and decreases bank liquidity. Last summer's widespread rumors of FCFA franc devaluation naturally reduced bank liquidity further, as customers tried to keep funds offshore whenever possible. These rumors continue today, with the same result.

Today Blake feels the banking system as a whole is illiquid, with the two largest banks (BICIC and SGBC) again in difficulty. The difficulty, of course, is not due to poor management or lending but simply to the particularly high portion of Government debt still on their balance sheets, accumulating arrears.

1.3 Outlook

Inflation is low in Cameroon, and probably declining. In some sectors (i.e., of the domestic economy) prices are probably declining, and deflation may be setting in. The country's financial problems, however, conspire to create a situation where effective bank lending rates are above 20% p.a. Few economies are able to sustain such high real interest rates for long without a devaluation, increased unemployment and labor unrest, and/or declining output.

Despite the pessimistic short run outlook, Blake notes the long term growth potential that still remains in Cameroon, with a well educated labor force and comparatively sound infrastructure still in place. In any case, while holding up its SAL assistance until Government financial performance improves, the Bank continues its existing technical assistance and project activities.

2. International Finance Corporation (World Bank group)

Interviewed: Eugene Bayiha, Investment Officer/Regional Representation, Central Africa
Location/Date: Douala, 24 June 1993

2.1 FERIDA fertilizer project

M. Bayiha pointed out that the FERIDA project proposal has been around a long time. The file was presented to IFC at least two years ago. Two IFC technical missions have evaluated the project, in December 1990 and in April 1993. Bayiha understands the main problem in getting the project going was finding local partners willing to put up capital, and of course bank financing.

Two months ago IFC shifted the form of the deal it was willing to consider, from a loan to a guarantee of a local bank loan. Two main reasons. First, fears of a devaluation of the CFA franc. Second, no single bank was willing to issue the guarantee for the whole deal, i.e. to guarantee IFC. He mentioned that Crédit Agricole had withdrawn from the banking discussions, but he did not mention what their reason might be. He did not comment on the apparent interest of the African Development Bank in making an additional loan to FERIDA.

Strictly speaking, the status of IFC's consideration of the FERIDA proposal is not what the promoter had told us earlier this week. That is, IFC has not (yet) given its final internal approval to guaranteeing a loan for the project. In fact, IFC's investment committee is meeting in Washington today and this proposal is on their agenda. Without predicting the outcome of their deliberations, M. Bayiha said there would no doubt be some further news late today or tomorrow.

In a telephone interview with M. Bayiha on July 6, 1993, he said that IFC in Washington had declined the FERIDA project application last week. He did not feel he could communicate the reasons, especially since M. Mbida may not yet have received tht information from the IFC. He did say that Mbida told him he has bank financing possibilities (apparently Cameroonian banks) even without the IFC backing.

IBEX is coming by his office tomorrow, presumably to discuss the medium proposal they are working on. No other discussion of their project today, except that IFC might perhaps be concerned that there be two competing fertilizer blending and bagging projects in the same limited market.

2.2 IFC activities in Cameroon

In the agribusiness sector in Cameroon IFC is backing two green bean projects (as a lender, not investor). IFC is in a total of 6 or 7 projects in Cameroon, all relatively large scale and none involving small or medium sized business. To date, the project development facility has not launched any projects in Cameroon.

3. Caisse Française de Développement

Interviewed: Jean-Luc Supera, *Sous-directeur*
Location/Date: Yaoundé, 17 June 1993

3.1 French assistance to the banking sector

Last year's FSSRP evaluation report details the vital role the French aid program is playing in restructuring the banking sector in Cameroon. The key was some FCFA 30 billion in loans used to recapitalize BICIC and SGBC and to help restructure SNI debt held by the banks, accompanied by significant conditionality.

Today Supera emphasized the significance of the delays that accompanied negotiation of last year's French loans. The assistance to Cameroonian banks had been planned about a year before negotiations were completed, based on a careful analysis of the banking system's requirements at that time. Given the negotiating delay, it would have been logical to re-study the situation first to make sure the assistance was still adequate. The French felt that further delay in implementation would be even more costly, and decided to go ahead with an admittedly imperfect and inadequate program.

Sure enough, last year's assistance has proven insufficient and some new credits have recently become necessary, as mentioned below.

3.2 Conditionality for French loan

France of course attached a number of conditions to its support, which were summarized in last year's FSSRP review. Supera reviewed most of them in today's meeting.

3.3 Independent banking commission

This vital step has gone ahead as planned. Two Banque de France inspectors have been seconded to the new commission, COBAC. COBAC now has a good understanding of the loan portfolios and operations of the banks. With this information base, COBAC now should be able to police the banks' lending portfolios quite independently from outside influence.

The first real test of their independence apparently will come soon. Supera said the COBAC people have determined that a small newish bank ("The First") has made an excessive amount of imprudent loans. Based on its examination of "The First," COBAC will soon move to close the bank. Supera expects political pressure against a closure. He feels the outcome will tell a lot about the independence and clout of the new bank supervision unit.

3.4 SNI rescheduling

Last year's FSSRP review reported that the French lent FCFA 13 billion to the Government to pay off interest arrears to the banking system. Simultaneously, SNI rescheduled this debt, totalling some FCFA 70 billion, to be repaid over a 10 year period in semi-annual installment. The FCFA 13 billion in fact represented the first two installments, and was disbursed in February 1992.

