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DECENTRALIZATION: FINANCE & MANAGEMENT PROJECT

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Associates in Rural Development, Inc.

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PROGRAM OF REFORM IN THE AGRICULTURAL MARKETING SECTOR, PHASE I (PRAMS I)

Program of Research on Market Transitions (PROMT)

PITFALLS OF PRIVATIZATION:

A Case Study of the European Community's Programme Spécial d'Importation d'Engrais

Decentralization: Finance and Management Project
Associates in Rural Development, Inc.

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FOREWORD

This report is one of a series of studies produced by the Program of Research on Market Transitions (PROMT), the research arm of USAID/Cameroon's Program for Reform of the Agricultural Marketing Sector, Phase I (PRAMS I). PROMT is one of many research programs conducted by the Decentralization: Finance and Management (DFM) project, sponsored by the Agency for International Development's Research and Development Bureau (AID/R&D). Like other DFM projects, PROMT draws on an Institutional Analysis and Design (IAD) framework to study the processes of institutional change associated with deliberate reform efforts in the developing world. DFM is managed by Associates in Rural Development, Inc. (ARD) of Burlington, Vermont. Under subcontract arrangements ARD collaborates with the Workshop in Political Theory and Policy Analysis at Indiana University and the Metropolitan Studies Program at Syracuse University.

PROMT was created to monitor and analyze the processes of market liberalization and privatization associated with various donor-assisted, policy reform programs in Cameroon, including but not limited to PRAMS I. Concerned with problems of both design and implementation, the research was focused, in particular, on two issues: (1) the relationship of sectoral reforms to cross-cutting reforms and constraints, and (2) alternative modalities for assisting the reform process as used by three donors--AID, the World Bank, and the Commission of the European Community (CEC). PROMT also examined other emerging difficulties with policy reform and further developed the IAD framework as a diagnostic tool for use in the policy reform process.

PRAMS I focused exclusively on reform and restructuring in Cameroon's arabica coffee sector. Arabica coffee is one of the country's leading agricultural exports, which also include robusta coffee, cocoa, and cotton. PRAMS I was preceded by the Fertilizer Sub-Sector Reform Program (FSSRP), USAID/Cameroon's first initiative into market-creating policy reform, and a companion program sponsored by the CEC, the Programme Spécial d'Importation d'Engrais (PSIE). These sectoral reform efforts occurred in the context of a comprehensive Structural Adjustment Program (SAP) supported by the World Bank. This set of reform activities provided the range of experience studied by PROMT researchers.

The theoretical base for PROMT research was both institutionalist and interdisciplinary, provided by the IAD framework in political science and the New Institutional Economics. The "new institutionalism" as used in PROMT was based on two key ideas:

- Goods and services exhibit differences, often subtle, that require different institutional arrangements for their effective provision, production, exchange, and use. Included are shades of difference among the great variety of private goods considered appropriate for market provision.

- Alternative institutional arrangements create very different incentives for individuals' behaviors, greatly affecting their capacity or incapacity to interact with one another in productive ways. Included among alternative institutional arrangements are alternatives within the private sector--various types of markets and industries.

This theoretical orientation leads to a pair of research hypotheses:

- The problems encountered in liberalization and privatization vary with the characteristics of the goods and services involved in emerging market relationships. Normatively, the design and implementation of policy reform programs should reflect the differences among economic goods.

- The success of policy reform depends on the institutional arrangements available for translating intentions into actions and outcomes. Normatively, the design and implementation of policy reform programs should reflect the differences among political institutions.

Methodologically, PROMT examined and compared different cases of policy reform, using programs undertaken by different donors in a single country. The period under study was roughly 1988 to early 1994. During this period the international economic situation affecting Cameroon deteriorated sharply, including a sagging world price for coffee. Toward the end of the period Cameroon's currency (along with the other Franc zone countries in West Africa) was devalued, a step long recommended by the World Bank. Also during this period Cameroon pursued political reforms, legalizing opposition parties and increasing the diversity of political expression, yet maintaining the dominance of the president and his party. Otherwise, the research design held constant the general institutional context, while varying, among the cases studied, both the goods and services involved and the design and implementation of policy reforms and accompanying programs of assistance.

The design of PRAMS I produced two major program components:

- A policy reform component that established a series of conditions precedent to the disbursement of funds, most of which were intended to liberalize the policy environment surrounding the marketing of arabica coffee, allowing for market-based pricing, private export, and competition among traders.

- A cooperative restructuring component focused on the North West Cooperative Association, a federation of 11 cooperative unions and initially 40 (now 73) cooperative marketing societies located in the North West Province.

Arabica coffee is also grown in West Province, where marketing is organized through a union of six marketing cooperatives. A collateral reform effort, one closely coordinated with a number of other donors, led to the adoption and dissemination of a new national cooperative law, affecting all cooperative organizations and similar groups in Cameroon.

The Cameroonian experience with policy reform in general and PRAMS I in particular is especially interesting due to two factors:

- The distinguishing characteristic of arabica coffee as a "hidden value" commodity and the challenge presented by this attribute to the conceptualization of an appropriate privatization program. The value of a commodity is hidden to the extent that its quality cannot be easily ascertained or measured at the point of initial purchase. This suggests the possibility that market institutions should be modified by introducing elements of nonmarket or collective decision-making. These considerations coincided, in the case of PRAMS I, with a privatization program focused largely on marketing cooperatives, not private entrepreneurs.

- The innovative approach to policy reform pursued by USAID/Cameroon during this period. Rather than introducing a policy change (e.g., a change in a regulation or the adoption of an official policy statement) and monitoring outcomes, USAID/Cameroon pursued a course of following each reform through the series of steps that lead from the initial intervention to intended (or unintended) outcomes. Instead of focusing only on the two end-points of the reform path, this approach, as used in both PRAMS I and the earlier FSSRP, involved monitoring performance along the entire path. Such close monitoring led to unforeseen donor interventions in the reform process. Monitoring the entire path of reform can also suggest ways to model the reform process. Models of policy reform, conspicuously lacking in the design of policy reform programs by major donors, could lead to better choices of initial policy interventions and better monitoring of performance.

The PROMT research effort has resulted in the following reports:

- *Institutionalism and Policy Reform.* A background paper on the IAD framework applied to policy-reform problems.

- *Organizational Approaches to Policy Reform.* A background paper on the models followed by USAID, the World Bank, and the CEC.

- *Crafting a Market: A Case Study of USAID's Fertilizer Sub-Sector Reform Program.* A case study of the Fertilizer Sub-Sector Reform Program.

- *Pitfalls of Privatization: A Case Study of the European Community's Programme Spécial d'Importation d'Engrais.* A case study of the CEC's Special Fertilizer Input Program (known by French acronym, PSIE).

- *Paths of Policy Reform.* Case studies of PRAMS I and Cooperative Law reforms.

- *Restructuring NWCA.* A case study of the cooperative restructuring component of PRAMS I in the North West Province.

- *Implementation of the World Bank's First SAL in Cameroon: A Case Study of Public Enterprise Reforms and Industrial and Commercial Sector Reforms.* A case study of selected components of the SAP in Cameroon.

- *Crosscutting Constraints and Policy Reform.* A set of four background papers dealing with investment, labor, commercial, and contract law in Cameroon.

- *The Analysis of Market Transitions.* The final report.

Copies of the reports are available from ARD, Burlington, Vermont.

Ronald J. Oakerson
PROMT Research Director

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The PROMT team was composed as follows:

- Daniel Green, Full-time Research Associate, a political scientist posted in Yaounde, Cameroon
- Paul D. Wessen, Full-time Research Associate, an agricultural economist posted in Bamenda, Cameroon
- Donald Hinman, Part-time Research Associate, an agricultural economist located at Michigan State University
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- Louis Siegel, DFM Senior Program Manager, ARD Burlington
- Barbara Messner, DFM Assistant Project Manager, ARD Burlington
- Ronald J. Oakerson, Research Director (part-time), Professor of Political Science, Houghton College

Green and Wessen were posted in Cameroon for one year, from early 1993 to early 1994. Green had principal field responsibility for the case studies dealing with PRAMS I policy reforms and the cooperative law reform, while Wessen studied the restructuring of NWCA. Hinman wrote the background paper on "Organizational Approaches to Policy Reform" and conducted the field study of public enterprise reform within the scope of Cameroon's SAP.

Walker was responsible for the case studies of FSSRP and PSIE and assisted with project coordination. Oakerson wrote the background paper on the IAD framework and the final research report, edited the full set of reports, supervised the research team, and gave general direction to the research program. Over the past few years he has spent a total of some nine months in Cameroon.

In addition, ARD subcontracted with the Private Sector Research Institute (PRISERI) of Cameroon to prepare four background studies of cross-cutting legal constraints.

The team has a long list of people to whom we are deeply indebted for assistance. At USAID/Cameroon, two "generations" of personnel contributed to the research program. Robert Shoemaker, former Project Design and Evaluation Officer, Tham Truong, former Chief of the Office of Economic Analysis and Policy Reform Implementation (EAPRI), and

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PREFACE

This case study of the Programme Spécial d'Importation d'Engrais (PSIE) is the product of two sojourns to Cameroon. The more recent occurred in May and June 1993 and included a stop-over at the headquarters of the Commission of the European Community (CEC) in Brussels. Within the General Directorate for Development, very open and helpful exchanges were held with a number of staff with past or present responsibility for the CEC's programming in Cameroon, including Margarida Cardoso, Vincent Dowd, Josse Kestemont, Jean-Louis LaCube and Didier Robert. Vincent Dowd was also most accommodating in supplying the necessary reports before, during and after the visit to Brussels.

In Cameroon, meetings were held with a variety of government officials, parastatal managers and private sector importers and distributors. Of particular assistance were Siméon Fotso, the officer within the Ministry of Plan with oversight responsibilities for the PSIE; Abdoulaye Seno, the provincial chief of service for agriculture in the North province; and, Michel Gaudar, SODECOTON's director of rural assistance.

The data presented in this case is what was currently available as of the time of this field work. As the PSIE is still ongoing, this case study can only provide a snapshot of the program and cannot be considered a definitive treatment.

The author served for 31 months (July 1988 through April 1991) as the program coordinator for the Fertilizer Sub-Sector Reform Program (FSSRP) at the Cameroon Mission of the U.S. Agency for International Development (USAID). During that time he developed a first-hand experience with the PSIE as it unfolded during its first three years. This understanding was deepened from repeated discussions about the PSIE with Josse Kestemont, the CEC's resident rural development advisor and designer of the PSIE; Felix Nkonabang, deputy director of the Ministry of Agriculture's Department of Agriculture and Tham Truong, USAID/Cameroon's chief economist and motive force behind the design and early implementation of the FSSRP. In addition, Daniel Moore and Rostand Longang of USAID/Cameroon's Policy Reform Implementation Monitoring Section deserve special mention for the continuous assistance they provided.

ACRONYMS AND ABBREVIATIONS

ACP	African, Caribbean, and Pacific
CAC	*Credit Agricole Cameroun*
CEC	Commission of the European Community
CFDT	*Compagnie Française pour le Développement de Fibres Textiles*
CIF	Cost, Insurance and Freight
DGTC	National Office of Public Works and Contracts
ECU	European Currency Unit (approx. $1.80 = ECU)
FCFA	Franc of the Central African Monetary Union
FONADER	*Fonds National de Développement Rural*
FSSRP	Fertilizer Sub-Sector Reform Program
GRC	Government of the Republic of Cameroon
IAD	Institutional Analysis and Development
IRZ	*Institut de Recherche Zoologique*
MEAVSB	*Mission d'Etudes pour l'Aménagement de la Valée Superieur de la Benoue*
MINAGRI	Ministry of Agriculture
ONCPB	National Produce Marketing Board
PSIF	*Programme Spécial d'Importation d'Engrais* (Special Fertilizer Input Program)
SEMRY	*Société d'Expansion et de Modernisation de la Rizculture de Yagoua*
SODECOTON	*Société de Développement du Coton du Cameroun*
TSC	Technical Supervisory Committee
USAID	U.S. Agency for International Development

EXECUTIVE SUMMARY

When the Government of the Republic of Cameroon (GRC) introduced a new policy regime for the fertilizer subsector in September 1987, there was no expectation that the Commission of the European Community (CEC) would become involved. The new rules, which entailed an end to direct government involvement in fertilizer financing, importation or distribution, removal of legal barriers to private sector involvement in all aspects of fertilizer marketing and the gradual elimination of fertilizer subsidies, had been developed with the active involvement of the US Agency for International Development (USAID). Indeed, USAID was to support the reforms with a five-year $20 million Fertilizer Sub-Sector Reform Program (FSSRP). Under the FSSRP, USAID would make a series of annual cash grants to the GRC to support private sector participation in fertilizer marketing, including the creation of a revolving credit fund, as long as the GRC maintained the liberalized policy regime.

Under this arrangement there would have been no need for the involvement of the CEC or for the creation of the Programme Spécial d'Importation d'Engrais. However, shortly after concluding their agreement, USAID and the GRC discovered that the FSSRP had a serious 'funding gap'. The first year's contributions from the GRC toward the subsidy fund and from USAID toward the revolving credit fund were expected to be sufficient to cover 60,000 tons of fertilizer imports. However during discussions between the two parties in November and December 1987, it became apparent that there would be a shortfall of at least FCFA 1.2 billion ($3.9 million at prevailing exchange rates). Rather than scale back the quantity of fertilizer that could be covered under the FSSRP, the GRC and USAID sought out additional financial contributions to fill the funding gap. The CEC was receptive and negotiations ensued.

The Programme Spécial d'Importation d'Engrais (PSIE) that emerged from the CEC several months later was not the co-financing arrangement that originally had been envisaged. Instead it was a separate initiative that, while adopting the general objectives of the GRC's fertilizer reforms, went about them in ways very different from the FSSRP. Where the FSSRP had national scope, the PSIE focused on the northern three provinces of Cameroon. Where the FSSRP provided cash grants, the PSIE provided grants of fertilizer. Where FSSRP grants were directed toward the creation of a revolving credit fund, the sales proceeds from PSIE-supplied fertilizer were channeled into a working capital fund. Where the FSSRP aimed at supporting the private sector, the PSIE reinforced government agencies and parastatals. And where USAID adopted a mediated approach to the implementation of the reforms and the subsequent institutional transition, the CEC adopted a catalytic orientation. Ultimately these differences mattered more than the statements of common purpose.

As initially designed, the PSIE was to last only two years, at which time it was scheduled to merge with FSSRP into a single program of support for fertilizer privatization. However, during those two years the PSIE took on a momentum of its own; a momentum emanating from the CEC's approach to policy reform, propelled by the program's success in

servicing the fertilizer needs of important parastatals, and oriented in a direction away from the FSSRP and privatization. The momentum was of such force it was able to withstand the concerted efforts of the GRC and USAID to merge the two programs in early 1991. Since then the PSIE and the FSSRP have proceeded on separate and ever-divergent paths. They are so divergent that in early 1993, at the time the FSSRP was taking the last steps toward complete privatization, the GRC and the CEC signed a new PSIE protocol which establishes a system of procuring and distributing fertilizer that closely resembles the discredited administered system the fertilizer reforms were designed to dismantle in the first place.

The aim of this case study is to describe the PSIE (Sections I-V) and to account for how it went so far awry of its initial vision (Section VI). Section I provides context for the following discussion: the physical and institutional context of northern Cameroon and the SODECOTON parastatal enterprise, the donor context (the CEC and its approach to policy reform), the technical context of fertilizer as an economic good, and the historical context of the state-administered fertilizer marketing system that prevailed from 1972 to 1987. Section II explores the origins of the PSIE in greater detail. Section III describes the activities carried out under the first phase of PSIE (1988/89 and 1989/90) as well as the unsuccessful efforts by USAID and the GRC to merge the FSSRP and PSIE. Section IV treats the three years falling within the second phase of the PSIE (1990/91, 1991/92 and 1992/93). Section V describes the structure established in early 1993 for Phase 3--a four-year period beginning in 1993/94. Section VI examines the fate of privatization under the PSIE and why it fell short.

