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

Program of Research on Market Transitions (PROMT)

CRAFTING A MARKET: A Case Study of USAID's Fertilizer Sub-Sector Reform Program

Decentralization: Finance and Management Project
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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

ACKNOWLEDGMENTS

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
- S. Tjip Walker, Part-time Research Associate, a political scientist located at the Workshop in Political Theory and Policy Analysis, Indiana University
- 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 Institution (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

Jay Johnson, former Mission Director, were responsible for the original proposal as part of PRAMS I.

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ACRONYMS

AEPRP	African Economic Policy Reform Program
APD	Activity Programming Document, a protocol governing the use of local currency
BCCC	Bank of Commerce and Credit Cameroon, the FSSRP Fiduciary Bank, 1987-1992
BICIC	*Banque Internationale pour le Commerce et l'Industrie de Cameroun*
CAC	*Credit Agricole Cameroun*
CAMATREX	Cameroon American Trading Exchange, an FSSRP importer
CEC	Commission of the European Community
CIF	cost, insurance, and freight
CPs	Conditions precedent
DGTC	National Office of Public Works and Contracts
DPWM	Directorate of Prices, Weights, and Measures in MINDIC
ECU	European Currency Unit (approx. $1.80 = ECU)
FAIS	Framework for Analyzing Institutional Structure
FCFA	Franc of the Central African Monetary Union
FOB	Free on board
FONADER	*Fonds National de Développement Rural*
FSSRP	Fertilizer Sub-Sector Reform Program
GRC	Government of the Republic of Cameroon
IAD	Institutional Analysis and Development
IBEX	International Business Exchange, an FSSRP importer

IFDC	International Fertilizer Development Center
IMF	International Monetary Fund
L/C	letter of credit
MINAGRI	Ministry of Agriculture
MINDIC	Ministry of Industrial Development and Commerce
MINFI	Ministry of Finance
MINPAT	Ministry of Plan and Territorial Administration
NWCA	North West Cooperative Association
ONCPB	*Office National de Commercialisation des Produits de Base*, the marketing board
PSIE	*Programme Spécial d'Importation d'Engrais*, the fertilizer program operated in northern Cameroon by the CEC
SOWEFCU	South West Farmers' Cooperative Union
TSC	Technical Supervisory Committee
TSU	Technical Support Unit
UCAC	*Union des Cooperatives Agricoles du Centre*
UCAL	*Union des Cooperatives Agricoles du Littoral*
UCCAO	*Union Central des Cooperatives Agricoles de l'Ouest*
USAID	United States Agency for International Development

EXECUTIVE SUMMARY

In September 1987, the Government of the Republic of Cameroon (GRC) announced its intention to privatize that country's fertilizer industry. The government stated that it would immediately hand-over responsibility for importing and distributing fertilizer to the private sector and would gradually eliminate subsidies. With the support of the US Agency for International Development (USAID) and its Fertilizer Sub-Sector Reform Program (FSSRP), a private, competitive fertilizer industry has been established in the southern region of the country. Competition among importers and distributors has greatly increased the efficiency and effectiveness of fertilizer marketing in the FSSRP zone. As one indication, as of 1993 fertilizer subsidies had been cut by 86 percent, from FCFA 88,660 per ton to FCFA 12,669, yet greater efficiency in both importation and distribution had kept the increase in retail prices to only 42 percent. Equally significantly, delays in shipment and delivery had been effectively eliminated. Farmers were able to buy as much high quality fertilizer as they wanted, when they wanted it.

The success of the FSSRP-supported efforts stands in marked contrast to the generally dismal record of privatization programs in Africa. As such, the FSSRP-supported privatization process needs to be examined at two levels. At a basic level, the FSSRP needs to be understood as a particular example of successful support for privatization. At a deeper level, the FSSRP needs to be examined for what it can add to a general understanding of how to promote privatization and craft competitive markets in Africa. Relating the FSSRP to a more general understanding of privatization is accomplished through reference to a Framework for Analyzing Industry Structure (FAIS), a framework that is grounded in institutional analysis. As the name suggests, the focus of this framework is industry structure. Consistent with institutional analysis, industry structure is seen to be influenced by three factors: (1) the physical-technical context, (2) the prevailing economic environment, and (3) the industry governance structure on which the industry rests. Industry structure, in turn, affects industry operations.