The Government has failed to make any payments since then, missing the August 1992 and February 1993 dates. The amounts due (and not paid) total FCFA 11 billion. Thus one of the key, visible conditions of French assistance has not been met. In addition to bringing a halt to most new French official lending, the SNI arrears have begun - once again - to weigh heavily on commercial bank balance sheets. The two biggest banks, BICIC and SGBC, are the most heavily exposed to SNI; Meridien will also be affected.

3.5 Centralized risk reporting

Another condition was establishment of a centralized bank credit reporting system within the BEAC. In France the Banque de France operates such a system, called the *centrale des risques*. This arrangement has several practical consequences. First, it enables any bank to learn quickly when a borrower goes into arrears with any other bank, thus making it easier to avoid bad loans. Second, for the larger borrowers, prior central bank approval must be obtained annually for commercial bank lending. The effect of this system is to insert the central bank into the credit approval process of the banking system.

Supera said today that the reporting system is now functioning and appears to be giving reasonable quality results.

3.6 *Privilège du Trésor*

As stated in last year's FSSRP review, since banks have had difficulty pursuing debtors through the court system the Government had given banks a temporary *privilège du trésor* that allows them to pursue and seize property through the court system with an exemption from counter suits. This privilege expired in October, 1991 and the French wanted it to be renewed.

3.7 Importance of *Privilège du Trésor*

This condition has now turned into a particularly important issue for the success of banking reform, Supera said. As explained in the past, most bad debts in the banks were taken off their balance sheets last year and housed in a centralized loan recovery unit, the SRC. These loans total some FCFA 400 billion, primarily Government and parastatal debt.

Inevitably, repayment of some of this "bad debt" could in fact be obtained through a vigorous recovery program, especially if the SRC could seize assets and sell them off. Therefore, the French have pressed for the *privilège du trésor* to be restored for the SRC and have accepted the argument that it not be renewed for the (private) banks.

The current draft finance bill contains this provision, has been passed by the national assembly, but is not yet law. The draft legislation is now with the Presidency, which may be tempted to strike the section of the bill giving the *privilège du trésor* to the SRC and send it back to the legislature in that form.

Particularly since the banking system is again headed toward a liquidity crisis, Supera feels no stone should be left unturned that would enable the SRC to recover whatever debts may be salvageable. He hopes the Presidency will return the finance bill to the legislature without any changes on the *privilège du trésor* for the SRC.

3.8 Additional French support to banks

With all this background, the French decided in March this year that the size of their earlier credit to the banking system had indeed proven inadequate and have put another FCFA 2.5 billion into BICIC and SGBC.

3.9 BEAC discount window, general outlook for banks

Overall, Supera feels the banking reform efforts of the past few years have significantly improved the quality of bank management, policies and practices. The system still faces a serious bad debt overhang, but qualitatively is probably in better shape than before.

Supera said there is a curious feature of the arrangements for commercial banks to have access to the discount window at the central bank. Currently, BEAC denies access to banks that still have some liquidity of their own (presumably as shown in periodic reports) and allows only the banks experiencing liquidity problems to borrow from BEAC. This, of course, is virtually the opposite of central bank practice in other countries, although one can understand that BEAC has limited resources that need to be husbanded in the current near-crisis environment in Cameroon.

The SCB/CL manager has unsuccessfully pleaded with BEAC to allow his bank access at least for very temporary requirements. So far, no success. The French authorities are of course encouraging BEAC to give SCB/CL a more favorable hearing.

Supera used this situation to emphasize that the impending banking crisis in Cameroon is likely to impact even the best capitalized and most liquid banks. If the system collapses again, all will suffer. Seeking "the safe bank" for one's deposits is, in that sense, something of delusion.

Further, in his view the next crisis or the next bankruptcy will be solved similarly to last year's problems. If a particular bank has to be closed, its good assets will likely be shifted around the system to the sounder banks. The BCCC case is an illustration of how he would expect things to go the next time.

3.10 BCCI/BCCC

Supera mentioned that the FSSRP fortunately had moved its deposits from BCCC to SCBC successfully and smoothly despite fraud and other problems with BCCC's parent group, BCCI. Supera agreed that the closure of BCCC had gone surprisingly well, but advised that Cameroon had suffered from the BCCI scandal nevertheless: the State-owned petroleum company, SNH, lost significant deposits that had been placed offshore with BCCI.

4. Caisse Autonome d'Amortissement (CAA)

Interviewed:	Isaac Njiemoun, *Directeur Général*
	Mvondo Jean-Paul
Location/Date:	Yaoundé, 2 July 1993

4.1 CAA's Relationship to Other Government Bodies

The CAA comes under the *tutelle* of the Ministry of Finance but as its name suggests is an autonomous body, created by decree. Its main mission is to manage service of the Government of Cameroon's debt, and it also advises the Government on debt management questions. In carrying out that function, the CAA has regular contacts with international aid donors. Consequently, when a new project is presented to the Government it frequently saves time if the file goes through the CAA on its way to final consideration and approval.

The CAA has the status of a financial institution (*établissement financier*). This role puts it under the operational supervision of the central bank, the BEAC. Its main bank accounts are at the BEAC. It uses BEAC correspondent relationships to make international transfers, the BEAC domestic network (20 branches) to make domestic payments.

4.2 Role on TSC Short Term Program, BCCC Audit

We discussed the CAA's role on the TSC, where in effect it is the only "financial and banking expert" member.