I. THE CONTEXT

A full appreciation of the PSIE story that is played out in Sections II through V requires some understanding of the setting, the major actors involved, and the historical background. The setting, northern Cameroon, is described in Subsection A, along with a lead actor, the Société de Développement du Coton du Cameroun (SODECOTON). Another lead actor, the CEC, is examined in Subsection B. The historical prologue is contained in Subsections C and D.

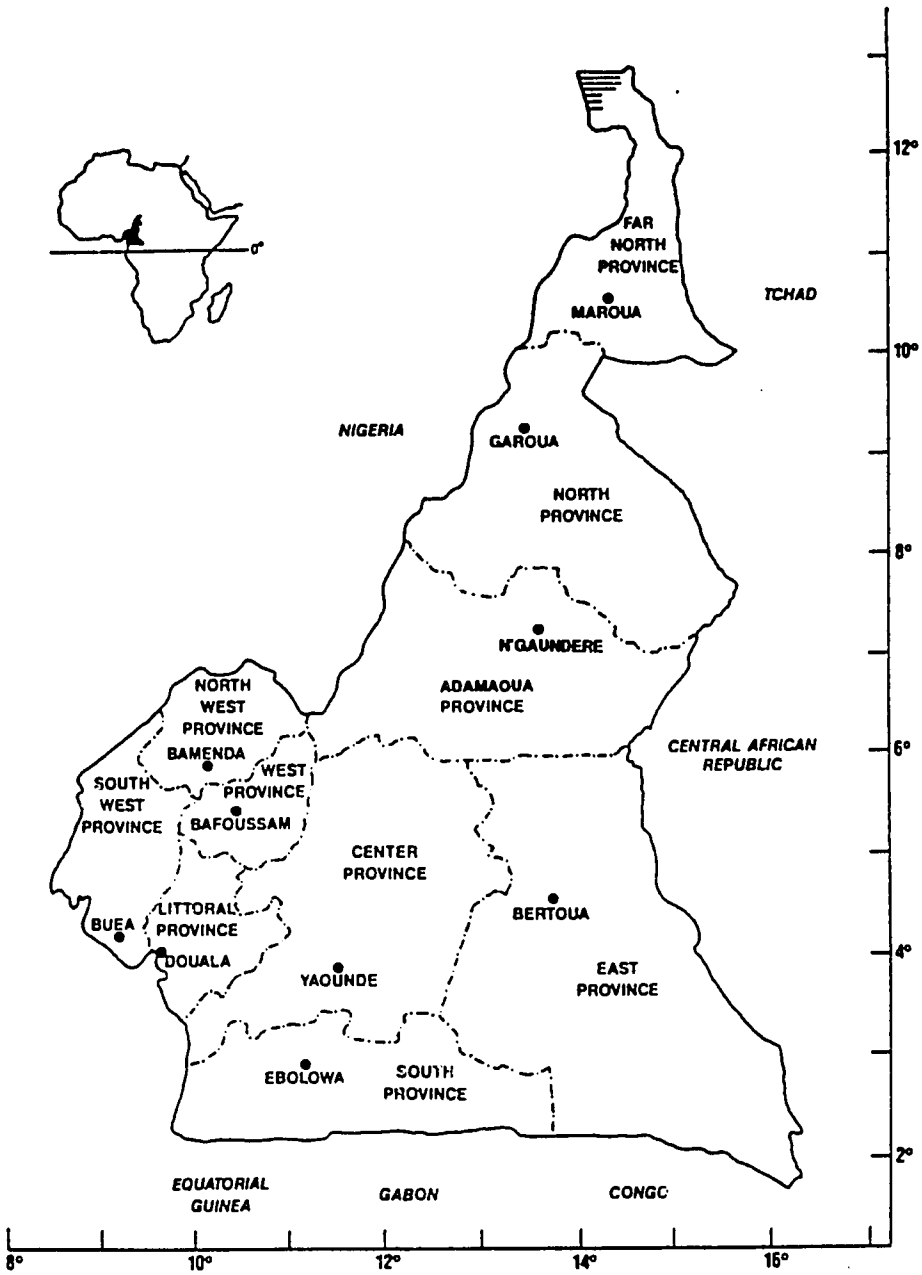
A. The Physical Context: Northern Cameroon

The PSIE targets northern Cameroon, a region comprising the Adamaoua, North and Extreme North provinces (see Map 1). Contained within the region are three distinct vegetative zones: the open savannah characteristic of the sudanian zone on the Adamaoua Plateau, the semi-desert of the sahelian zone in the northern half of the Extreme North province, and a transitional sudano-sahelian zone in between. Altitude, rainfall and temperature each play a role in defining these zones. Average altitude of the Adamaoua Plateau is 1,100 meters, but it falls abruptly on its northern perimeter into the Benoue basin. From there the land gradually slopes downward in a northerly direction to Lake Chad (IFDC 1986: 7-9).

As the land loses altitude from south to north, it also becomes drier and hotter. Mean rainfall in N'Gaundéré, capital of the Adamaoua province, is approximately 1,600 millimeters spread over a rainy season of 7 months. By comparison, mean rainfall in Maroua, capital of the Extreme North province, is only 815 millimeters, an amount that falls largely over three months, July through September. For five months of the year (November through March), no rain can be expected. A similar pattern holds for temperature. On the Adamaoua Plateau annual mean temperature is approximately 25° C with little daily or seasonal variation. In the Extreme North, annual mean temperature is only slightly higher, about 28°, but daily variations are often 20° or more, and seasonal variation is between 10° and 15°.

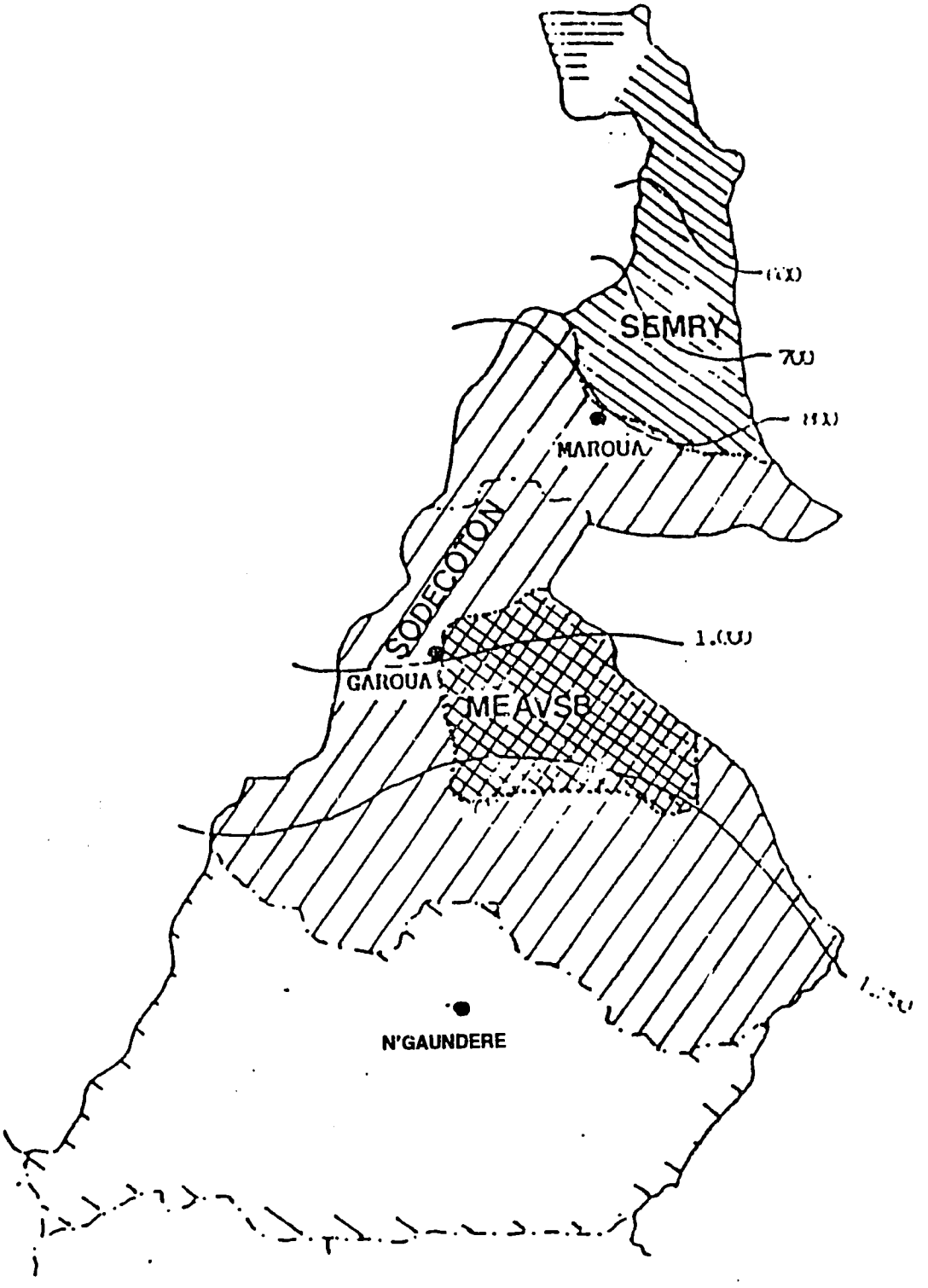
These physical characteristics produce several different agricultural zones for both traditional and commercial crops. On the Adamaoua Plateau the traditional cropping system is based on maize, though intercropped with numerous other crops. Cash crops are limited to small quantities of robusta coffee and garden vegetables, though commercial maize production (monocroppped) is becoming more significant. Elsewhere in the region, the traditional cropping system is based on millet and sorghum, again intercropped with other crops including tomatoes and onions, which generate some cash income. However, since the mid-1950s, the dominant crop in the sudano-sahelian zone has been cotton (Map 2 indicates the present-day area devoted to cotton production).

Map 1. Cameroon and its Provinces



Source: IFDC (1986): Figure I-1

Map 2. Parastatal Zones of Operation in Northern Cameroon



Source: CEC (1988b)

French colonial officials selected cotton as the only crop having commercial potential for the region (van der Walle 1990). In 1955, the French parastatal Compagnie Française pour le Développement de Fibres Textiles (CFDT) began cotton operations, organizing farmers to produce 18,000 tons of cotton that year. The scale of operations and production gradually increased through the 1960s, reaching 91,000 tons in 1969/70, before plummeting in the early 1970s due to extended droughts. In an effort to revitalize production, the parastatal was reorganized as the Société de Développement du Coton du Cameroun (SODECOTON), with the GRC now owning a 70 percent share and CFDT the remaining 30 percent. In addition to the organizational restructuring, SODECOTON introduced more intensive cultivation practices relying more heavily on fertilizer and other inputs. The restructuring and reorientation coincided with a return of normal weather conditions with the result that yields have doubled, and production has rebounded to an annual average of 115,000 tons, since the late 1970s (Schivao-Campos and others 1983).

Since its inception, the organization of cotton production in Cameroon has been based on contract farming of a rather rigid variety. If a farmer wishes to associate with SODECOTON (and in 1991/92, more than 148,000 farmers controlling 70,000 hectares did), he must agree to adhere to the directions established by the parastatal. At the start of the crop year, the parastatal determines what parcels of a farmer's land are to be planted. He is then provided with the appropriate amount of seed, fertilizer, and other inputs for his plot, on credit. All facets of the farming process are carefully monitored to ensure that standard planting, fertilization, weeding, phytosanitary and harvesting procedures are followed. At the harvest the farmer is paid a fixed price for each kilogram of cotton produced less the full cost of all inputs and direct services used.[1]

SODECOTON's managers recognize the administrative rigidity of this system, but insist that it is "simply the only one possible" given the dispersion of the farmers, the small scale of their operations, and their general lack of education (Schivao-Campos 1989: 43 and Interviews, Garoua, June 1993). Whatever other issues these arrangements may provoke, there are two implications of direct relevance to the PSIE. First, SODECOTON's system of contract farming produces a steady demand for 15,000 tons of fertilizer per year, making it the largest single fertilizer consumer in the country. Second, centralization, hierarchy, and a fair degree of efficiency are characteristic of SODECOTON.

The relative efficiency of SODECOTON's operations and its direct contact with so many farmers made it irresistible to donor agencies, such as the World Bank and the CEC, interested in promoting rural development in the region. As a consequence, during the 1970s and early 1980s, SODECOTON was asked to take on more and more functions of a general development nature, such as general crop extension, food crop marketing, and road building

[1] For example, for the 1991/92 crop year a hectare would produce 1.2 tons of raw cotton which would fetch a price of 118,533 FCFA. The costs of seeds and fertilizer to produce that quantity averaged FCFA 29,349, leaving the farmer with gross revenue of 89,184 FCFA per hectare (SODECOTON 1992). However, with land holding averaging about half a hectare, farmer income from cotton averaged around 47,000 FCFA.

and maintenance. By 1985, the cost of non-cotton activities amounted to over 6 billion FCFA a year and employed over 2,000 persons (van der Walle 1990: 252). With favorable world prices for cotton and sizeable subsidies from donors, SODECOTON was able to maintain a financial equilibrium through 1985. However, in 1986 world cotton prices collapsed (as did prices for oil, coffee and cocoa; see also Section II.A). SODECOTON found itself paying farmers more for a kilogram of cotton than it received on the world market. The result was a loss that year of 20 billion FCFA ($63 million). It took the GRC two years to adjust domestic cotton prices downward to reflect the drop in world prices. In the meantime, SODECOTON absorbed additional losses.

The collapse of commodity prices and the onset of the economic 'crise' had other deleterious effects on SODECOTON's financial situation. Domestic cotton consumers, particularly the parastatal textile company, stopped paying their bills. The GRC was unable to make its required contributions to the development activities managed by SODECOTON. International donors held up their payments in response to the government's shortfalls. The combination of all of these factors pushed SODECOTON's debt to more than 60 billion FCFA by 1989/90 (van der Walle 1990: 264).

A concerted response to these problems did not begin until mid-1990.[2] That response included jettisoning non-cotton-related activities, reducing staff by 45 percent, and cutting the producer price by 32 percent. These measures allowed SODECOTON to improve its financial situation considerably, breaking even on its cotton activities in both 1989/90 and 1990/91. In any event, returning to financial stability has been an ongoing concern for SODECOTON throughout its participation in the PSIE.

Cotton does well in the sudano-sahelian zone, where annual rainfall is in excess of 800 millimeters. It does not do well in the drier sahelian zone. Along the banks of the Lagone and Chari rivers, which flow through this zone, the GRC, with considerable donor financing, has been promoting irrigated rice production through the Société d'Expansion et de Modernisation de la Riziculture de Yagoua (SEMRY). From 1972 through 1982, 11,000 hectares of land were brought into cultivation. A third phase, financed with ECU 15 million ($18 million) from the CEC, added another 1,800 hectares by the end of 1987 (see Map 2). SEMRY follows the same strategy as SODECOTON: intensive agriculture including the use of chemical fertilizer, vertical integration, and strictly monitored contract farming. In production terms, the scheme has been quite successful: annual production exceeded 80,000 tons during the mid 1980s. Unfortunately, in financial terms SEMRY has been anything but a success (Kennes 1991). The total delivered cost of SEMRY rice in the urban markets in the southern part of the country is higher than the cost of imported rice from South East Asia. The GRC has tried a number of mechanisms to protect its domestic rice industry, with little

[2] Van der Walle (1990: 264-282) provides a detailed discussion of the politics associated with the delay in introducing the reforms and their impact

success.[3] As a consequence, SEMRY was also in desperate financial shape during its years of participation in the PSIE.