In terms of this framework, privatization refers to a process of allowing the participants in the industry greater latitude in how they will organize to perform economic activity. It can be introduced in a number of ways. At a minimum, privatization requires a change in the prevailing policy regime. Rule changes are needed which enable new, more decentralized, forms of economic decision-making. Decisions to lower entry barriers, eliminate subsidies, or remove price restrictions are representative of such policy changes. It should be noted that altering the policy regime alone is a relatively passive, laissez-faire, or, perhaps more accurately, a catalytic, approach to privatization. The presumption behind this strategy is that any industry structure or set of industry operations that emerges from the policy change is acceptable, including no industry at all.

However, a government, with or without the support of donors, may decide to take more positive action. One such action is to alter the industry structure directly, as it does when it divests itself of a state-owned enterprise or withdraws completely from participation.

Another proactive option is to create a *privatization structure*. A privatization structure is a set of incentives, usually temporary, designed to encourage active private-sector participation in the industry and to guide the industry in particular directions. Such incentives might include low-cost credit facilities or a market-information clearinghouse, which reduces barriers to entry. Whatever its form, a privatization structure serves to advance the new policy reform regime and to shape the industry structure.

This case study describes the experience of the FSSRP in terms of the FAIS. It begins with a discussion of the relatively stable factors affecting the structure of the fertilizer industry in Cameroon: the physical context of Cameroon and its agriculture, the technical context of fertilizer as a good to market or use, and the institutional context of the prevailing bureaucratic regime. With a favorable economic environment prevailing from 1972 through 1986, bureaucratic regime orientations were unchecked and an administered fertilizer industry emerged. However, the administered industry was not well adapted to the properties of fertilizer or its use. Consequently, the administered regime was inefficient and ineffective.

The inefficiencies in the administered system led to calls for reform. After several years of discussions with USAID and the onset of a serious economic recession, the GRC agreed to privatize the fertilizer industry by introducing a new policy regime. To support the GRC's efforts, USAID agreed to finance a five-year $20 million Fertilizer Sub-Sector Reform Program. Of the total, $17 million would come in the form of cash grants to the GRC disbursed on successful attainment of specific conditions (conditions precedent). The remaining amount ($3 million) would fund oversight and monitoring activities. The evolution of the policy dialogue and the content of the policy reform regime is detailed in this case. It shows that while the final negotiations proceeded rapidly, this was only because the way had been paved with months of discussions with both GRC officials and a cross-section of the private sector, the input of technical studies, pressure form USAID headquarters in Washington, DC, and the deteriorating economic conditions.