In connection with the existing FSSRP short term fertilizer import program, certified accountants were called in to audit the TSC's accounts with the former Fiduciary Bank, BCCC. BCCC, of course, was closed when the BCCI scandal brought down that group. The auditors (the firm of Akintola Williams, an affiliate of a major international accounting firm) verified the TSC's accounts at BCCC. Fortunately they found no significant errors or problems.

We discussed two of the auditors' recommendations. First, they found that the Fiduciary Bank(s) owe the TSC additional deposit interest income. After the audit, detailed calculations were made by USAID, showing money due by the (defunct) BCCC and a smaller amount due by the successor Fiduciary Bank, SCBC[1]. M. Njiemoun said that the CAA had asked the SRC to make those payments. He did not have information readily available today whether the payments had been made. His assistant is to follow up on this.

Second, the auditors strongly recommended (pages 2 and 4 of the audit) that the TSC prepare and maintain its own set of books of account on its deposits with the Fiduciary Bank. (The TSC had not done so before the audit, and the auditors had only the bank's statements to work with.) The CAA does not know whether the TSC has begun to prepare such accounts. This needs follow-up by the TSC. M. Njiemoun said the CAA would gladly provide assistance -- it is in fact not a particularly difficult task -- to the TSC (or TSU) if needed.

More generally, we discussed the most effective way for the CAA to advise the TSC on banking matters, for example in drafting and communicating instructions to the Fiduciary

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[1] For reference, USAID calculated that BCCC owed FCFA 3,640,179 and that SCBC owed FCFA 150,746.

Bank. Since this subject is more significant in connection with the medium term lending facility, it is discussed below.

4.3 Role in administering MLTF

The purpose of the medium term lending facility is to assist financially with one or more industrial development projects related to fertilizers where construction and repayment will likely take up to five years. Not only will the TSC need to ensure that the MLTF loan(s) is(are) properly evaluated and disbursed. During the five year life of the loan, the TSC will also need to follow the progress of the project, and the financing, systematically. Equally important, unforeseen developments could well arise that, for example, would require the TSC to respond to a request to modify terms of the original loan agreement.

The Fiduciary Bank can present such matters, as communicated to it by the Commercial Bank, to the TSC for consideration and decision. The TSC should, however, not be forced to rely solely on the Fiduciary Bank for technical evaluation of such matters. Given the CAA's rôle and technical banking and financial knowledge, it would seem normal for the TSC to use the CAA as a source of technical expertise. How might this best be structured, particularly in connection with the medium term lending facility and the inevitable uncertainties on such transactions?

At least two distinct approaches were considered. First, it might well be beneficial if the CAA were to counter-sign instructions to the Fiduciary Bank. This practice would ensure that proper banking knowledge had been applied to the topics under consideration. Otherwise, for instance, the TSC might unwittingly fail to give the FB instructions in technical form that accurately reflected the TSC's wishes. This consideration obviously applies to the medium term lending facility but probably is a useful safeguard even for the short term facility.

Second, M. Njiemoun suggested the TSC members might want to consider a further step to ensure consistent professional handling of the medium term lending facility: once a credit had been agreed by all concerned, turn the administration of the credit over to the CAA. The CAA would of course bring all necessary matters for decision to the attention of the full committee, and make regular reports in any case. This is exactly how the CAA handles many other Government-sponsored financings, and its experience and personnel would be directly relevant.

In this connection, M. Njiemoun pointed out that the CAA is a well recognized body, created by Government decree, that is likely to remain in existence in its present form for several more years, whereas the TSC is a relatively ad hoc organization, and might even cease to exist before final repayment of a medium term loan from the FSSRP.

There may be other ways as well to achieve the same objective: ensure that the TSC manages the MLTF in a professional manner. Whatever arrangements are adopted by the

TSC, common sense would seem to argue that the committee should take advantage of the financial and banking expertise available to it from the CAA, and formalize loan administration arrangements to reflect that.

5. BEAC - Commission Bancaire (COBAC)

Interviewed: M. Patrick Le Clerc, Expert of the International Monetary Fund
Location/Date: Yaoundé, 2 July 1993

M. Le Clerc was secunded to the regional BEAC four years ago from the Banque de France. He has been instrumental in establishing the COBAC, which gives the BEAC an independent banking supervision, examination, and control capability along the lines of countries like France and the United States.

The purpose of today's meeting was to obtain his comments on the MLTF, whose success depends heavily on the strength of commercial banks.

5.1 General Comments on Proposed MLTF Structure

In general, Le Clerc felt the proposed TSC-Fiduciary Bank-commercial bank structure should give adequate protection and control to the TSC's funds. The difficulty, of course, will be to find the investment project(s) that can generate enough cash flow to service debt at the exorbitant real interest rates currently obtaining in Cameroon. Unfortunately, the current interest rate levels tend to discourage all but speculative investments.

In this connection, he suggested the program give renewed consideration to an interest make-up formula (*bonification des intérêts*) as an alternative or supplement to the direct loan formula currently proposed. His remarks on this and other MLTF details are summarized below.

5.2 MLTF Administration - CAA Role

Le Clerc agreed that the TSC could usefully take advantage of the technical skills and banking knowledge of the Caisse Autonome d'Amortissement in evaluating and administering MLTF credits.

5.3 BEAC rediscounting

Le Clerc confirmed that commercial banks usually present medium term loans to the BEAC for rediscounting approval. The BEAC states that a loan is eligible for rediscount only after review of the credit-worthiness of the project being financed and consideration of its impact on the over-all financial position of the commercial bank making the loan.