A third, and rather different, development scheme also operates in northern Cameroon. The various activities operated by the Mission d'Etudes pour l'Aménagement de la Vallée Supérieure de la Bénoué (MEAVSB) since 1973 are intended to attract migrants from more densely populated parts of northern Cameroon to the Benoue Valley and to provide them with a livelihood growing cotton (for SODECOTON) or food crops or fishing in Lake Lagdo (Kennes 1991). As part of its food crop program, MEAVSB provides farmers with improved seeds and fertilizer on seasonal credit. MEAVSB has received over ECU 25 million ($30 million) from the CEC to finance these endeavors.

That SODECOTON, SEMRY, and MEAVSB each distribute fertilizer and that each benefitted from funding from the CEC would have a significant effect on the design of PSIE, as will be seen in Section II.A.

B. The Institutional Context: The CEC and its Approach to Development in Cameroon

Besides the three agricultural parastatals, the other major player in the PSIE was the CEC. A separate PROMT report on *Organizational Approaches to Policy Reform* provides a detailed discussion of the operation of the CEC and its approach to development assistance. Here it is sufficient to highlight three characteristics of the CEC that shaped the design and implementation of the PSIE.

First, the programming of funds in a particular country is guided by the priorities negotiated between the European Community and 66 less-developed African, Caribbean, and Pacific (ACP) countries and promulgated in a series of conventions signed in Lome. The priorities identified in the third Lome Convention, covering the period from 1986 through 1990, stressed agricultural and rural development, with a particular emphasis on promoting food crop production by small-scale farmers and national food security. Notably absent from the Lome III priorities was support for policy reform or structural adjustment. Besides sectoral priorities, Lome III stipulated that CEC country-level programming should have regional priorities; funds should be directed to those areas of the country identified as being most disadvantaged. In Cameroon the CEC delegation identified northern Cameroon as one such priority region (the North West province was the other).

[3] Van der Walle (1990: chapter 7) examines these mechanisms and the politics surrounding Cameroon's rice industry in some detail.

Second, the CEC has a sizeable development budget. In Cameroon, for example, total aid flows from the CEC since Lome I have exceeded $1 billion in constant 1983 dollars (Kennes 1991: 327). For the period covered by Lome III, the CEC budgeted ECU 96 million ($115.2 million), exclusive of any STABEX contributions.

Third, relative to other donors, the CEC has a very small staff, both in its Brussels headquarters and in its resident missions. For example, in the late 1980s USAID/Cameroon had six times the number of professional staff as the CEC delegation to manage a program of equivalent size. The combination of a small staff and a large budget fundamentally affects the CEC's operations. One effect is a chronic 'pipeline problem'--money budgeted to a country but unprogrammed or undisbursed. In Cameroon, for instance, two years after the start of Lome III, only 4.5 percent of the budgeted amount had been disbursed (USAID 1989: 42). Another effect is the choice of programming priorities and implementation strategies. Both must economize on staff time. Hence there is a strong incentive to rely on standard programming modalities rather than learn new ones; to devolve implementation responsibility to other organizations where possible; and to minimize project oversight (Interviews in Brussels, May and June 1993). Fast disbursing modalities are also very appealing. All of these factors played a role in the design of the PSIE, as discussed in Section II.A.

C. The Technical Context: Fertilizer as a Good

Fertilizer marketing is fundamentally an issue of institutional design. The rules that apply to ordering, financing, delivering, transporting, warehousing, pricing and selling fertilizer have a significant influence over the efficiency and effectiveness of the marketing system. Although there are any number of rule-sets that can be applied to fertilizer marketing (those of the GRC's administered system described in the next subsection, those of the PSIE discussed in Sections II through V, or those of the FSSRP described in the PROMPT report entitled, *Crafting a Market*, to name three), none can escape the constraints imposed by the inherent attributes of fertilizer or the technology associated with its use.[4] It is for this reason that a discussion of the attributes of fertilizer and fertilizer use must precede discussions of differing marketing arrangements.

Chemical fertilizer has four attributes of relevance to marketing arrangements:

- *Privateness*. Fertilizer is a private good in the economic sense. As a consequence, marketing arrangements based on markets will not be subject to significant institutional failures.

- *Heterogeneity*. Fertilizer may be a private good, but it by no means

[4] The joint impact of the physical-technical context and rules is a key element in the approach to institutional analysis guided by the IAD framework. For a detailed treatment of this approach, see the PROMPT report on *Institutionalization and Policy Reform*.

homogeneous. Instead fertilizer is really a wide assortment of goods represented by different chemical formulations, both liquid and solid. Although most fertilizer contains one or more of three basic chemicals--nitrogen (abbreviated N), phosphorus (P) and potassium (K)--they can be offered in a number of forms and potencies, mixed in differing ratios, and supplemented with one or more special nutrients to create almost limitless variation.[5] Such variety in fertilizer types is necessary because of the variety in both soil type and the nutrient requirements of different crops. It is the combination of the nutrient supply naturally occurring in the soil and the nutrient demand of the plant that determines the amount and type of fertilizer required as a supplement. The greater the diversity in soil types and cropping patterns, the greater the range of fertilizer types a marketing system will have to supply.

- *Perishability*. Exposed to the elements, particularly humidity or rain, fertilizer quality deteriorates. Nutrients leach out and the more hydrophilic types clump and harden. These characteristics put a premium on careful handling and storage.

- *High weight/Low cost*. Solid fertilizer is both a bulky product and relatively cheap to produce. A ton of urea costs about $100 ex factory. However, because of its bulk, transporting and storing the fertilizer quickly adds a significant proportion of its retail cost. A 1985 review of fertilizer marketing in Cameroon calculated that transportation, storage, and handling were 1.5 times the cost of the fertilizer itself (IFDC 1986). These attributes provide incentives for economizing on transport and storage. However, the economies for ocean or road transport generally come only with significant scale. The implication of these factors is that an efficient fertilizer marketer will be able to arrange the financing of, and coordinate the procurement, storage, and distribution of fairly sizeable lots. In the Cameroonian context an efficient lot size is about 10,000 tons (IFDC 1986).

In addition to these attributes of fertilizer itself, the nature of fertilizer use imposes constraints. Above all, fertilizer use is time sensitive. To have its full effect, the right fertilizer needs to be applied in the right quantity at the right time. If the fertilizer is delayed in arrival or if the wrong type is available, the farmer suffers. A marketing system that cannot assure timely deliveries is clearly ineffective.

[5] Three fertilizer types figure prominently in PSIE activities: urea (straight N) and two different blends of NPK with added sulphur and boron (NPK 22-10-15-5-1 and NPK 15-20-15-6-1).

Finally, there are several characteristics of the Cameroonian setting that constrain the organization of fertilizer marketing. First, like most African countries, Cameroon has no domestic manufacturers of fertilizer.[6] Therefore, all fertilizer is imported, usually by boat, through the port at Douala. Second, during this period, Cameroon had no fertilizer blending or bagging capacity either. Thus imported fertilizer is already bagged, a feature that raises its cost. Third, road connections from Douala to northern Cameroon are poor. The only viable option for bulk transport is by train from Douala via Yaounde to N'Gaundéré. Within northern Cameroon, however, the road network is quite good, with paved roads connecting all the major towns.

D. The Historical Context: Fertilizer Marketing Under an Administered System

As suggested in the previous subsection, fertilizer marketing poses fundamental problems of institutional design. Given the range of constraints imposed by fertilizer, its use, and the Cameroonian context, the problem of institutional design becomes one of selecting rules that are congruent with those constraints. The greater the congruence, the more efficient the marketing system. In this subsection, one set of institutional arrangements is described: the administered system of procurement and distribution that prevailed from 1972 through 1987. The administered system was not well-adapted to the physical and technical context and was thus neither efficient nor effective.

The GRC's administered fertilizer marketing system relied on bureaucratic determination of fertilizer needs and allocation of quotas to end-users.[7] Actual procurement, transport and distribution was contracted-out. In the early 1980s, this administered system was fully employed for procuring and distributing the approximately 60,000 tons annually that was sold to small-scale farmers at subsidized prices.[8] This represents about 60 percent of the 100,000 tons of fertilizer imported on average each year from 1980 through 1985. The contracting-out aspect of the administered system was applied to an additional 25,000 to 30,000 tons of orders made by the larger plantations and parastatals, like SODECOTON.[9]

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[6] The GRC attempted to manufacture fertilizer domestically in the mid-1980s. The enterprise was uneconomic from the beginning and was closed within two years of start-up.

[7] The most detailed description of the administered system and its shortcomings is that by Elliot Berg Associates (1983); but see also IFDC (1986) and USAID (1987a). Oakerson and others (1990) and Truong and Walker (1990) provide a more institutionalist perspective. The discussion here draws on all of these sources.

[8] Initially subsidized fertilizer was intended for small-scale producers of cash crops, particularly coffee. However, over the years other groups demanded inclusion in the subsidy scheme. By the mid-1980s both food crop and cash crop farmers were receiving subsidized fertilizer, including those associated with MEAVSB and SEMRY.

[9] GRC contracting was required for all orders with values exceeding FCFA 100 million (equivalent to orders of 2,000 tons or more of fertilizer).

The remaining 10 to 15 percent of imports, made either by smaller agricultural enterprises or private retailers, fell outside the administered system.

In the fully administered system fertilizer needs were determined by the Ministry of Agriculture (MINAGRI) based on estimates collected from its provincial and divisional offices. These national needs, categorized by type and quantity, were then passed to FONADER (Fonds National de Développement Rural), the rural finance authority, which arranged financing. Over the years fertilizer financing came from a variety of sources including the GRC's public investment budget, the National Produce Marketing Board (NPMB), and off-budget oil revenues. Whatever the source, available financing was never sufficient to cover the initial estimate of needs (Elliot Berg Associates 1983). FONADER and MINAGRI then had to reduce the needs estimate to conform with available financing.

Once the fertilizer needs and financing were finalized, responsibility shifted to the national tendering authority (initially the Direction Centrale des Marchés and later the Direction des Grandes Travaux et Contrats) which issued tenders for the procurement and delivery of the fertilizer to Douala, evaluated the bids received, and awarded the contacts. Responsibility then passed back to FONADER for the administration of the contract, certification of delivery, and payment to the importers. FONADER also contracted separately for port clearance, temporary storage, and transportation to the large cooperatives or parastatals, which were responsible for retailing fertilizer to farmers. For the subsidized fertilizer farmers were charged a uniform price throughout the country that represented approximately one-third of its total delivered cost (IFDC 1986). These payments were remitted by the retailers back to FONADER after deducting a small sales commission.

Relating the administered system to the physical-technical context reveals the sources of its many inefficiencies. The bureaucratically determined fertilizer demand was often inflated. This distortion was compounded by the often arbitrary way that provincial and distributor quotas were allocated after the national order had been brought into line with available finance. As a consequence, farmers were often unable to purchase either the right type or the right amount of fertilizer when they needed it.

Further exacerbating the situation were the delays created by the centralized contracting system. It was not uncommon for five or six months to elapse between the submission of needs and the release of the tender documents and for a year or more to pass between the request for the fertilizer and its delivery to distribution points. Also contributing to the delays was disarticulation in the distribution channel. Each contractor performed a separate task for FONADER and was thus not connected or integrated with those next in the marketing chain. Delays between distribution stages were thus a frequent occurrence. The sum total of these delays meant that fertilizer often arrived at its destination out of season and in a deteriorated condition. Further storage at the retail points further worsened the situation with the result that it was not uncommon for farmers to be forced to purchase fertilizer that they had to break up with hammers before application.

The administered system was also prone to financial inefficiency. There were opportunities for rent-seeking and kickbacks throughout the system. A particularly problematic tendency was to issue tenders for lots of only a few thousand tons. Not only did these tenders create orders that could not take advantage of the economies of scale in shipping, but they permitted less competitive bidders to obtain contracts. All of these factors raised the cost of fertilizer. As one indication, for 1985 the IFDC (1986) estimated that fertilizer delivered to the port of Douala cost 15 percent more than it should have cost. As another indication, the subsidization of fertilizer was costing the GRC 6 to 7 billion FCFA ($20 to 23 million) a year, an amount representing approximately one-sixth of MINAGRI's total budget (van der Walle 1990: 92).

Because the larger parastatals were able to provide their own financing and determine their own needs, they were unaffected by the inefficiencies arising from the bureaucratic assessment of needs and allocation of quotas. However, they were still subject to the delays and cost inefficiencies stemming from the centralized contracting procedures and disarticulated distribution channel.

II. THE ORIGIN AND DESIGN OF THE PSIE

A. FSSRP and the "Funding Gap"

The shortcomings of the administered system of fertilizer marketing described in Section I.D were widely known. They were of particular concern to USAID/Cameroon during the early 1980s. USAID was embarking on a program of long-term support to Cameroonian researchers developing high-yielding varieties of local food crops. As high-yielding varieties generally require fertilization to achieve their high yields, an inefficient and unpredictable fertilizer supply system represented a serious threat to the viability of this research program and with it Cameroon's efforts to increase food-crop production. Consequently, USAID began discussions with the GRC about restructuring fertilizer marketing as early as 1983. The dialogue proceeded in a number of directions and without much enthusiasm until early 1987. Due to worsening economic conditions brought about by dramatic declines in world prices for its major exports (oil, cocoa, coffee and cotton) and the resulting fall in export earnings and export tax revenue, the GRC was increasingly interested in identifying expendable expenditures. In this light, USAID's latest proposal to trim 25 billion FCFA from the budget over 4 years by turning over the procurement and distribution of fertilizer to the private sector and phasing-out subsidies looked increasingly attractive (USAID 1987a: Table V-1).[10]

Over the first half of 1987, negotiations between the GRC and USAID over a fertilizer sector reform program intensified, culminating in the signing of a bilateral agreement on September 29. The agreement contained the outline of a new policy regime for fertilizer procurement and distribution in Cameroon, which USAID would support through cash grants to the GRC of up to $20 million (USAID 1987b, 1987c). Specifically, the GRC agreed to a series of measures to replace the administered fertilizer supply system with a private one by:

- *Eliminating government tenders for fertilizer.*
- *Eliminating import quotas.*
- *Terminating administrative allocation of fertilizer to distributors.*
- *Phasing-out subsidies* from 65 percent to 0 over four years.
- *Restructuring the payment of fertilizer subsidies* while they lasted. Instead of making payments directly to importers once fertilizer arrived in-country, the GRC was now expected to endow a subsidy fund at the start of each year to be managed by a private commercial bank serving as a "Fiduciary Bank."

[10] The policy dialogue which led to the creation of the Fertilizer Sub-Sector Reform Program is covered in greater detail in the PROMPT report entitled, *Crafting a Market*. See also Truong and Walker (1990).

Requiring the GRC to deposit all available subsidy funds up-front and authorizing the fiduciary bank to disburse funds to importers upon certain conditions was expected to introduce a level of certainty in subsidy payments that had been lacking as the GRC's financial situation worsened.

- *Abolishing uniform, pan-territorial pricing* and replacing it, in the near term, with a set of provincial ceiling prices that reflected differences in import costs and distribution costs. Once the subsidy was completely phased-out, market prices would prevail.

- *Creating an oversight body, the Technical Supervisory Committee (TSC) and establishing an annual review process.* The TSC, comprising representatives of the relevant ministries and chaired by the Secretary General of the Ministry of Plan, was responsible for coordinating the implementation of policy reform measures in the fertilizer subsector and monitoring the program's progress. The annual review would be conducted jointly by the TSC and USAID with the assistance of technical advisors. The results of the review would be presented to FSSRP participants at an Annual Review Seminar.

For its part USAID agreed to provide up to $20 million in cash grants over 5 years to support the Fertilizer Sub-Sector Reform Program (FSSRP)--$17 million in direct program support and $3 million to cover the costs associated with implementing, monitoring and evaluating the program. Of the total, $6 million in program funds and $1.5 million in administrative support funds were available in the first year. Although the uses of the program funds were not specified in the agreement, the understanding was that they would be used to set up a revolving credit fund, also managed by the fiduciary bank, that would facilitate fertilizer supply by making short-term loans to fertilizer importers and distributors at concessional interest rates.