These are precisely the two credit-worthiness factors of greatest interest for MLTF project proposals. Therefore the MLTF criteria could usefully be expanded to include a requirement that a proposed loan be eligible for rediscount at the BEAC. Prior to loan approval the CAA could verify this independently on behalf of the TSC.

However, Le Clerc cautioned that eligibility for medium term rediscount is a fairly technical matter. The BEAC may have specific criteria that might disqualify an otherwise sound project - e.g., that the borrower be established for a minimum number of years or present several years of certified accounts. Likewise, there might be eligibility criteria that could disqualify certain banks, backing an otherwise good proposal.

Since this is not his field of expertise, he encouraged us to meet the BEAC official directly responsible for the subject: the *Directeur du Crédit*, M. Bouiti Banza, or his deputy, M. Kemadjou. Only by a direct discussion with this office could we be sure the criterion would actually be workable for the MLTF.

5.4 Amount of loan

As currently drafted, the MLTF procedures allow financing for up to 50% of total project cost. This criterion should probably be tightened so that only a given percentage of the loan amount be financed. Otherwise, the project promoter could easily claim an inflated value for land and existing buildings. Le Clerc readily agreed that the more restrictive definition is in the program's interest to avoid that risk.

5.5 Ceiling on interest margin

The suggestion made by a commercial bank that the MLTF add a ceiling on the lending bank's permissible interest rate margin was mentioned. Combined with partial funding from the MLTF at a low interest rate (5% in the current proposal), this could work to reduce the over-all interest cost to the borrower - and offset the penalizing real rates of interest in Cameroon today. Le Clerc agreed that the concept could be useful, for precisely that reason.

He has a personal preference for another approach that attacks the same problem, and could in fact bring greater rate relief, a rate make-up.

5.6 Interest rate make-up *(bonification des intérêts)*

Le Clerc suggested the program consider providing an interest rate make-up facility in addition to or as a substitute for direct lending support. The procedure should not be that difficult to set out, and the benefits could be considerable, he said. The most important benefit is to lower the final interest cost to the borrower by a considerable amount, bringing the financing cost of an otherwise sound project into a realistic range.

The lending bank would still make a worthwhile profit in return for taking the credit risk. In fact, the amount of risk assumed by the MLTF program would be less than under the direct loan structure, being limited to interest repayments. This in turn would allow the program to use its limited resources to cover a greater portion of the project loan.

Le Clerc noted that the interest make-up structure would work technically only if the commercial bank loan could be rediscounted at the BEAC. (This point reinforces the need to discuss rediscounting criteria directly with the *Directeur du Crédit*.) Therefore, the MLTF should probably give three options: direct loan as currently envisaged; interest rate make-up for the full amount of the loan; a mixture of direct loan and interest rate make-up. The choice could be worked out by the borrower and the commercial bank, depending on the details of a particular credit proposal.

5.7 Choice of Fiduciary Bank

M. Le Clerc was of course interested to know which banks were candidates for the role of Fiduciary Bank. He commented that of the five banks listed, SCB/CL had the strongest financial condition, and that SCBC was in good shape as well. Equally important, both seem to have a good depth of experience in dealing with the difficult financial environment currently experienced in Cameroon. He pointed out that Amity Bank did not yet have the minimum capital - FCFA 1 billion - required by banking regulations.

6. BEAC - Banque Centrale des Etats de l'Afrique Centrale

Interviewed:	M. Bouiti Banza, *Directeur de Crédit*
Location/Date:	Yaoundé, 5 July 1993

Interview arranged on introduction of M. Le Clerc of the Banking Commission. Purpose: in connection with the medium term lending facility (MLTF) element of the FSSRP, review BEAC's policies and practices on rediscounting medium term (defined be BEAC as up to ten years) loans originated by commercial banks in Cameroon. All of the discussion covered rediscounting of medium term credits, none was about short term rediscounting. Note that M. Bouiti is at the regional central bank, which sets credit policies thoughout the half of the CFA franc area.

Current BEAC rediscount rate is 11.50% p.a. Banks' lending margins are no longer controlled by the authorities. BEAC does limit maximun commercial bank lending rate (pre tax), currently the limit is 18% p.a.

Bouiti commented that interest rates are high despite low inflation and soft economic conditions in most member states because of capital flight and especially the convertibility of the CFA franc. That represents an overpowering temptation for residents of neighboring states with weak currencies.

At present, there are no significant quantitative limits for individual Cameroonian banks on access to medium term rediscounting. Rather, the problem is a shortage of "good paper" - i.e. a shortage of good loans that justify BEAC's credit approval.

Approval for rediscounting medium term loans is granted on a case-by-case basis according to sound lending criteria on the borrower and his investment project. For instance, borrowers must provide recent and projected financial statements, justify the level of investment and borrowing as well as the purpose. The bank has a detailed credit manual tht devotes several pages to the lending criteria and principles behind them, and also sets out the points that must be covered in the rediscounting application.

The amount that may be discounted is expressed as a percentage of total project cost. This percentage depends on a number of factors related to the borrower's financial statements adn the project being financed, including minimum levels of equity for the borrower. For example, for a relatively small industrial ("productive") loan to a small privately owned company incorporated in Cameroon (perhaps also with majority local ownership), permissible rediscounting could go as high as 80% of project cost. A larger firm, however, would be entitled to BEAC rediscounting of only 50% of the project cost and must provide a minimum of 20% equity, with any shortfall to come from non-rediscountable borrowing, supplier credit or the like. Real estate borrowing justifies a rediscounting proportion of only 30%, state-owned enterprises are treated differently from private sector firms, etc.

The level of credit approval required within the central bank, as well as response time, is a function of the amount of the loan. Amounts less than FCFA 300 million may be approved by the Governor alone, and would be handled fairly frequently. Amounts between FCFA 300 and 700 million must be reviewed by the National Monetary Committee, which meets approximately four times a year: January, April, September, and one additional date for Cameroon (because of the importance of agricultural credits). Credits above FCFA 700 million are reviewed by the full Board of Directors of the Bank, presumably on a still less frequent schedule.

The application for rediscount is presented by one bank, the lead bank in case of a consortium credit. If BEAC finds the project reasonably sound and the financial structure adequate, it will give the borrower's bank its *notification de l'accord de mobilisation/réescompte*. The funds may of course be drawn down progressively, buy any amounts that are not used within one year of the notification are no longer available (unless strong justification is given to the bank).

7. American Embassy

Interviewed: Richard Patard, Economic & Commercial Officer
Location/Date: Yaoundé, 17 June 93

7.1 Banking climate

Mr. Patard is pessimistic for the short term economic and financial outlook, and expects further deterioration in the banking sector. Continued Government deficit financing has made Cameroon ineligible for World Bank and other donor financing, which further aggravates a weakening economic situation.

He has been told that the two biggest banks, BICIC and SGBC, are the most illiquid, followed by Meridien. Patard has heard favorable comments on SCB/CL and Crédit Agricole. SCBC, the Fiduciary Bank for the FSSRP, has had some problems (not of its own making) disbursing salary payments to civil servants but is not reputed to be in bad shape. He had received the internal "business plan" document of Amity Bank, found the people there open and friendly, has no particular knowledge of their operations.

7.2 Banking supervision

Patard understands that COBAC now knows most details on all the banks' loan portfolios, and is in a good position to try to exercise supervisory control.

APPENDIX G

PROPOSED FERTILIZER MIXING AND BAGGING PROJECTS

This section of the report is devoted to a review of proposals from three investor groups for construction of a fertilizer mixing and bagging plants at the port of Douala. Key aspects of the proposals are compared in paragraph four of this appendix.

1. FERIDA

Interviewed: Bonaventure Mbida Essama, President
Location/Date: Douala, 23 June 93

1.1 Project Cost and Financing Structure

The team discussed FERIDA's plans for installation of a mixing and bagging plant at the port of Douala. The previous discussion of this project was during the 1990/91 assessment, when we visited the site for the project at Bonaberi. At that time, we were told by Mr. Mbida that he had signed a letter of intent to purchase a warehouse (for FCFA 12 million) and lease the land near the old banana loading quay. This information is apparently still valid.

Total project cost will be about $2.2 million, or FF 11 million. According to the feasibility study which we received from Mbida, the project would be financed by $1 million in equity and $1.2 million in loans or loan guarantees from the IFC and the African Development Bank.

1.2 Financing Package

Terms for the loan from the African Development Bank include: amount FF 2.9 million, total repayment term of 6 years including 1 year's grace, commitment or front-end fee of 1% (flat or per annum?) which is already accruing since the loan has been signed, and interest at floating LIBOR + 3% p.a. This loan of course involves direct foreign exchange risk for the borrower for the entire 6 year period.

The IFC credit facility was changed recently, precisely to reduce the foreign exposure aspect. It is no longer a loan, denominated in foreign currency, but rather a guarantee (expressed in foreign currency) of a loan to be obtained in CFA francs from a local bank. The foreign currency aspect here involves a protection, rather than a risk, since in case of a devaluation of the CFA franc the local bank would find the FCFA amount of the guarantee had actually increased, i.e. to the benefit of the bank, and without any major extra cost to the borrower.

Terms of the IFC guarantee include: amount FF 3 million, total repayment term of 6 or 7 years including 1 year's grace, guarantee fee of 3-4% p.a. Presumably the payments for this fee will involve (a modest amount of) foreign exchange exposure for the company.

The ADB and IFC credit facilities are to share pari passu in a shared collateral package. On the strength of this guarantee, Amity Bank has agreed to extend a term loan for the FCFA equivalent of FF 3 million for a total term of 5 years including 1 year's grace. Interest rate is to be in the vicinity of 20% p.a., unless that can be reduced by means of the MLTF. Even so, Mbida thinks the project would be financially feasible. (Note that, as reported in section 2.1 above, we were informed on 6 July 1993 tht IFC in Washington has rejected the FERIDA application.)In this connection, he suggested the MTLF consider limiting the lending bank's spread.

Crédit Agricole apparently has shown some interest in financing as well. Mbida referred to an (existing?) overdraft facility with Crédit Agricole of CFA 50 million that he has used to help finance fertilizer imports. The main supplier for the imports FERIDA has made to date was Interep of the UK. This firm reportedly gave suppliers credit to FERIDA of 180 days.

In a telephone interview on July 5, 1993 with an officer at Crédit Agricole who handles FSSRP matters, Mr. Ndi Ngono, a different version of the bank's dealings with FERIDA was offered.

To Mr. Ngono's knowledge, Crédit Agricole has not provided credit to FERIDA in connection with fertilizer imports or other short term needs.