Since the subsidy fund and revolving credit fund were the principal inducements for private sector participation in fertilizer marketing, assuring their adequate financing was an ongoing preoccupation for both USAID and the GRC. At the same time, calculating subsidy and credit needs was far from a trivial exercise, as it depended on estimates of over 15 variables.[11] Based on USAID's August 1987 estimates, the 3.6 billion FCFA the GRC had budgeted for agricultural subsidies during the 1987/88 fiscal year and the 1.8 billion FCFA for the credit fund generated from the first cash grant would accommodate 60,000 tons of imports at a subsidy rate of 45 percent (USAID 1987a: 54-56). However, by October 1987 many of the assumptions underlying these estimates seemed unrealistic. For example, world fertilizer prices had increased anywhere from 10 to 25 percent in the interim. In addition, the

[11] Among the variables that entered into the calculations were the exchange rate, world fertilizer prices, the types and quantities of fertilizers likely to be imported, the destination within Cameroon of the fertilizer imported, internal distribution costs, the debt/equity ratio applied to loans, and the duration of the loans and the expected turn-over rate.

GRC indicated that, due to the worsening economic situation, at most 2 billion FCFA would be available for deposit in the subsidy fund. Re-analysis by USAID showed a funding gap of approximately 700 million FCFA in the subsidy fund and 500 million FCFA in the credit fund.[12]

Under these circumstances, USAID and the GRC faced a choice. Either the import target of 60,000 tons could be lowered to a level that could be accommodated by the available resources or additional resources could be obtained. The first option was unpalatable for several reasons. First, USAID had made assurances to the GRC during negotiations that the privatized system would be able to supply at least as much fertilizer as the 60,000 tons supplied by administered system during its last years of operation. Second, the Ministry of Agriculture was increasingly insistent that true subsidized fertilizer needs were closer to 90,000 tons than 60,000 tons and challenged USAID to find the funding to ensure a higher flow of fertilizer. That left the second option. By November 1987 both the GRC and USAID were contacting other donors, including the UNDP, FAO and the CEC, about possible cash contributions to fill in the funding gap.[13] Only the CEC's office in Yaounde was receptive.

B. The Negotiation and Design of the PSIE

From the CEC's perspective, providing supplemental funding to the FSSRP was initially attractive because it seemed to represent a painless way of programming $10 to $20 million and disbursing it quickly (CEC 1987). As described in Section I.B, the CEC is severely understaffed in relation to the funds it must disburse. Hence, an activity like supplemental funding for the FSSRP that targets a high-priority sector, is fast disbursing, and requires minimal implementation oversight has great intrinsic appeal. However, as discussions between USAID and the CEC in Yaounde and in Brussels began to focus on the details of co-financing, the idea began to lose its luster. At least three problems emerged. First, the CEC lacked any established financing modality that would allow direct cash transfers to the GRC. Second, although agricultural development was a traditional priority for the CEC, privatization in the agricultural sector was not a widely-understood or widely-supported strategy within the agency or a priority within the Lome III Convention. These two problems could probably have been overcome were it not for a third: a basic mistrust at the CEC's headquarters in Brussels of both USAID and the FSSRP. The headquarters staff was skeptical of some of the assumptions on which the FSSRP was based, particularly the willingness and ability of the private sector to step in and assume the roles the state had

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[12] USAID files show that the funding gap had been detected and discussed with the GRC as early as October. However, a thorough analysis of the problem was not completed until January 1988 (Truong 1988).

[13] The CEC was initially contacted by the Presidency , unbeknownst to USAID, in mid-November 1987. USAID was informed of the request and asked to follow-up during a meeting between USAID staff and the Presidency's Agricultural Attaché on November 20, 1987.

ceded. They also feared, despite USAID's protestations to the contrary, that the FSSRP would be transformed into an export support program for American fertilizer companies by introducing sourcing requirements.

With the prospect of USAID-CEC co-financing of FSSRP foreclosed by January 1988, the CEC delegation in Cameroon began to explore other ways of supporting fertilizer reform. 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 the CEC concentrating on the northern three. This approach received the endorsement of the CEC's headquarters staff for several reasons: northern Cameroon was a regional priority; the principal fertilizer distribution channels in the North (SODECOTON, SEMRY and MEAVSB) had already received CEC support; a separate program would allow the CEC to rely on traditional financing modalities; and a separate zone of intervention meant that the CEC would not have to subordinate its approach to USAID's.

As this proposal was examined by the GRC and USAID from April to June 1988, all parties, including the CEC, stressed that the two regionally distinct programs would share the same overall objectives and would ultimately be merged to create a single program of support and a single, national market. As one indication, during a meeting between the TSC and the CEC on April 20, 1988, the CEC Delegate, Agostino Trapani, stated that the CEC wholeheartedly supported the GRC's objectives of privatizing the procurement and distribution of fertilizer and eliminating the subsidy (GRC/TSC 1988). Further, on two occasions during the same meeting, Trapani stated that the funds generated under the CEC's program would eventually be merged with those of the FSSRP to support fertilizer marketing nationwide. In closing the meeting, the TSC Chairman, Jean-Marc Oyono, reiterated the importance the GRC attached to creating a unified national program.

With this understanding, the CEC delegation in Cameroon proceeded with the design of its program, which came to be called the Programme Spécial d'Importation d'Engrais (the Special Fertilizer Import Program). This name reflects the funding modality employed. Rather than a cash grant, the PSIE would provide the financing to cover two year's worth of fertilizer imports destined for northern Cameroon. This was estimated to be 53,400 tons (24,700 in 1988/89 and 28,700 in 1989/90) at a cost of ECU 14.75 million (CEC 1988: Annex 4). These funds plus an additional ECU 250,000 for audits and assessments (for a total of ECU 15 million or $18.1 million) were to come from the European Development Fund. An additional ECU 7 million ($8.5 million) of STABEX funds would cover domestic distribution costs.

Under the PSIE design the fertilizer would be procured through international tenders and paid for by the CEC. The fertilizer would then be distributed through existing fertilizer distribution channels to farmers. As farmers purchased the fertilizer, the sales proceeds would be channeled back to a bank account in Yaounde. These funds would constitute a revolving fund that, after sales of two year's worth of fertilizer, has expected to be large enough to cover the annual needs of farmers in the North in the ensuing years.

The intentions of CEC officials notwithstanding, by the time the final PSIE design document was completed in July, a number of other elements had been incorporated into the program. While these elements did not explicitly renege on the CEC's stated support for the liberalized policy regime, they did create **serious tensions**.

First, the CEC decided to rely on existing distribution channels, principally SODECOTON, but also including two other parastatals (SEMRY and MEAVSB) and the three provincial delegations of the Ministry of Agriculture (PDAs). This decision seems to have been rooted in the need to provide a rationale for creating a separate program in the North. The reasoning was that northern Cameroon is different than southern Cameroon. Chief among the differences was the effectiveness of the private sector (CEC 1988b: 3). Because the private sector had not played a significant role in the distribution of fertilizer to the North under the administered system, the CEC concluded that the private sector was too thin and too unreliable to be the focus of the PSIE. Therefore a different approach was called for, an approach that would utilize the existing state and parastatal fertilizer distribution channels. This orientation was further supported by the history of CEC support to all three of the parastatals and a concern that, without some form of benevolent intermediary, farmers risked exploitation by the private sector.

Second, due to the chronic overextension of its staff, the CEC chose to hand over almost all operational management of the program to SODECOTON. As *chef de file*, SODECOTON was responsible for ascertaining the needs of other distributors; arranging for unloading, customs-clearance, and formal reception of the fertilizer at the port; transporting the fertilizer by rail to N'Gaundéré; and delivering it by truck to each of the distributors. Turning over these responsibilities to SODECOTON left the CEC itself with a very limited role: they were to coordinate the tendering process and arrange for annual audits of the program and additional technical assistance as needed. This arrangement was consistent with both the CEC's staff limitations, the role SODECOTON had played as a general purpose development agency, and its reputation for efficiency and effectiveness. However, the arrangement also gave SODECOTON a very large stake in the continuation of the PSIE system and little incentive to support privatization.

At the same time, there are provisions in the design patterned after the FSSRP, which were explicitly included to facilitate coordination between the two programs. Most important, the PSIE design includes the FSSRP's procedure of holding annual assessments. It also designates the same government body--the TSC--as the PSIE's principal supervisory mechanism. However, the CEC's overall sense that there were tensions between the two programs, created by the way the PSIE was designed, is indicated by a provision in the design that calls for a special assessment (*une expertise*) during the first year, intended, in part, to "facilitate the harmonization" of the two fertilizer reform initiatives (CEC 1988b: 5).

The CEC's uneasiness was well-founded. USAID was indeed troubled with the extent of divergence between the orientations of the PSIE and the FSSRP. However, by the time the design was released, the first year of FSSRP operations was too far advanced for USAID to

do anything other than go along with the PSIE. They did so with the continued assurance from the CEC that, differences notwithstanding, the PSIE was a temporary arrangement that would lead to creation of a single system in two years and in the process would generate over 6.5 billion FCFA in additional credit funds for the single, national program (CEC 1988b: cover letter to USAID).

The CEC's design was submitted to its senior management in Brussels in September and approved on October 5, 1988, without revision. The formal agreement between the CEC and the GRC establishing the PSIE (the *Convention de Financement*) was signed on November 10, 1988 (CEC 1988a).

III. PSIE PHASE 1

The first of PSIE's three phases corresponds to the two agricultural campaigns (1988/89 and 1989/90) covered by the provisions of the PSIE's Proposition de Financement (CEC 1988b) and Convention de Financement (CEC 1988a). This section covers Phase 1 operations in four subsections: procurement and distribution, costs and pricing, the status of the revolving fund, and the efforts of the GRC and USAID to carry through on the merger of the two programs beginning in late 1990. Most of the data on Phase 1 is drawn from the extensive evaluation and audit conducted by a French consulting firm during September and October 1991 (BCEOM 1991). Additional information is provided by the reports of two supervisory missions conducted by TSC staff in January 1990 and February 1991 (GRC/TSC 1990, 1991).

A. Procurement and Distribution

Due to the dwindling stocks of fertilizer in northern Cameroon and dictates of the agricultural calendar, the CEC issued tenders for the procurement of the first year's fertilizer on July 13, 1988--even before the PSIE design was finalized. The tender was for a total of 24,700 tons divided into 4 lots (see Table 3.1): 2 lots of NPK 15-20-15, 1 lot of NPK 22-10-15, and 1 lot of small quantities of 4 different types (NPK 10-30-10, urea, ammonium sulfate, and phosphate rock). The CEC's procurement regulations limited eligible bidders to firms operating in countries that are signatories to the Lome Convention. A total of 22 firms submitted bids on one or more lots (see Table 3.2). The tenders were opened three days after the Convention de Financement was signed. The tender review committee, chaired by the CEC delegate and comprising representatives from both the GRC and parastatals designated as distributors, awarded 3 contracts for the 4 lots: 1 to a Senegalese manufacturer and the others to Belgian firms. The contracts were all signed on November 18, 1988 for delivery at various times over the ensuing six months. Most of the fertilizer arrived later than contracted but in time to meet the needs of farmers for the 1989 growing season (BCEOM 1990: vol 1, p. 4; vol 2: Annex 3, p. 1).

For the second year of operations, the tender was issued on July 19, 1989 for a total of 28,700 tons divided into five lots: 2 lots of NPK 15-20-15 and 1 lot each of NPK 22-10-15, NPK 10-30-10 and urea. The PSIE tender review committee met on December 19, 1989 and awarded four contracts for the five lots. One of the successful bidders was a Cameroonian firm, one was Senegalese, and two were Belgian. These contracts were signed between October 20 and November 10, 1989 for delivery at various times before the end of April 1990. Fertilizer began arriving in December 1989 and delivery was concluded in September 1990. As in the first year, most of the deliveries were later than contracted, but still in time for the 1990 growing season. An exception was 2,200 tons of NPK 10-30-10 that arrived in September 1990--over 4 months late (BCEOM 1990: vol 1, p. 5; vol 2: Annex 3, p. 2). Even with this delay, no penalties were assessed to the importer.

Table 3.1 Procurements Under PSIE, Phase 1 (tons)

	NPK				Ammon.	Phosp.		Pct. of
	22-10-15	15-20-15	10-30-10	Urea	Sulfate	Rock	Total	Received
Year 1 (1988/89)								
Ordered	7,500	11,000	2,000	2,200	1,000	1,000	24,700	
Received	7,409	10,834	1,992	2,194	986	987	24,402	100.0%
(Pct. of ordered)	98.8%	98.5%	99.6%	99.7%	98.6%	98.7%	98.8%	
Distributed to:								
SODECOTON	6,449	10,834	0	40	0	887	18,210	74.6%
SEMRY	0	0	1,752	1,860	971	0	4,583	18.8%
MEAVSB	400	0	0	200	0	100	700	2.9%
PDAs + IRZ/Wakwa	560	0	240	94	15	0	909	3.7%
Year 2 (1989/90)								
Ordered	8,100	11,600	2,200	6,800	0	0	28,700	
Received	8,036	11,489	2,181	6,794	0	0	28,500	100.0%
(Pct. of ordered)	99.2%	99.0%	99.1%	99.9%			99.3%	
Distributed to:								
SODECOTON	6,973	11,489	0	4,269	0	0	22,731	79.8%
SEMRY	0	0	1,996	2,135	0	0	4,131	14.5%
MEAVSB	500	0	0	200	0	0	700	2.5%
PDAs	563	0	185	190	0	0	938	3.3%
Phase 1 Total								
Ordered	15,600	22,600	4,200	9,000	1,000	1,000	53,400	
Received	15,445	22,323	4,173	8,988	986	987	52,902	100.0%
(Pct. of ordered)	99.0%	98.8%	99.4%	99.9%	98.6%	98.7%	99.1%	
Distributed to:								
SODECOTON	13,422	22,323	0	4,309	0	887	40,941	77.4%
SEMRY	0	0	3,748	3,995	971	0	8,714	16.5%
MEAVSB	900	0	0	400	0	100	1,400	2.6%
PDAs + IRZ/Wakwa	1,123	0	425	284	15	0	1,847	3.5%

Sources: BCEOM 1991b: Tables 1.1 and 1.2

Table 3.2 Participation in PSIE, Phase 1

Economic Operator	1988/89	1989/90
Fiduciary Bank	0	0
Commercial Banks	0	0
Active Importers	22	16
of which received contracts	3	4
of which are Cameroonian	0	1
Distributors/recipients	7	6
of which private sector	0	0
of which parastatals	3	3
of which GRC agencies	4	3
Provinces covered (out of 3)	3	3

As can be seen from Table 3.1, almost all the fertilizer ordered during Phase 1 was delivered. Because the procurement contract specified the terms as cost-insurance-and-freight (CIF), SODECOTON retained a transit agent (MORY) to supervise off-loading, customs clearance, loading on rail cars and off-loading and storage of the fertilizer once it reached N'Gaundéré. SODECOTON took direct responsibility for the fertilizer in N'Gaundéré, transporting it by road to the retail points of the other distributors or to its own warehouses in the North and Extreme North Provinces. Where possible, SODECOTON back-hauled the fertilizer on trucks of its own that had delivered cotton bales to the N'Gaundéré rail-head. Otherwise, SODECOTON contracted with independent transporters to distribute the fertilizer. In principle, responsibility for handling and transportation passed to the distributor once the fertilizer reached its headquarters location. In practice, SODECOTON arranged for transportation directly to retail points, for which it received reimbursement from the CEC. As a result, distributors other than SODECOTON were responsible only for storing and selling PSIE fertilizer.