He did know that FERIDA had sought medium term financing from the bank some time ago. The bank requested that FERIDA meet certain conditions (he did not specify them today) and on that basis would have considered participation in a medium term credit together with other banks. The bank did not go as far as making an in principle commitment and FERIDA did not pursue the matter, presumably because the "conditions" were difficult for the company to meet.

Two items in the project budget involve foreign exchange exposure: procurement of imported machinery, for about $300,000, and miscellaneous equipment, for $200,000. The rest is local cost. This exposure would not impact the project's financing unless a FCFA devaluation occurred before payment for these items had been made.

Note that the land is leased from a Government agency, MAGZI, and is not a fixed asset cost for FERIDA.

Working capital requirements are budgeted at $600,000. This figure apparently makes two relatively favorable assumptions: customers make a 30% down payment, and they are large and substantial enough to be good for a loan from their banks.

1.3 Profitability

FERIDA's financial projections show a rate of return of 34%. The enterprise would be profitable from the first year of operation and produce a positive cash flow sufficient to service the debt. Gross margin on sales is 22.1 % in the first year and 32.7% in the eighth year, and net profit varies from 3.7% to 16% over this period.

The fertilizer will be purchased from Interep of London on 180 day supplier credit.

Mbida would like eventually to replace the FCFA 150 million Amity Bank loan at 20% interest with a loan from the FSSRP Medium Term lending facility at 8%, which would greatly improve the profitability of the project.

1.4 Marketing

Mbida believes that the total market for fertilizer in Cameroon was 60,000 to 65,000 mt when he made his forecast, and may now be 65,000 to 75,000 mt. The feasibility of the project is based on his taking only 10 to 15% of the market in the first year (7000 to 10,000 mt) and later reaching 12,000 to 15,000 mt in sales. He claims the project will break even at the 7000 mt level. The plant would operate only 3 to 4 months per year during the dry season, receiving no more than two 5000 mt bulk shipments per year, to be unloaded at the quay and trucked to his warehouse nearby. Mbida says he will only import against firm orders and these are likely to come only from financially sound parastatals (which would exclude CAMSUCO) and private estates with whom he has dealt in the past. Compared to importing in bags, bulk importation with local mixing and bagging will save $40 to 60 per mt, he estimates. This amounts to a saving of 20 to 25%.

1.5 Plant Operations

Capacity of the plant is based on the 5 to 8 mt capacity of the "blending box", which produces a batch of blended fertilizer in 3 to 4 minutes, or roughly 15 cycles per hour. At 5 mt per cycle, the unit would have a theoretical capacity of 75 mt per hour. Allowing for 30 to 40% down time, actual capacity would be 40 to 50 mt per hour or 500 mt per day of 10 hours operation. If sales are 7,500 mt per year, the plant could produce this tonnage in 15 days of operation.

2. COFAGRI

Interviewed: Ronald Senfftleben, Director
Location/Date: Douala, 22 June 1993

2.1 Background

M. Senfftleben, a Frenchman, has over ten years agribusiness experience in Cameroon. In addition to producing fruit juice and bananas, he is the sole importer of the chemical used to treat Cameroon's important wood exports. Annual sales of the fruit juice operation are FCFA 150 million; he did not mention sales figures for the other activities.

Agrichim was a fertilizer importer which Senfftleben and his partners owned 50-50 with the Government of Cameroon and which went bankrupt in 1986. Annual sales were FCFA 4 billion at that time. Unfortunately for M. Senfftleben, the bankruptcy of the BIAO bank resulted in the disappearance of the firm's working capital, amounting to over FCFA 1 billion. (How the company's entire cash position could "disappear" in this way was not really explained.) Senfftleben has been fighting in the Cameroonian courts since then to recover the funds. He won the final round of the court battle in January 1993. However, in the short run he will have no luck collecting because the debt is owed by SRC.

Senfftleben has experience operating fertilizer blending and bagging facilities in other countries, and this experience underlies the COFAGRI proposal for which he is seeking additional medium term financial support from FSSRP. COFAGRI is a new *société anonyme* registered in Cameroon with FCFA 550 million paid-in capital. Ownership is 51% Cameroonian, all private individuals, and 49% French, mostly M. Senfftleben and his brother.

2.2 Fertilizer Blending and Bagging Project

Total project budget is FCFA 1.5 billion, funded from two sources: land and buildings valued at FCFA 750 million and a somewhat complex package from the Islamic Development Bank (IDB) for FCFA 770 million to finance imported blending and bagging machinery plus working capital.

The feasibility of the project was indicated in the 1985 IFDC report, according to Senfftleben, but he feels that he has proven it with his own feasibility study which the BID accepted. (The TSC has been sent a copy.) The SOFRECO study also looked at a similar project, but did not contain financial projections, he said. The fertilizer market in Cameroon is estimated at 50,000 mt for all types together. To this should be added the Chad market for cotton. The BID is interested in supporting a project in Chad to expand cotton production, which would help the feasibility of the project. Asked about competition from Nigeria, Senfftleben said that the three fertilizer plants there met only about 40% of demand and produced only Urea.

The payback period is quite short -- loan amortization could start as soon as 6-12 months after disbursement. Once the project is up and running, company's annual sales would approximate FCFA 2.5 billion.

The company already owns the land (1.5 ha) and buildings, with electricity and water already connected. Premises are on or near the river and a rail line (not operative at the moment) runs up to the property. Senfftleben says Crédit Agricole has made an independent appraisal of the property confirming a value of FCFA 600 million. The only missing element is the blending and bagging machinery.

IBD has approved, and re-confirmed early this year, a FCFA 770 million equivalent lease package to finance the machinery. Most likely source of equipment: France. <u>Note that the credit would in fact be denominated in US dollars: $ 2.75 million, leaving the company with what could become significant foreign exchange risk exposure</u>. Reason for the lease structure: Islamic law prohibits lending. The lease would be repaid over eight years, with a grace period of 2½ years. Partial prepayments without penalty are allowed. Implicit interest rate in the IDB lease: 8½% p.a.

In fact, the price of the machinery is deliberately overstated in the IBD financing package so that some FCFA 300 million in working capital can be generated from the IDB credit facility. In addition, the state-owned Moroccan phosphate monopoly, OCP, is willing to organize shipments of the various fertilizers required by the plant (i.e. not only OCP phosphate products) and finance them by way of a 36-month suppliers credit. The OCP supplier credit apparently would be re-financed by the IDB. It would carry an (implicit) rate of interest of 8% p.a.

2.3 <u>Cameroon Bank Guarantee, FSSRP Role</u>

The IDB package requires two elements of security for the lender: a charge over the machinery until final repayment, and a full guarantee from a Cameroonian bank. Company's main banking relationship is with Standard Chartered. They have reviewed this particular project in detail with Crédit Agricole. Despite these contacts, Senfftleben has not located a Cameroon bank willing to issue the guarantee, although Crédit Agricole might be willing to take the risk under another structure. Main reason: guarantee fees are limited by local regulation to a rate of 1½% p.a., which the banks consider inadequate.

In short, COFAGRI is facing the classic banking problem in the current financial environment in Cameroon: banks' liquidity is shrinking every day, and they seek ways to avoid any risk whatsoever and simultaneously build margins. The IDB credit structure exacerbates the problem since, despite significant flows of likely collateral fee and deposit business, banks do not wish to take the risk of issuing such a guarantee for a small margin.

COPAGRI is seeking a guarantee from the FSSRP under its proposed medium term loan guarantee facility. We pointed out that a FCFA 400 million maximum had been proposed.

Senfftleben felt that if the FSSRP took the lead with a guarantee of that much, then Cameroon banks might follow with additional guarantees. FSSRP's proposed medium-term facility could perhaps be adapted to this situation so that a bank's margin were effectively increased to an level that seemed attractive in the present environment. And perhaps the size of the project could be shrunk somewhat, at least for the initial period. Under such circumstances, FSSRP support could induce a bank to relax its tight criteria enough to help the project get off the ground.

The COFAGRI project is based on annual sales of 30,000 mt of all types of fertilizer. A minimum size mixing and bagging plant is capable of handling 1000 mt/day, or at least 120,000 mt a year if operated 20 days a month for six months, according to Senfftleben. At the most, the plant could operate during the eight non-rainy months (October through May) because it is difficult to handle fertilizer under high humidity conditions.

The bulk fertilizer which would supply the plant would be imported in two or three shiploads of 10,000 to 15,000 mt, since this is the most economical way to purchase. Most fertilizers are sold in Cameroon during the December to June period.

Fertilizer for the plant would be imported from Morocco, where the BID has made an arrangement with the Office Cherifienne du Potasse (OCP) to supply all ingredients on favorable credit terms (36 months at 8%). The credits would be guaranteed by BID. Types produced by OCP include DAP and urea, while the potassium would be obtained from other suppliers in the form of KCl or muriate of potash (MOP).

3. IBEX

Interviewed:	Mrs. Rose Mbonde
Location/Date:	Douala, 22 June 1993

3.1. Proposed Project

IBEX plans to acquire property at the former SOCAME fertilizer plant in Bonaberi to install a mixing and bagging plant. The company's proposal states that 15,000 mt of raw material (bulk) storage and 10,000 mt of bagged material storage are available at that site. The proposed plant would have a blending capacity of 60,000 mt annually and a bagging capacity of 80,000 mt.

Capital cost would be $1.25 million. A breakdown of this cost appears in the summary table in the following section. Working capital requirements are based on a starting import of 10,000 mt of bulk fertilizers at a cost of $160/mt, plus operating costs to blend and bag this tonnage estimated at $210,000 ($21/mt) and freight at $40,000, making a total of $1.85 million working capital required.

Production is forecast at 40,000 mt in the first year, increasing to 80,000 mt by the fifth year. IBEX estimates total cost of producing a metric ton of blended and bagged fertilizer (including interest on capital and amortization) at $22.03 (FCFA 60,500) in the first year, dropping to $20.85 (FCFA 57,300)in the fifth year. According to IBEX calculations, this would result in savings over imported bagged fertilizer of about 10% for NPK 20-10-10 and 13% for a more complex formulation (20-10-15-1S-1B).

3.2 Project Financing

IBEX would finance project costs with $600,000 in equity, a long term loan of $1.4 million, and $1.1 in short-term working capital loans. Discussions are underway concerning a possible joint venture with two French firms, Hydrochem, a fertilizer producer, and PROCARPO, who would provide equity capital. Hydorochem seeks a controlling interest in the project.

IBEX also approached the Africa Project Development Facility (APDF) for assistance. In a communication dated 29 July 1993, the APDF informed IBEX that it would seriously consider assisting IBEX in studying the proposed project, and if it proved to be "bankable", APDF would assist IBEX in finding financing.