Table 3.1 also summarizes the allocation of PSIE imports among distribution channels. It shows that over three-quarters (77.4 percent) of the fertilizer received during PSIE Phase 1 went to SODECOTON. SEMRY received 1.6 percent, MEAVSB got 2.6 percent, and the PDAs shared 3.5 percent. Table 3.3 provides more detail on distributions as well as estimates of sales to farmers during the first two years of the PSIE. Overall, two-thirds (66.2 percent)

Table 3.3 Sales to Farmers Under PSIE, Phase 1 (tons)

	NPK				Ammon.	Phos.	
	22-10-15	15-20-15	10-30-10	Urea	Sulfate	Rock	Total
PSIE Distributions*							
SODECOTON	13,422	22,273	0	4,309	0	887	40,891
SEMRY	0	0	3,748	3,995	971	0	8,714
MEAVSB	880	0	0	400	0	100	1,380
PDA/A	240	0	248	120	0	0	608
PDA/N	400	0	125	93	0	0	618
PDA/EN	565	0	45	50	0	0	660
IRZ/Wakwa	10	0	7	0	15	0	32
Total	15,517	22,273	4,173	8,967	986	987	52,903
Consumption/Sales to Farmers							
SODECOTON	9,875	14,207	0	4,068	0	398	28,548
SEMRY	0	0	1,457	2,462	165	0	4,084
MEAVSB	855	0	0	381	0	31	1,267
PDA/A	136	0	176	120	0	0	432
PDA/N	371	0	81	88	0	0	540
PDA/EN	112	0	10	6	0	0	128
IRZ/Wakwa	10	0	7	0	15	0	32
Total	11,359	14,207	1,731	7,125	180	429	35,031
Sales as Percentage of Distributions							
SODECOTON	73.6%	63.8%	NA	94.4%	NA	44.9%	69.8%
SEMRY	NA	NA	38.9%	61.6%	17.0%	NA	46.9%
MEAVSB	97.2%	NA	NA	95.3%	NA	31.0%	91.8%
PDA/A	56.7%	NA	71.0%	100.0%	NA	NA	71.1%
PDA/N	92.8%	NA	64.8%	94.6%	NA	NA	87.4%
PDA/EN	19.8%	NA	22.2%	12.0%	NA	NA	19.4%
IRZ/Wakwa	100.0%	NA	100.0%	NA	100.0%	NA	100.0%
Total	73.2%	63.8%	41.5%	79.5%	18.3%	43.5%	66.2%
Differences: Stocks and/or Losses?							
SODECOTON	3,547	8,066	0	241	0	489	12,343
SEMRY	0	0	2,291	1,533	806	0	4,630
MEAVSB	25	0	0	19	0	69	113
PDA/A	104	0	72	0	0	0	176
PDA/N	29	0	44	5	0	0	78
PDA/EN	453	0	35	44	0	0	532
IRZ/Wakwa	0	0	0	0	0	0	0
Total	4,158	8,066	2,442	1,842	806	558	17,872

Sources: BCEOM 1991 (vol 1): 23, 24

Notes: * Distributions do not coform exactly with those listed in Table 3.2

** Difference represent stocks for the most part; precise stock figures are unavailable

of the fertilizer procured during Phase 1 was consumed in the same period. Most of the remaining one-third represented stocks that were carried-over for sale in subsequent years.[14]

By all accounts, including assessments under taken by the TSC (GRC 1990, 1991b) and the CEC (BCEOM 1991), there were few problems distributing and selling the fertilizer once it arrived in Cameroon. Losses as the fertilizer was distributed were kept to a minimum, and most distributors were able to keep losses during storage to reasonable levels. SEMRY was a notable exception, with losses estimated in excess of 10 percent (BCEOM 1991: Table 2.4). A farm-level survey of fertilizer use, commissioned by the CEC in June 1990 and conducted in December 1990 and January 1991, reported general satisfaction with the availability and quality of fertilizer provided under PSIE (GRC/MINAGRI 1991: 66-67).[15]

B. Costs and Pricing

The costs associated with delivering PSIE fertilizer to retail points can be arranged into four groups. In the first group are the costs of procuring the fertilizer and delivering it to the port. The second group consists of actual cash outlays made by SODECOTON in its role as *chef de file* to move the fertilizer from the port to the various retail sales points in northern Cameroon. The third group consists of SODECOTON's imputed charges, that is, the estimated costs borne by SODECOTON for providing direct services to the PSIE, such as transporting fertilizer on its own trucks. The final group is the 2.5 percent management fee applied by SODECOTON, the rate calculated by SODECOTON to cover its costs of managing PSIE fertilizer logistics. Costs in the first group were paid directly to the supplier by the CEC; the remaining costs were reimbursed to SODECOTON by the CEC out of the STABEX funds allocated for this purpose.

Table 3.4 reports the costs associated with delivering each of the fertilizer types ordered by a distributor to its retail points, based on SODECOTON's calculations. While the reported purchase prices are accurate, the figures for delivery costs should be examined with

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[14] In examining the data presented in Table 3.3, several items deserve comment. First, a seventh agency, the Wakwa research station of the Institut de Recherche Zoologique (IRZ) in the Adamaoua province, received fertilizer under the PSIE. Second, one explanation offered for the relatively low demand for fertilizer from the PDA in the Extreme North (only 19.4 percent consumed) was competition from lower-cost, black-market Nigerian fertilizer (BCEOM 1991: vol 1, p. 22). Third, at least one explanation for the high stocks of NPK 10-30-10 remaining at SEMRY was late delivery.

[15] An interesting trend emerges in all of these data: high satisfaction in the North and Extreme North provinces and much lower satisfaction in the Adamaoua. Although the survey provides no explanation of this phenomenon, it may reflect the limited coverage of the Adamaoua by the PSIE. The PDA/Adamaoua has only three warehouses to serve farmers throughout the province. Adding support to this conjecture are the reports that several thousand tons of fertilizer imported under the FSSRP in 1989/90 were sold to distributors based in the Adamaoua.

Table 3.4 Prices and Costs Under PSIE, Phase 1 (FCFA/ton)

	NPK						Urea		Ammon. Sulfate	Phosphat Rock
	22-10-15		15-20-15		10-30-10					
	1988/89	1989/90	1988/89	1989/90	1988/89	1988/89	1988/89	1988/89	1988/89	1988/89
Entire Program										
Fertilizer Price (cif Douala	78,515	85,202	82,500	79,200	84,610	90,125	75,550	61,935	42,670	55,840
Cost of Delivery	31,458	26,750	31,471	26,750	31,487	26,750	31,445	26,750	31,487	31,401
of which to Ngoundere	24,238	19,530	24,251	19,530	24,267	19,530	24,225	19,530	24,267	24,181
of which to Garoua	7,220	7,220	7,220	7,220	7,220	7,220	7,220	7,220	7,220	7,220
Fertilzer Cost at Garoua	109,973	111,952	113,971	105,950	116,097	116,875	106,995	88,685	74,157	87,241
SODECOTON										
Fert. cost at retail pt.	120,985	123,660	119,985	112,865	NA	NA	108,010	94,865	NA	93,925
Retail price	120,985	123,660	119,985	112,865			108,010	94,865		93,925
Subsidy										
amount	0	0	0	0			0	0		0
as pct. of cost	0.0%	0.0%	0.0%	0.0%			0.0%	0.0%		0.0%
SEMRY										
Fert. cost at retail pt.	NA	NA	NA	NA	131,815	135,185	117,710	106,620	89,740	NA
Retail price					73,815	90,575	65,920	71,435	50,255	
Subsidy										
amount					58,000	44,610	51,790	35,185	39,485	
as pct. of cost					44.0%	33.0%	44.0%	33.0%	44.0%	
MEA/SB										
Fert. cost at retail pt.	121,890	118,065	NA	NA	NA	NA	113,910	94,865	NA	99,825
Retail price	70,500	79,105					63,790	63,560		55,900
Subsidy										
amount	51,390	38,960					50,120	31,305		43,925
as pct. of cost	42.2%	33.0%					44.0%	33.0%		44.0%
DPA/Adamoua and IRZ/Wakwa										
Fert. cost at retail pt.	107,635	108,330	NA	NA	113,760	114,695	99,650	86,125	NA	NA
Retail price	60,275	73,250			63,705	76,845	55,800	57,705		
Subsidy										
amount	47,360	35,080			50,055	37,850	43,850	28,420		
as pct. of cost	44.0%	32.4%			44.0%	33.0%	44.0%	33.0%		
DPA/North										
Fert. cost at retail pt.	115,590	118,065	NA	NA	122,115	123,425	108,010	94,825	NA	NA
Retail price	64,730	79,105			68,385	82,695	60,485	63,560		
Subsidy										
amount	50,860	38,960			53,730	40,730	47,525	31,265		
as pct. of cost	44.0%	33.0%			44.0%	33.0%	44.0%	33.0%		
DPA/Extreme North										
Fert. cost at retail pt.	120,985	123,655	NA	NA	127,110	missing	113,010	100,455	NA	NA
Retail price	67,750	82,850			71,180	86,445	63,285	67,305		
Subsidy										
amount	53,235	40,805			55,930		49,725	33,150		
as pct. of cost	44.0%	33.0%			44.0%		44.0%	33.0%		

Sources: BCEOM 1991a (vol. 1): 30-31; BCEOM 1991a (vol 2): Annex 9ga and 9gb; BCEOM 1991b: Tables 2.1, 2.2, 3.1, 3.2

Note: Italicized figures are those where the auditor's calculations differ from SODECOTON's by more than 5%

the understanding that obtaining accurate imputed costs (group 3 above) is quite difficult. SODECOTON's calculations and those of the auditors differ, though usually by less than 2 percent (as shown on Table 3.4). Moreover, the two audits also arrive at different calculations (BCEOM 1991: vol 1; 1993). As should be expected, the main influence on retail price is the distance thata distributor is located from N'Gaundéré.[16] The costs associated with delivering fertilizer in the North province are lower than the costs associated with delivering fertilizer to the Extreme North, and the costs for delivering fertilizer in the Adamaoua are the lowest of all.

In terms of pricing, the PSIE design contained two different schemes. SODECOTON was to continue its practice of charging contract-farmers the full-cost price. The other distributors were to adopt a subsidized price consistent with the GRC's policy of phasing-out subsidies.[17] However, the GRC was expected to reimburse the PSIE account for the difference between the sales proceeds using the subsidized price and the sales proceeds using the full-cost price. Through this mechanism the GRC, rather than the CEC, bore the expense of the subsidy. This procedure was also intended to ensure that the PSIE revolving fund was not undercapitalized.

During the period of subsidy phase-out, the GRC's objective was to introduce a subsidy scheme that minimized price distortions. Specifically, this meant doing away with the past practice of uniform pan-territorial pricing (a single price for all types of fertilizer throughout the country) and replacing it with a scheme that preserved the price differentials between types of fertilizer and reflected the costs of delivering fertilizer to differing destinations. Several possible subsidy schemes meet these requirements. In fact, the FSSRP and the PSIE each adopted a different one, each reflecting different objectives while still conforming to the policy regime.

Because the objectives of the FSSRP were to promote competition and minimize the extent of government surveillance of marketing activities, a system of *fixed-unit* subsidies and *target-price ceilings* was introduced in southern Cameroon.[18] Under such a system it does

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[16] Indeed, the major discrepancy between the cost calculations made by SODECOTON and the auditor is due to different estimates of transport costs.

[17] MEAVSB decided to adopt full-cost pricing during Phase 1.

[18] At the heart of the FSSRP scheme was the specification of a ceiling price for each type of fertilizer covered by the program in each province. Calculating the ceiling prices involved two steps. The first step was to calculate the full-cost of each type of fertilizer delivered to retail points in each province. The full-cost estimates were expected to reflect the actual cost of the fertilizer as it arrived in the port as well as the costs of delivery from Douala to the average retail point in each province. The second step was to deduct the unit subsidy for each type of fertilizer from the full-cost estimate. This left the subsidized ceiling price. For example, if it is estimated to cost 50,000 FCFA to deliver a ton of urea to Douala and it is estimated to cost an average of another 50,000 FCFA to deliver that ton of fertilizer to retail points around the Center province, then the full-cost price of fertilizer in that province is 100,000 FCFA. If the unit subsidy for urea is fixed at 45,000

not matter if a bag of urea is ultimately sold in Douala or Bamenda because the subsidy is the same unit amount irrespective of destination. Such an arrangement obviates any need for governmental monitoring of fertilizer movements within the country. Moreover, a system of ceiling prices provides some scope for competition. The drawback to this system is that the amount of the subsidy, calculated as a percentage of the total delivered cost, varies. In particular, the subsidy represents a higher proportion of total costs in those areas closest to the port and a lower proportion in more remote destinations. Such an arrangement may seem inequitable.

This equity concern seems to have been foremost in the design of the PSIE subsidy scheme, which relied on *fixed percentage* subsidies and *fixed prices*. SODECOTON provided the TSC with its calculations of the full cost of fertilizer delivered to each of the PSIE distributors. The TSC then applied a fixed subsidy percentage (44 percent in 1988/89 and 33 percent in 1989/90) to the full-cost estimate to obtain the subsidy price. This subsidized price then became the fixed price at which the distributor (and anyone else) was required to sell. Administrative decrees listing the subsidized prices were issued on August 10, 1989 for 1988/89 and on December 11, 1990 for 1989/90. Table 3.4 reports, for each distributor, SODECOTON's calculation of the full cost of fertilizer at a retail point, the subsidized retail price as listed in the pricing decree, and the subsidized amount.

While such a pricing scheme conforms to the GRC's policy regime, it operates well only where there is a unique distribution network and centralized control over fertilizer movements. Otherwise, incentives are created to take advantage of the subsidy differences. In addition, fixed prices provide no scope for competition. In short, the PSIE subsidy scheme worked against the privatization that it was ostensibly trying to promote. Theoretical issues notwithstanding, as a practical matter the subsidized pricing scheme turned out to be almost worthless. First, the pricing decrees came out too late to affect the prices charged for the bulk of fertilizer purchased **each year**. Second, the delays created considerable confusion and resulted in a variety of different prices being charged. For example, the PDA/Adamaoua charged a uniform price of 100,000 FCFA/ton (5000 FCFA/bag) for all types of fertilizer throughout 1989 and 1990 (GRC/TSC 1990: 3-4). Even when the first pricing decree was issued, the PDA/Adamaoua ignored it, instead charging a uniform price of FCFA 61000/ton (an amount representing a weighted average of the decreed prices). Similar practices were adopted by the other provincial delegations. Third, and most important, the GRC never made good on its pledge to reimburse the PSIE revolving fund the difference between the subsidized price charged and the actual full-cost price. The Phase 1 audit calculated the

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FCFA/ton, then the ceiling price for urea in the Center province would be 55,000 FCFA (100,000 FCFA - 45,000 FCFA). The subsidy rate would be calculated as 45 percent.

GRC's outstanding subsidy obligations to be over 484 million FCFA (BCEOM 1991: vol 1, p. 37).[19]

C. The Revolving Fund

A major objective of the PSIE was to create a revolving fund capable of financing fertilizer imports for northern Cameroon in subsequent years. Yet, at the end of Phase 1, no revolving fund existed. This is not to say that the all the sales proceeds had disappeared, though some, particularly those controlled by SEMRY, had indeed been used for other purposes. Rather, the distributors had generally decided to hold on to the funds themselves instead of sending them back to the CEC, as the PSIE *Convention* stipulated.

Part of the explanation for the breakdown was the lack of explicit instructions from either the TSC or the CEC about how the return of funds was to be handled. Indeed, no bank account was opened in Yaounde to receive the funds. However, a more potent factor can be found in the benefits arising from the injection of interest-free money into illiquid organizations. The funds could be used to pay staff salaries, as in the case of SEMRY; placed in an interest-bearing account with the interest being funneled into a general operational account, as SODECOTON did; or used to finance additional fertilizer purchases, as SODECOTON did in Phase 2. Given the ambiguous situation, the distributors had no inventive to send the funds to Yaounde and every incentive to hold on to them for as long as possible.