3.3 Other Features of IBEX Proposal

IBEX's proposal contains a number of other proposed actions in support of its project. These include:

Research and Extension: Contracts with the IRA for soil fertility research and monitoring of crop production costs and farm budgets.

Market research: A contract with the University Center at Dschang for studies of market demand for fertilizer.

Education and training: Organization of an education program for farmers on utilization of fertilizer. Training of retailers and extension agents on use of fertilizers.

Fertilizer marketing: IBEX offers to assist wholesalers and retailers in obtaining credit, and to extend credit to purchasers itself on a selective basis.

Extended product line: IBEX states its intention to broaden its product line to include agricultural chemicals and farm implements.

4. Comparison of the Three Proposals

Project Costs (US $000)

Cost Item	FERIDA	IBEX	COFAGRI
civil works	104	200	2730
buildings	156	250	
equipment	484	285	
aux. equip	52	185	
vehicles	260	120	
total fixed cap.	1056	1040	1710
start-up costs	260	125	
interest	36	-	
contingency	212	85	
working capital	624	1850	1090
sub-total	1132	2060	
grand total	2188	3100	5530
Sources of Funds			
own funds	1008	600	2000
LT/MT loan	1180	1400	2750
ST loan	-	1100	not stated
Production			
1st yr prod/mt	7000-10,000	40,000	-
5th yr prod/mt	12,000-15,000	80,000	30,000

As the above table indicates, the FERIDA and IBEX proposals are in the $2 to $3 million range, while COFAGRI's is $5.5 million. The FERIDA proposal has a much smaller figure for working capital than does IBEX, and in fact this by itself accounts for the difference in project costs between the two proposals. FERIDA appears to be counting on sales to parastatals which will be able to finance purchases through banks and will not require credit. This might account for the absence of short-term loans in their pro-forma statement. IBEX, on the other hand, apparently counts on extending credit to its customers, and has a much larger figure for working capital as well as a substantial short-term borrowing. Strangely, the IBEX statement does not show a figure for interest costs.

Differences in project costs appear to be reflected in the stated capacity of the three plants, although it is not clear that the figures are comparable. Though all three plants are claimed to be minimum size configurations, the FERIDA and IBEX plants have capacities in the 400 mt/day to 500 mt/day range (one shift basis), while COFAGRI's is stated as about 1000 mt per day. If the latter figure is also on a one-shift basis, then the COFAGRI plant has about double the capacity of the other two.

Planned production and sales figures vary widely among the three proposals. <u>FERIDA</u> forecasts are the most modest: 7,000 to 10,000 mt in the first year, and 12,000 to 15,000 by the fifth year. Ferida estimates that in the first year their market share would be 10 to 15% of the total Cameroon market of 65,000 to 75,000 mt, and that the plant could break even at this level. <u>COFAGRI</u> plans production of 30,000 mt annually, which would be 60% of their estimated 50,000 mt Cameroon market -- although expectations are that they would sell also in Chad. The <u>IBEX</u> proposal is the most ambitious, calling for sales of 40,000 mt in the first year and 80,000 by the fifth year, without specifying their estimates of total market size, though presumably they also count on sales to Chad.

Elsewhere in this report we have concluded that current demand for subsidized fertilizer in Cameroon is 30,000 to 35,000 mt annually. To this should added consumption in the north under the PSIE program or 15,000 to 20,000 mt, making a total demand in Cameroon of 50,000 to 60,000 mt at present. Given inevitable start-up problems of a new plant, unanticipated expenses which will add to product cost, and possible acceptability problems of a "new" product despite the lower price, we think it is doubtful that a mixing and bagging plant could achieve the kind of sales forecast by IBEX and COFAGRI in the first year. It seems more prudent to count on sales in the range of 10,000 to 20,000 mt in the first year, though this could increase rapidly in later years if the enterprise is well managed and expected savings over imported NPK fertilizers are in fact realized, and if no problems are encountered in exporting to Chad.

There are also substantial differences in the method of financing the three projects. For example, <u>FERIDA</u> counts on raising 46% of the necessary capital from equity, and 54% from long and medium-term loans. In the <u>IBEX</u> proposal, 20% would come from equity, 45% from long-term loans and 35% would be short-term borrowings. <u>COFAGRI</u>'s larger amount of capital would be raised to the extent of 36% from equity and 64% from long-term borrowing. No short-term borrowing is stated.

If the FSSRP is to become involved in medium-term loans or loan guarantees for a mixing and bagging plant, new proposals should be submitted by the companies concerned.
Key points to be examined in evaluating proposals are:

- pro-forma balance sheet, profit and loss, and cash flow statements,
- detailed investment cost figures on equipment with indication of system capacity on an hourly basis,
- number of days of operation per year and required storage capacity for output,
- operating costs, including labor, utilities, and sacks,
- basis for evaluation of land and existing buildings,
- indications of commitments from local and foreign investors,
- fertilizer purchase arrangements, including credit terms and size and frequency of shipments,

- credit terms to be offered to buyers,
- expected prices for each type of fertilizer offered,
- working capital requirements consistent with above fertilizer buying and selling terms, and
- realistic marketing plan, with sales forecasts for first five years, taking into account normal start-up problems, customer reaction to an apparently new product, and likely competition from other importers -- and possibly other mixing and bagging plants.