The failure of the distributors to forward the sales proceeds to Yaounde became the CEC's major preoccupation in the PSIE. The situation was highlighted in the Phase 1 evaluation along with a recommendation that the distributors adhere to the provisions of the PSIE *Convention* (BCEOM 1991: vol. 3, p. 13). Once alerted to the problem, the CEC instructed the consulting firm conducting the audit to undertake a more exhaustive analysis that would identify exactly how much each distributor owed the revolving fund and the disposition of those funds (BCEOM 1991: vol. 4). The results, as of August 30, 1990, are summarized in Table 3.5. It shows that where the distributors should have paid more than 3.7 billion FCFA into the revolving fund, they could only come up with 3.4 billion FCFA, most of which was located in various bank accounts. The unrecovered (or 'missing') proceeds amounted to 337,302,000 FCFA. SEMRY accounted for close to 80 percent of that amount.

[19] One reason the GRC failed to make subsidy payments to the PSIE revolving fund was that there were never any of the budgeted funds left. The GRC made allocation for agricultural subsidies in each year's budget. However the entire amount was directed to the FSSRP due to the timing of demands for payment and the FSSRP's requirement that the subsidy fund be endowed each year before operations could begin. Consequently, there were simply no funds left in the subsidy account out of which to make payments for the PSIE subsidy.

Table 3.5 Status of the Revolving Fund as of August 30, 1991

Distributor	Value of PSIE Distributions (million FCFA)	Amount due to Revolv. Fund (million FCFA)	Recovered		Unrecovered Amount (million FCFA)	Comments
			Amount (million FCFA)	Pct.		
SODECOTON	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
of which fertilizer	4,595,854	3,220,309	3,329,354	103.4%	(109,045)	Positive balance due to overcharges to farmers
of which interest	77,917	77,917	77,917	100.0%	0	
Other Distributors	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
of which SEMRY	607,021	268,779	0	0.0%	268,779	Funds used for other purposes
of which MEASVB	155,327	141,226	98,698	69.9%	42,528	Recovered funds held by MEAVSB
of which PDA/A	36,640	28,186	26,326	93.4%	1,860	Recovered funds held by PDA/A
of which PDA/N	42,252	36,494	20,709	56.7%	15,785	Recovered funds deposited w/ SODECOTON
of which PDA/EN	47,331	18,898	12,100	64.0%	6,798	Recovered funds turned over to auditors
of which IRZ/Wakwa	1,552	1,552	0	0.0%	1,552	
Subtotal	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Subsidy due from GRC	484,049	484,049	0	0.0%	484,049	
PSIE Total	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	

Source: BCEOM (1991): vol. 4, p. 20

Armed with the results, the CEC began exerting pressure on the distributors, the TSC, and the GRC more generally to turn over the proceeds they had recovered and to make good on the unrecovered amounts. It has taken some time, but they have begun to see results (see Section IV.C).

D. Merger with FSSRP: A Suitor Rebuffed

Acting on the understanding developed during the design of PSIE, USAID began pressing for the merger of the two fertilizer programs in November 1990. It obtained the support of the TSC for its merger plan in early 1991 and presented it to the PSIE distributors at a meeting in Garoua in March 1991. While anticipating some resistance, USAID and the TSC were not prepared for a complete rebuff. The unexpected reluctance of the CEC to support the merger was particularly damaging. This section describes USAID's overture for merger and its decline by all those participating in the PSIE system.

1. The Overture

USAID initiated its efforts to bring about the merger of the two programs in the fall of 1990, two years after the PSIE design was approved and the *Convention* was signed. USAID was motivated by two ideas. One idea was the desire to see its initial vision of a single, national privatization program become a reality. The second idea was the need to expand the size of the fertilizer market in order to promote competition. Demand was falling in the FSSRP zone, which raised the fear that the FSSRP market would only be able to sustain one or two firms. One or two firms was not USAID's idea of a competitive market given the opportunities for collusion afforded by such an industry structure. From this perspective, adding northern Cameroon meant increasing market demand by 10,000 to 20,000 tons a year, enough to support at least one other importer.

In surveying the terrain, USAID assumed that the CEC was still committed to the principle of merger as set out in all the PSIE design documents. USAID reasoned that the greatest resistance was likely to come from the PSIE distributors, particularly SODECOTON (USAID 1990). To counteract this resistance, USAID enlisted the support of the TSC in the belief that the inter-ministerial body could order the PSIE distributors to accept the merger if they could not be persuaded on its merits.

To obtain the TSC's support for merger, USAID prepared a discussion paper in November 1990 (USAID 1990), which provided a comprehensive examination of the issues raised by a merger and advanced certain position proposals to the TSC. In general, USAID's position was that the reformed policy regime supporting privatization applied to the whole country and that the successful privatization modalities of the FSSRP should be extended to northern Cameroon. Specifically this meant:

- *Creating a single, national revolving credit fund.* This would require the PSIE distributors to pass all their recovered proceeds to Yaounde where they would be added to the existing FSSRP revolving credit fund. This fund would be available to provide short-term *loans* to importers or distributors to facilitate the procurement and distribution of fertilizer.

- *Creating a single, national subsidy fund.* This would require the GRC to make all fertilizer subsidy contributions up-front into a single bank account. Subsidy payments would generally be made to importers and have the effect of lowering the prices charged to distributors. Thus, PSIE distributors offering subsidized prices would purchase fertilizer at subsidized prices from importers .

- *Adopting the FSSRP subsidy phase-out scheme.* In late 1990, the PSIE subsidy rate was (nominally) 33 percent. For the FSSRP it was 19 percent and was scheduled to decrease to 15 percent or lower for 1991/92. Consequently, the recipients of subsidized fertilizer in northern Cameroon could expect a 50 percent cut in the subsidy rate under a merged program.

- *Liberalizing pricing.* In January 1990 a decree had been issued abolishing all forms of price controls for fertilizer. The FSSRP had already ceased issuing target ceiling prices. In northern Cameroon this would mean doing away with the fixed prices set in the December 1990 price decree.

- *Liberalizing and decentralizing the ordering process.* To introduce some measure of competition in the North, USAID put forward the position that each distributor should be responsible for their own orders and purchasing arrangements. This also meant that, at least as far as fertilizer was concerned, parastatals would be free to make direct arrangements with importers and not involve the DGTC, no matter how large the order.

- *Removing the PDAs as distributors.* Since both the FSSRP and the PSIE designs stressed the importance of removing the government from a direct role in fertilizer marketing, USAID found no justification for the continued involvement of the PDAs in fertilizer distribution. The expectation was that private distribution channels would emerge to replace the state in northern Cameroon as they had in the FSSRP zone.

The discussion paper was reviewed with the TSC in December 1990 and January 1991. On the key points listed above, the committee was persuaded by USAID's arguments.

It issued a position paper to that effect on February 25, 1991, which was to serve as a guide to the merger process (GRC/TSC 1991).[20]

2. *The Rebuff*

The TSC's position paper was presented to the PSIE distributors at a meeting organized in Garoua on March 6, 1991, the day before the FSSRP's annual review meeting in the same city was to begin. USAID's hope was to announce during the annual review meeting that the principle of a merger had been formally adopted. SODECOTON and the other PSIE distributors had other ideas, which were forcefully communicated to the TSC and USAID representatives attending the March 6 meeting. The argument put forward by the PSIE distributors reprised that found in the PSIE design (CEC 1988b): northern and southern Cameroon were different and the PSIE responded better to the situation in the North than the FSSRP ever could (see MEAVSB 1991). Thus the PSIE:

- responded to the fragility of the private sector and the absence of cooperatives in northern Cameroon by strengthening parastatals that would supply farmers with fertilizer and look out for their needs;

- responded to the weakened financial position of these parastatals by allowing them to constitute individual revolving funds instead of requiring them to obtain loans and pay interest, as was the practice under the FSSRP;[21]

- responded to the relative poverty of northern farmers by channeling fertilizer to them through organizations that could sell it on credit (retail credit was negligible in the FSSRP); and

- responded to high costs of delivering fertilizer to the North by facilitating the pooling of orders to obtain the best price and by designating a single organization to be responsible for delivery so as to capture economies of scale and scope.

The CEC representative registered reservations about a hasty merger and recommended that further discussion of the issue be postponed until after the PSIE Phase 1 audit and evaluation was conducted. He even offered to include an examination of the merger issue in the evaluator's terms of reference. With the future of the merger so muddled,

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[20] The TSC deviated from USAID's position on two minor points. First, they restricted the subsidy to only four types of fertilizer: NPK 20-10-10, NPK 12-06-20, NPK 10-30-10 and urea. The cotton complexes were excluded because they were used by parastatals, which already benefitted from a variety of state subsidies. Second, and for the same reason, SEMRY was barred from distributing subsidized fertilizer.

[21] This observation reflects the practice the distributors were following at the time and not the intention contained in the PSIE design.

USAID and the TSC decided not to bring up the issue during the FSSRP annual review. In contrast to previous years, the meeting closed without issuing a recommendation that the PSIE and FSSRP be merged. On their return to Yaounde, the TSC and USAID agreed that it would be impossible to consummate the merger before the launch of FSSRP's 1991/92 campaign. FSSRP planning went forward on that basis while waiting for the results of the Phase 1 audit and evaluation.

As promised, the CEC asked the PSIE evaluators to examine the merger of the two programs and make recommendations. The evaluators did so, ultimately siding heavily with the arguments put forward by the PSIE distributors. Stressing the differences between the programs, the evaluators observed that "[o]utside of the fact that the two programs finance fertilizer imports, there is very little in common between them" (BCEOM 1991: vol. 3, p. 12; author's translation). However, the evaluators did not go so far as to recommend abandoning the idea of a merger all together. Instead, they called for a gradual process of harmonization. To begin that process, the evaluators recommended that: (1) a single PSIE revolving fund be constituted as envisaged in the original design, (2) the PDAs be removed from fertilizer distribution and (3) SODECOTON be permitted to contract for fertilizer without involving the DGTC (BCEOM 1991, vol. 3: pp. 13-14). They also recommended that harmonization of the two programs be revisited during subsequent PSIE evaluations.

From December 1991, when the Phase 1 audit and evaluation was released, until June 1993, when the field work for this report was conducted, there had been no further discussion of the merger of the two programs by any of the parties, not even USAID. Instead, the CEC has pursued the opposite tack: drafting a new PSIE protocol that ensures that the two programs remain separate (see Section V).

Clearly, both the failure of the merger attempt and the changes in the CEC's position demand explanation. It will be found in Section VI.

IV. PSIE PHASE 2

Phase 2 of the PSIE corresponds to the three crop years 1990/91, 1991/92 and 1992/93. During this period SODECOTON used the sales proceeds from fertilizer received during Phase 1 to finance fertilizer imports for itself alone. None of the other distributors received new distributions during Phase 2. They were compelled to make do with whatever carry-over stocks they possessed. The results of Phase 2 operations are presented in the same fashion as were those for Phase 1. The principal source of data is the Phase 2 evaluation and audit conducted in May 1993 (BCEOM 1993) by the same firm that had conducted the previous one.

A. Procurement and Distribution

Since the CEC was not involved in Phase 2 procurement, SODECOTON was obliged to follow the tendering procedures developed by the GRC for government agencies and parastatals. For contracts valued in excess of 250 million FCFA, the tendering process had to be handled by the DGTC (National Office of Public Works and Contracts). Smaller contracts could be handled by SODECOTON directly. For the third year of PSIE operations (1990/91), SODECOTON ordered 9,200 tons divided into three lots: one each of NPK 22-10-15, urea and NPK 15-20-15 (see Table 4.1). The first two lots were large enough to be turned over to the DGTC. The order for NPK 15-20-15 was handled by SODECOTON.

The bids for all three lots were opened on May 9, 1990. Four firms, all Cameroonian, had responded (see Table 4.2). Six weeks later, one firm, IBEX, was awarded the contracts for all three lots. Contracts were signed in July, November, and December 1990 for delivery within three months from the signature date. SODECOTON experienced problems with delivery of two of the three lots. In one case (NPK 15-20-15) the chemical analysis revealed that the fertilizer was not as fortified in sulphur as it was supposed to be. A penalty was assessed against the importer. In the case of the NPK 22-10-15, the fertilizer arrived after the delivery date. Again penalties were assessed. The third lot--2,500 ton of urea--was notable for a different reason. Instead of quoting a price based on delivery to Douala, IBEX quoted a price for delivery in Garoua. Their plan, which they successfully carried out, called for purchasing the urea from the NAFCON, the Nigerian fertilizer manufacturing parastatal, and shipping the fertilizer by barge on the Benoue River from Port Harcourt to Garoua. Since the Benoue is navigable for only a few months a year, the timing of deliveries was crucial.

Table 4.1 Procurements Under PSIE, Phase 2 (tons)

	NPK				Ammon.	Phos.		Pct. of
	22-10-15	15-20-15	10-30-10	Urea	Sulfate	Rock	Total	Received
Year 3 (1990/91):								
Ordered	3,200	2,500	0	3,500	0	0	9,200	
Received	3,184	2,497	0	3,442	0	0	9,123	100.0%
(Pct. of ordered)	99.5%	99.9%		98.3%			99.2%	
Distributed to:								
SODECOTON	3,184	2,497	0	3,442	0	0	9,123	100.0%
Other distributors	0	0	0	0	0	0	0	0.0%
Year 4 (1991/92):								
Ordered	6,000	7,500	0	5,000	0	0	18,500	
Received	5,937	7,437	0	5,000	0	0	18,374	100.0%
(Pct. of ordered)	99.0%	99.2%		100.0%			99.3%	
Distributed to:								
SODECOTON	5,937	7,437	0	5,000	0	0	18,374	100.0%
Other Distributors	0	0	0	0	0	0	0	0.0%
Year 5 (1992/93):								
Ordered	2,400	6,000	0	7,000	0	0	15,400	
Received	2,395	5,918	0	7,008	0	0	15,321	100.0%
(Pct. of ordered)	99.8%	98.6%		100.1%			99.5%	
Distributed to:								
SODECOTON	2,395	5,918	0	7,008	0	0	15,321	100.0%
Other Distributors	0	0	0	0	0	0	0	0.0%
Phase 2 Total:								
Ordered	11,600	16,000	0	15,500	0	0	43,100	
Received	11,516	15,852	0	15,450	0	0	42,818	100.0%
(Pct. of ordered)	99.3%	99.1%		99.7%			99.3%	
Distributed to:								
SODECOTON	11,516	15,852	0	15,450	0	0	42,818	100.0%
Other Distributors	0	0	0	0	0	0	0	0.0%
Total Phases 1 and 2:								
Ordered	27,200	38,600	4,200	24,500	1,000	1,000	96,500	
Received	26,961	38,175	4,173	24,438	986	987	95,720	100.0%
(Pct. of ordered)	99.1%	98.9%	99.4%	99.7%	98.6%	98.7%	99.2%	
Distributed to:								
SODECOTON	24,938	38,175	0	19,759	0	887	83,759	87.5%
SEMRY	0	0	3,748	3,995	971	0	8,714	9.1%
MEAVSB	900	0	0	400	0	100	1,400	1.5%
PDAs + IRZ/Wakwa	1,123	0	425	284	15	0	1,847	1.9%

Sources: BCEOM 1991b: Tables 1.3 and 1.4; BCEOM 1993: Table 1.2

Table 4.2 Participation in PSIE, Phase 2

Economic Operator	1990/91	1991/92	1992/93
Fiduciary Bank	0	0	0
Commercial Banks	0	0	0
Active Importers	4	6	?
of which received contracts	1	3	3
of which are Cameroonian	1	2	2
Distributors/recipients	1	1	1
of which private sector	0	0	0
of which parastatals	1	1	1
of which GRC agencies	0	0	0
Provinces covered (out of 3)	2	2	2

Essentially the same patten that held in Year 3 also held in Years 4 and 5. During 1991/92 SODECOTON ordered a total of 18,500 tons, one lot each of the same three fertilizer types it had ordered the year before. The request for tender for the 5,000 tons of urea was issued on March 7. The request for the cotton complexes followed on March 26. Five firms submitted bids to supply the urea, all of them Cameroonian. IBEX, again offering delivery by barge to Garoua, was awarded the contract. Five firms, four of which were Cameroonian, submitted bids to supply the two types of NPKs. A Dutch and a Cameroonian firm were awarded those contracts.

Data for 1992/93 is more limited. SODECOTON ordered a total of 15,400 tons of fertilizer; again one lot each of NPK 22-10-15, NPK 15-20-15 and urea.[22] The significant difference this year was SODECOTON's decision to purchase the urea directly from NAFCON and arrange river transport itself, thus by-passing IBEX. Cameroonian firms won the contracts for supplying the cotton complexes.

Table 4.3 shows fertilizer sales by distributor during Phase 2, and Table 4.4 provides the same information for Phases 1 and 2 combined. Table 4.3 shows that SEMRY, MEAVSB and the PDAs all registered sales during the period. With no new distributions, these sales all came from carry-over stocks. The table also reveals the sizable stocks SODECOTON had accumulated by mid-1993. To be sure, a significant portion of these stocks, particularly the cotton complexes, would be consumed during the 1993 cotton season. The urea stocks seem to reflect a more strategic calculation, a function of SODECOTON's efforts to stock-up on urea when river transport permits.

[22] SODECOTON also purchased 400 tons of NPK 20-10-10 from a Cameroonian wholesaler (ADER) during Year 5. As the quantity is so small, this order is not included in Tables 4.1, 4.3 or 4.4.

Table 4.3 Sales to Farmers Under PSIE, Phase 2 (tons)

	NPK				Ammon.	Phos.	
	22-10-15	15-20-15	10-30-10	Urea	Sulfate	Rock	Total
PSIE Distributions							
SODECOTON	11,516	15,852	0	15,450	0	0	42,818
SEMRY	0	0	0	0	0	0	0
MEAVSB	0	0	0	0	0	0	0
PDA/A	0	0	0	0	0	0	0
PDA/N	0	0	0	0	0	0	0
PDA/EN	0	0	0	0	0	0	0
IRZ/Wakwa	0	0	0	0	0	0	0
Total	11,516	15,852	0	15,450	0	0	42,818
Consumption/Sales to Farmers*							
SODECOTON	8,340	13,892	0	5,485	0	424	28,141
SEMRY	0	0	1,192	1,432	720	0	3,344
MEAVSB	141	0	0	277	0	12	430
PDA/A	10	0	69	0	0	0	79
PDA/N	24	0	37	5	0	0	66
PDA/EN	419	0	27	35	0	0	481
IRZ/Wakwa	0	0	0	0	0	0	0
Total	8,934	13,892	1,325	7,234	720	436	32,541
Sales as Percentage of Distributions							
SODECOTON	72.4%	87.6%	NA	35.5%	NA	NA	65.7%
SEMRY	NA	NA	NA	NA	NA	NA	
MEAVSB	NA	NA	NA	NA	NA	NA	
PDA/A	NA	NA	NA	NA	NA	NA	
PDA/N	NA	NA	NA	NA	NA	NA	
PDA/EN	NA	NA	NA	NA	NA	NA	
IRZ/Wakwa	NA	NA	NA	NA	NA	NA	
Total	77.6%	87.6%		46.8%			76.0%
Differences, Stocks and/or Losses							
SODECOTON	6,723	10,026	0	10,206	0	65	27,020
SEMRY	0	0	1,099	101	86	0	1,286
MEAVSB^	(116)	0	0	(258)	0	57	(317)
PDA/A	94	0	3	0	0	0	97
PDA/N	5	0	7	0	0	0	12
PDA/EN	34	0	8	9	0	0	51
IRZ/Wakwa	0	0	0	0	0	0	0
Total	6,740	10,026	1,117	10,058	86	122	28,149

Source: BCEOM 1993: Tables 1.1 and 1.6

Notes: * Consumption and sales are calculated as the difference between the amounts shown in BCEOM (1993):

Table 4.4 Sales to Farmers Under PSIE, Phases 1 and 2 (tons)

	NPK				Ammon.	Phosphate	
	22-10-15	15-20-15	10-30-10	Urea	Sulfate	Rock	Total
PSIE Distributions							
SODECOTON	24,938	38,125	0	19,759	0	887	83,709
SEMRY	0	0	3,748	3,995	971	0	8,714
MEAVSB	880	0	0	400	0	100	1,380
PDA/A	240	0	248	120	0	0	608
PDA/N	400	0	125	93	0	0	618
PDA/EN	565	0	45	50	0	0	660
IRZ/Wakwa	10	0	7	0	15	0	32
Total	27,033	38,125	4,173	24,417	986	987	95,721
Consumption/Sales to Farmers							
SODECOTON	18,215	28,099	0	9,553	0	822	56,689
SEMRY	0	0	2,649	3,894	885	0	7,428
MEAVSB	996	0	0	658	0	43	1,697
PDA/A	146	0	245	120	0	0	511
PDA/N	395	0	118	93	0	0	606
PDA/EN	531	0	37	41	0	0	609
IRZ/Wakwa	10	0	7	0	15	0	32
Total	20,293	28,099	3,056	14,359	900	865	67,572
Sales as Percentage of Distributions							
SODECOTON	73.0%	73.7%	NA	48.3%	NA	92.7%	67.7%
SEMRY	NA	NA	70.7%	97.5%	91.1%	NA	85.2%
MEAVSB	113.2%	NA	NA	164.5%	NA	43.0%	123.0%
PDA/A	60.8%	NA	98.8%	100.0%	NA	NA	84.0%
PDA/N	98.8%	NA	94.4%	100.0%	NA	NA	98.1%
PDA/EN	94.0%	NA	82.2%	82.0%	NA	NA	92.3%
IRZ/Wakwa	100.0%	NA	100.0%	NA	100.0%	NA	100.0%
Total	75.1%	73.7%	73.2%	58.8%	91.3%	87.6%	70.6%
Differences, Stocks and/or Losses							
SODECOTON	6,723	10,026	0	10,206	0	65	27,020
SEMRY	0	0	1,099	101	86	0	1,286
MEAVSB	(116)	0	0	(258)	0	57	(317)
PDA/A	94	0	3	0	0	0	97
PDA/N	5	0	7	0	0	0	12
PDA/EN	34	0	8	9	0	0	51
IRZ/Wakwa	0	0	0	0	0	0	0
Total	6,740	10,026	1,117	10,058	86	122	28,149

Source: All caluclations represent summations of Tables 3.3 and 4.3

B. Costs and Pricing

With only SODECOTON as distributor and retailer in Phase 2, costs and prices are much simpler to track than in Phase 1. The available data, as reported by the auditors, is presented in Table 4.5. Unfortunately, neither the full-cost price nor SODECOTON's retail price for 1990/91 were reported in either of the audit reports. Two aspects of the data deserve mention. First, a comparison of the cost of delivering urea to Garoua in 1992/93, when SODECOTON purchased directly from the manufacturer, with the two prior years, when the purchases were made from a private firm (IBEX), gives some indication of the profits IBEX enjoyed those two years. In a sense these profits are an earning derived from innovation or entrepreneurship.

The second aspect is the volatility of fertilizer prices produced through the tendering process. This pattern is more evident in Table 4.6, which lists the fertilizer purchase price and SODECOTON's cost for delivering fertilizer to its retail points for each of the five years of PSIE. A weighted average of the two is also presented. Increases or decreases in the CIF prices under PSIE of 10 percent are common. This level of volatility was not evident either in world prices for complex fertilizer or in the CIF prices of fertilizer imported under the FSSRP (see Table 6.2). Some of this variation in price is associated with fluctuations in the quantities ordered. However, as will be discussed in Section VI.A, there were features of these marketing arrangements that dampen the incentives to search out the most competitive bids.

C. The Revolving Fund

As mentioned in Section III.C, the initial audit report of Phase 1 operations was not available until late 1991, well into Phase 2 activities. The more detailed analysis of the status of the revolving fund was not completed until April 1992, too late to have much bearing on 1992/93 orders. Instead the CEC began work on two fronts to improve the functioning of the PSIE for the 1993/94 crop years and beyond. One front entailed drafting a formal protocol that would clarify and formalize the rules governing the operation of the PSIE. This initiative is treated in Section V. The other front consisted of efforts to cajole the PSIE distributors to give up control over the PSIE sale proceeds they had recovered and to make good on the more than 337 million FCFA that was still unrecovered.

Table 4.5 Prices and Costs Under PSIE, Phase 2 (FCFA/ton)

	NPK						Urea		
	22-10-15			15-20-15					
	1990/91	1991/92	1992/93	1990/91	1991/92	1992/93	1990/91	1991/92	1992/93
Entire Program									
Fertilizer Price (cif Douala)	99,650	78,300	71,226	79,500	75,095	66,570	84,001	92,357	42,504
Cost of Delivery	31,092	39,572	40,082	26,525	34,514	34,795	171	188	23,146
of which to Ngoundere	23,511	24,334	24,482	18,944	24,721	24,926	0	0	0
of which to Garoua	7,581	15,239	15,599	7,581	9,793	9,869	171	188	23,146
Fertilzer Cost at Garoua	130,742	117,872	111,308	106,025	109,609	101,365	84,172	92,545	65,650
SODECOTON									
Fert. cost at retail pt.	unavail.	120,488	111,718	unavail.	111,630	103,045	unavail.	98,962	71,751
Retail price	unavail.	118,647	104,304	unavail.	109,497	97,856	unavail.	96,045	65,854

Source: BCEOM (1993): Tables 2.2 and 2.3

Table 4.6 Pricing Comparisons

	1988/89	1989/90	1990/91	1991/92	1992/93
NPK 22-10-15					
Fertilizer Price (cif Douala)	78,515	85,202	99,650	78,300	71,226
Index (1988/89 = 100)	100.0	108.5	126.9	99.7	90.7
Fert. Cost at retail pt.	120,985	123,660	unavail.	120,488	111,718
Index (1988/89=100)	100.0	102.2		99.6	92.3
NPK 15-20-15					
Fertilizer Price (cif Douala)	82,500	79,200	79,500	75,095	66,570
Index (1988/89 = 100)	100.0	96.0	96.4	91.0	80.7
Fert. Cost at retail pt.	119,985	112,865	unavail.	111,630	103,045
Index (1988/89=100)	100.0	94.1		93.0	85.9
Weighted Average					
Fertilizer Price (cif Douala)	80,884	81,668	90,812	76,519	67,900
Index (1988/89 = 100)	100.0	101.0	112.3	94.6	83.9
Fert. Cost at retail pt.	120,390	117,304		115,567	105,523
Index (1988/89=100)	100.0	97.4	0.0	96.0	87.7

Source: Data from Tables 4.2, 4.4, 5.2 and 5.4

Between April 1992 and April 1993 considerable progress was made on this front. First, a series of accounts were opened at the Yaounde branch of Credit Agricole Cameroun (CAC), accounts that would be used to hold and manage the revolving fund. Second, each of the PDAs was persuaded to transfer all recovered funds to SODECOTON and to close all the PSIE bank accounts they had opened. Third, pressure from the CEC produced a decrease in each distributor's unrecovered proceeds, lowering the amount due from distributors other than SODECOTON from 31.9 percent to 18.8 percent.[23] The major contribution to this improved result was a payment of 340 million FCFA by the GRC to cover SEMRY's unrecovered proceeds.

Finally, the CEC was able to wrest away from SODECOTON at least some of PSIE funds it had amassed. But it was not easy. Given the advantages of direct control over a revolving fund in excess of 4 billion FCFA, SODECOTON was understandably reluctant to give up control and exerted whatever leverage it had with the GRC in resistance. However, the CEC was equally tenacious, even to the point of withholding 1990 STABEX disbursements until funds were transferred and the new protocol was signed. By May 1993, SODECOTON had transferred 1.6 billion FCFA to the revolving fund accounts at the CAC in Yaounde. Along with the transfers of a little more than 91 million FCFA from MEAVSB and 340 million FCFA from the GRC on behalf of SEMRY, and a remainder of 549 million FCFA from the original PSIE funds, the balance in the revolving fund at the CAC was 2,580,268,628 FCFA on May 27, 1993 (BCEOM 1993: 20).

[23] Unfortunately a change in the methodology used in the two audit reports (BCEOM 1991, 1993) to analyze the revolving fund makes updating Table 4.5 impossible. The recovery rate is the only meaningful comparison that can be made.

V. PSIE PHASE 3

The third, and current, phase of the PSIE began on January 13, 1993 with the signing the *Protocole de Fonctionnement du Fonds de Roulement du PSIE,* which is to govern the relationships of those participating in the PSIE from the 1993/94 crop year through 1996/97. As the field work for this report was completed before Phase 3 operations began, this section deals only with the origin of the protocol and the structure of the relationships it establishes.

As noted in Section IV.C, both the effort to constitute the PSIE revolving fund as initially designed and the drafting of a formal protocol to govern PSIE operations were grounded in the recommendations of the Phase 1 audit. Besides the breakdown in the procedures for channeling PSIE sale proceeds into the revolving fund, the audit also pointed out a number of less serious problems. Among them were issues dealing with SODECOTON's management fee, demands by the other distributors for similar payments to cover their management and supervisory expenses, and the rates SODECOTON charged for delivery from regional to local warehouses. From the CEC's perspective, the purpose of the protocol was to clarify the problem areas while at the same time codifying the practices and relationships that had evolved from the inception of the PSIE (Interviews in Brussels, May 1993). It was an attempt to make the amorphous precise and the informal formal by introducing explicit rules. In doing so the contours of the PSIE became much more distinct.

However, those contours no longer define a program that supports privatization of fertilizer marketing in Cameroon. Instead, they are the contours of a bureaucratically administered procurement and distribution system that bears a close resemblance to the MINAGRI/ FONADER arrangement (see Section III.D) that the FSSRP and PSIE were designed to replace. The only real change between PSIE Phase 3 and the old administered system are the names of the organizations involved:

- *Assessment of fertilizer needs.* Under PSIE Phase 3, SODECOTON is responsible for collecting the estimated needs of the other distributors[24] in the Northern region, adding its own needs and forwarding the whole order (broken out by fertilizer type and retail point) to the CEC and the TSC. Under the old administered system, this role was played by MINAGRI's divisional and provincial services.

- *Authorization of orders.* Under PSIE Phase 3, the CEC and the TSC review the order forwarded by SODECOTON, make whatever modifications they

[24] Nowhere in the *Protocol* are the identities of these other distributors specified. At least three groups could plausibly fall into this category: other parastatal organizations (MEAVSB and SEMRY), the provincial delegations of MINAGRI, and private distributors (either large-scale commercial concerns, like MAISCAM, or small wholesalers or retailers). Indeed, the latest available information is that the same six distributors who participated in Phase 1 are participating in Phase 3 and no others.

deem necessary, and then authorize the announcement of an international tender for the fertilizer. These were tasks performed by MINAGRI under the old administered system.

- *Bid review and contract award.* The review of bids and the award of contracts is now handled by SODECOTON's Special Contracts Commission (Commission Spéciale des Marchés). On the surface this arrangement looks like a significant departure from past practice when all fertilizer contracts were awarded by the national tenders authority. However, the membership of this Special Contracts Commission is almost a duplicate of the old tenders board, consisting of representatives from MINAGRI, the Ministry of Plan, and the DGTC in addition to SODECOTON.

- *Delivery and distribution.* Once the winning bids have been determined, SODECOTON becomes responsible for many of the tasks under PSIE Phase 3 that FONADER performed under the old administered system. Thus SODECOTON signs contracts with the fertilizer importers, arranges transit services, and contracts with domestic transporters to move the fertilizer by train from the port to N'Gaundéré and by truck from N'Gaundéré to various wholesale and retail points throughout the northern region.

- *Pricing.* Under PSIE Phase 3, SODECOTON fixes wholesale and retail prices throughout the region, for itself and for the other distributors. Under the administered system, retail pricing was the joint responsibility of MINAGRI and FONADER in consultation with the Presidency.

- *Payments and recoveries.* The system of payments for goods and services and recovery of funds under PSIE Phase 3 is analogous to that operating under the old administered system with SODECOTON again assuming the role that had been played by FONADER and the CEC/TSC now playing the role of the Treasury. That is, SODECOTON pays for goods (fertilizer) and services (transit, transport, etc.) with funds disbursed from the central revolving fund administered by the CEC/TSC. Funds are disbursed to SODECOTON upon presentation of specific documents (contracts, bills of lading, payment vouchers and so forth). SODECOTON is also responsible for channeling back to the central revolving fund all the proceeds from the fertilizer it sells under this system plus the proceeds realized by other distributors which have been deposited with SODECOTON.

With Phase 3, fertilizer marketing has come full-circle in northern Cameroon. The marketing arrangements spelled out in the *Protocole* entrench an administered system in northern Cameroon. Given SODECOTON's past record under the PSIE, the new administered system can be expected to be more efficient than the old one.

At the same time, the Phase 3 marketing arrangements have clearly abandoned even the pretense of supporting privatization. There is no reference anywhere in the document to fertilizer reform, private sector development, the eventual merger of the FSSRP and PSIE or even the half-hearted "harmonization" process sketched in the PSIE Phase 1 audit. Indeed, as will be discussed in the next section, to the extent that the *Protocole* solidifies the status quo, it actually creates barriers to the private, competitive market it was initially intended to support.

VI. ASSESSMENT OF THE PSIE

This concluding section provides assessments of the PSIE on two levels: the efficiency of the marketing arrangements it established and its support for privatization.

A. Assessment of the PSIE as a Marketing System

The data presented in Sections III and IV leave little doubt that, for those participating, the PSIE marketing arrangements represented a significant improvement over the administered system. The PSIE system clearly met the minimum requirements in the cotton-growing areas of getting the right types of fertilizer in the right quantities to farmers at the right times. The internal movement of the fertilizer from the port to the distributors was conducted in a manner that minimized delay, physical loss, and deterioration. According to a survey, farmers in the North and Extreme North provinces were generally satisfied with fertilizer quality and availability (GRC/MINAGRI 1991).

The situation is less clear outside the cotton growing zone, particularly in the Adamaoua. During Phases 1 and 2, the PDA/Adamaoua was given a total of 608 tons for distribution throughout the province. This compares to annual fertilizer consumption of 1,400 tons based on the results of the 1985 agricultural survey (reported in IFDC 1986). Such a difference suggests some unmet needs. Indeed, this unmet need is reflected in the lower approval ratings farmers in the Adamaoua gave the PSIE compared to farmers from the cotton zone (GRC/MINAGRI 1991: Table 84).

The PSIE marketing arrangements also brought cost savings. As the PSIE data from Table 6.2 indicate, the system produced significant economies at both the importation and retail levels.

There are two factors that seem to account for the improved performance of the PSIE over the old administered system. The first was the more transparent tendering process conducted during Phase 1. The CEC's supervision of the bid-review phase removed the possibility that non-competitive bids would be selected. The second, and more important, explanation was the substantial overlap of interests between the principals organizing the PSIE marketing arrangements (the CEC and TSC) and SODECOTON, their principal agent. Principal-agent relationships work well when there is an overlap or convergence of interests between SODECOTON and fertilizer users. In the case of the PSIE there clearly was a convergence of interests. Given the importance of fertilizer to the intensive cotton culture practiced by its associated farmers, SODECOTON had some compelling reasons to see that it had an efficient and effective supply of fertilizer. By reimbursing SODECOTON for transport services and paying a management fee, the PSIE provided SODECOTON with the incentive to serve the other distributors as it served itself. This convergence of interests

meant that SODECOTON had much stronger incentives to expedite fertilizer movement within the country than FONADER had under the old administered system.

However, principal-agent interests do not always coincide, and when they do not, the usual result is inefficiency of one sort or another. For example, the desire of the PSIE principals was for its agents to seek out the lowest cost option at every juncture. However, SODECOTON was not provided with the incentives to do so. The money it managed had no opportunity cost and its direct costs were reimbursed fully. Such provisions dampen the incentive to search out the lowest cost alternative. Similarly, the national tender authority, acting as a contracting agent, may have incentives that work against the principal's (SODECOTON's) desire to secure the lowest price contract.

It is difficult to calculate precisely the efficiency loss stemming from tensions in the principal-agent relationship established under PSIE. However, some indication can be given by comparing the performance of the PSIE with the competitive market established in southern Cameroon under the FSSRP, a system where principal-agent conflicts largely disappear because the principal is the agent. Directly comparative data is presented in Tables 6.1 and 6.2. Although there were only three instances when the same type of fertilizer was imported under the two programs at approximately the same time, in each case, the private importers operating under the FSSRP realized lower costs (Table 6.2). Though some of the difference may be due to the capture of economies of scale, the results are suggestive of divergence in the incentives faced by principals and agents. A more comprehensive comparison is presented in Table 6.2. Here the import and retail prices realized under each system is compared to respective benchmarks for the administered system. While it is clear that the PSIE realized efficiency gains over the administered system, those gains were not as substantial as those realized by the competitive market system established under the FSSRP.

B. Assessment of the PSIE's Support for Privatization

Although the PSIE was clearly conceived and designed to support the GRC's policy of privatizing fertilizer marketing (see Section II), it has not done so. Indeed, the only support the PSIE has given to the indigenous private sector has been importation contracts awarded to Cameroonian firms. At the same time, the economic and financial privileges the PSIE confers on parastatals and state agencies creates barriers to the entry of private entities into the industry.

One barrier stems from SODECOTON's privileged position in the ordering process. Consolidating the needs of several organizations into one order reduces the number, and type, of private firms that could supply the northern region. A more decentralized system, where each distributor was responsible for making its own supply arrangements, might well support more importers/wholesalers or facilitate the introduction of private distributors into the region.

Table 6.1 PSIE and FSSRP: Comparing CIF Prices

Fertilizer Type	FSSRP Tonnage Ordered	FSSRP Cost (FCFA/ton)	PSIE Tonnage Ordered	PSIE Cost (FCFA/ton)	Pct. Difference
Ammon. Sulfate (Year 1)	12,500	39,643	1,000	42,670	107.6%
Urea (Year 1)	12,300	51,250	2,200	75,550	147.4%
Urea (Year 2)	25,000	56,159	6,800	61,935	110.3%

Sources: FSSRP: University of Idaho (1993); PSIE: this report's Tables 3.1, 3.4, 4.1 and 4.5

Table 6.2 PSIE and FSSRP: Comparing Overall Performance

	Admin. System 1986/87	Reformed Systems 1988/89	1989/90	1990/91	1991/92	1992/93
FSSRP Weighted Average						
Fertilizer Price (FCFA/ton cif Douala)	123,857	80,884	81,668	90,812	76,519	67,900
Index (1986/87 = 100)	100.0	65.3	65.9	73.3	61.8	54.8
Fert. Cost at retail point (FCFA/ton)	171,449	120,390	117,304	0	115,567	105,523
Index (1986/87 = 100)	100.0	70.2	68.4	0.0	67.4	61.5
PSIE Weighted Average						
Fertilizer Price (FCFA/ton cif Douala)	93,000	56,512	58,031	55,133	54,463	50,064
Index (1986/87 = 100)	100.0	60.8	62.4	59.3	58.6	53.8
Fert. Cost at retail point (FCFA/ton)	133,600	86,235	82,858	79,960	78,111	76,570
Index (1986/87 = 100)	100.0	64.5	62.0	59.9	58.5	57.3

Sources: IFDC (1986): pp. 185-199 ; University of Idaho (1993): Exhibit 4; this report's Table 4.6

A second and far more significant barrier results from the financial privileges SODECOTON enjoys: interest-free money and subsidies. The funds from the PSIE revolving fund are disbursed to SODECOTON at no interest and for as long as needed. By contrast, any potential competitor would have to pay commercial interest rates (12 to 20 percent) to finance the purchase, transportation, distribution or storage of fertilizer in the region. These interest costs would clearly increase the price a private competitor would have to charge. In addition, SODECOTON receives a management fee (3 percent of transit and transport costs) to cover administrative costs. Obviously, reimbursement for the increased costs associated with handling the orders of outside distributors is a separate issue. But for SODECOTON to be reimbursed for the costs of arranging transit or transportation for its own fertilizer is to be reimbursed for costs that a private competitor would have to bear and factor into his costs. Taken together, these financial advantages give SODECOTON a clear competitive advantage that limits the entry of competitors who are free to enter even now.

The ironic result that a program intended to support privatization actually retards it deserves some explanation. How is it that the PSIE went so far awry? There are a number of contributing factors:

- *The press of the agricultural calendar.* The close connection between the fertilizer marketing calendar and annual cropping cycles gives the PSIE (and the FSSRP) a relentless dynamism. The process cannot be halted when it would be administratively convenient. If a critical period is missed, such as the start of the cropping season, then another year passes before the opportunity arises again.

- *The lack of coordination and communication between the donors and the TSC.* Although the decision to designate the same GRC body to oversee both fertilizer reform programs was a move toward coordination, it was not pressed far enough. Rather than meeting separately with the two donors on issues that were specific to their programs, all meetings should have been joint. This would have increased the information flow between all of the parties as well as reinforcing the view that the two programs shared the same objectives. In the same light, it was unfortunate that GRC operational responsibility for the PSIE was given to the Ministry of Plan rather than MINAGRI, where responsibility for the FSSRP lay. Not only is MINAGRI the appropriate technical ministry, but a unified oversight responsibility would have meant a more unified vision for the two programs.

- *The lack of PSIE monitoring, particularly during Phase 1.* The PSIE design called for annual audits and reviews with a special review on the 'harmonization' of the two fertilizer programs in the first year. The first full-scale review did not actually take place until September 1991, a year after the end of Phase 1 and well into Year 4 of PSIE operations. By that time, SODECOTON was so set in its ways that both a merger with the FSSRP and a more supportive orientation toward privatization were very remote.

- *The unfortunate timing of a supervisory mission from Brussels.* The CEC's skepticism about the FSSRP and the privatization it supported was an important factor in the eventual design of the PSIE. According to the CEC that skepticism was justified and confirmed during a supervisory mission by headquarters staff in March 1990. Their visit coincided with the low point of the FSSRP. What they saw were the mountains of fertilizer one FSSRP importer had abandoned in the port, the acrimonious charges and countercharges flying between importers, banks and a distributor over an unfulfilled order, and the prospect that another importer would emerge as a monopolist. This picture left a lasting impression. The general conclusion was that the FSSRP was likely to fail and that their approach under the PSIE was working well enough. As a consequence the CEC decided that pursuing a merger or deviating from the system the PSIE had put in place was, at best, inopportune (Interviews in Brussels, May and June 1993).

- *Staff turnover.* The rotation of staff is a fact of life in both donor agencies and the higher echelons of government civil services. Each rotation brings in a new personality with new perspectives and a disjuncture with the past. Sometimes new staff energize a program, in three instances in the PSIE it created setbacks. The first instance occurred when those CEC staff involved in the negotiation and design of the PSIE were replaced in late 1990. In the handing over, the connection between the PSIE and privatization seems to have been lost. The second occurrence was the departure of USAID staff involved in the design and early implementation. The third occurrence was the change in chairmanship of the TSC. This post has changed hand three times since the PSIE was negotiated and with it has gone recollection of the assurances the GRC was given about the goals and objectives of the PSIE.

Although these factors, even taken together, did not redirect the PSIE away from its original objectives, they did create an environment in which movements away from privatization could occur unnoticed and unchallenged.

Those movements were given force and direction by SODECOTON. The pressure of a large parastatal enterprise as the dominant economic actor in the subsector is the single largest factor explaining the direction taken by PSIE, especially in the absence of countervailing pressure from the CEC. As a result, SODECOTON was able to position itself between the other fertilizer institutions in the PSIE zone and the fertilizer market emerging in the rest of Cameroon. Although the PSIE design was conceived as consistent with the privatized policy regime the GRC had established, those aspects were lost on SODECOTON. Instead, SODECOTON interpreted the PSIE in ways most favorable to itself. And since those interpretations went unchallenged, SODECOTON grew more convinced that its interpretation was, in fact, the right interpretation. As more and more of those involved in the initial negotiation and design of the PSIE leave the stage, SODECOTON has had an easier time convincing evaluators and officials of both the CEC and GRC that the PSIE's only objective is to guarantee the supply of fertilizer to northern parastatals and government agencies and

that merger with the FSSRP is folly.[25] Indicative of this process is the narrowing of the PSIE's objectives, as reported by the first and second audit reports (BCEOM 1991, 1993). The first report recognizes some relationship between the PSIE and the FSSRP and the larger privatization process (BCEOM 1991: vol. 1, p. 3). The second makes no mention of either (BCEOM 1993: p. 1).

None of the foregoing should be construed as characterizing SODECOTON's actions as malevolent. On the contrary, the parastatal was simply the acting in accordance with its perceptions of its own self-interest within the rule-set it faced. The source of the PSIE's failure to support privatization is to be found in the lack of rules and rule enforcement to support that objective. That lack of incentives for privatization is, in turn, attributable to a failure of the approach to policy reform adopted by the CEC--a catalytic approach in the sense that reformers assume that the process, once initiated, will continue to the intended conclusion.

The CEC proceeded with the PSIE with a view that the program's objectives, including those that supported privatization, would be self-implementing; that simply stating that the revolving fund would be open to private wholesalers and distributors or that the fertilizer sales receipts would be deposited in a bank account in Yaounde would make it so. Where interests converge, such an assumption may be reasonable. Privatization in the fertilizer subsector was something else though. In such a situation--where the new policy regime represents a significant departure from the old one, where the path of institutional transition is uncertain and there will be significant losers from the reforms--the assumption of interest convergence is untenable. Efforts to undermine, co-opt, or ignore the rules established under the new regime can be expected. Confusion and uncertainty will reign. Under these circumstances, the only viable approach is to monitor the reform process intensively. Rather than let it proceed as it may, donors and governments need to mediate the reform process, selectively intervening to invoke and apply existing rules or, at appropriate intervals, to adjust the rules in view of experience. This mediated approach was adopted by USAID and the GRC with respect to the FSSRP, and the results compared to the PSIE could hardly be more stark. Under the FSSRP, privatization was realized inasmuch as a competitive fertilizer marketing system was created (see the PROMT report on *Crafting a Market*). Under the PSIE, privatization went awry, and an administered fertilizer marketing system was re-created.

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[25] A persistent argument made in support of a separate, administered fertilizer marketing arrangement in northern Cameroon deals with the unreliability or unscrupulousness of the private sector (see MEAVSB 1991). It was also a common refrain during interviews with CEC officials in Brussels in May 1993 and with SODECOTON and GRC officials in Garoua in June 1993. Although the private sector has never played a role in wholesaling or retailing fertilizer officially, there is no reason to think that it could not. First, the reason that the private sector has not played a role in the official Cameroonian distribution channel is that it has thus far been excluded from doing so, either by administrative decree or the barriers to entry noted earlier in this subsection. Second, the private sector does operate a healthy, if unofficial, trade in fertilizer acquired in Nigeria. An informal survey of traders in Garoua market in June 1993 indicated that this trade amounts to several thousand tons annually. Third, the private sector presently operates the distribution, storage and retailing of other commodities, such as rice, flour and cement, that are as bulky and perishable as fertilizer. The logistical expertise and distributional material (trucks, warehouses) needed for those commodities would translate easily to fertilizer.

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