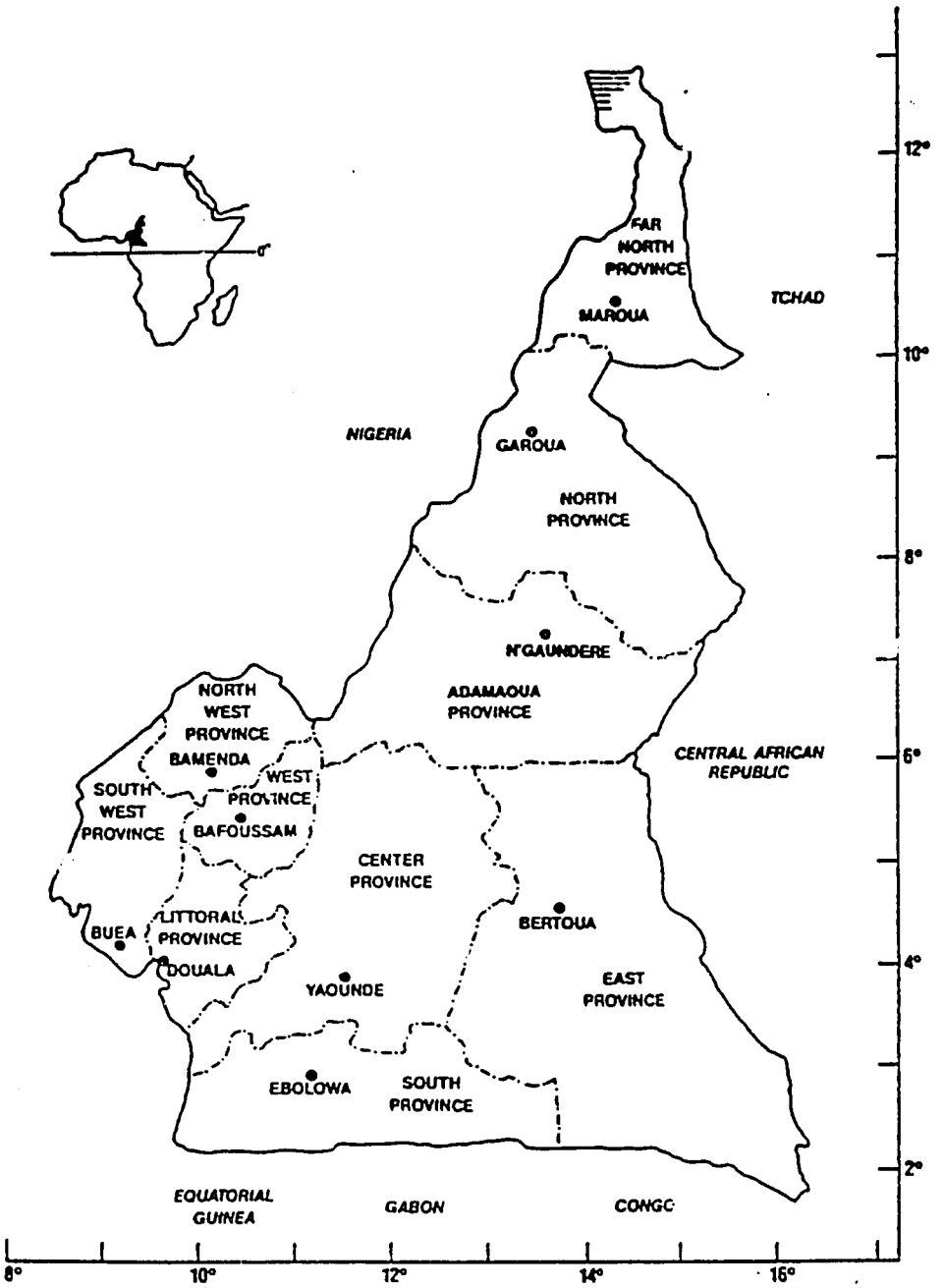
Having succeeded in negotiating a new policy regime, USAID and the GRC turned their attention to articulating the three components of the FSSRP privatization structure: the subsidy fund, a liberalized pricing system, and a low-interest credit program. Making each of these components operational took longer and was much more confrontational than anticipated. USAID had hoped to have operations begin by January 1, 1988. Instead it took until mid-May.

Five complete campaigns have been completed since FSSRP operations began. Analysis suggests that the combination of modifications in the privatization structure over time and the deteriorating economic environment have produced two different industry structures. During the first two years of FSSRP operations the economic situation was poor, but in the succeeding three years, it was much worse. The deteriorating economic conditions have reduced fertilizer demand and eroded liquidity. These changes have forced the participants in the fertilizer industry to reallocate marketing roles. The devaluation of the CFA franc in January 1994, which almost doubled fertilizer prices, combined with the imminent

elimination of subsidies suggests that the industry may undergo yet another restructuring in the months ahead.

The experience of the FSSRP suggests that its success is due to a strategy that contained three major elements: adoption of an industry structure approach, introduction of the privatization structure, and mediation at a number of levels. The more general argument is that this strategy succeeded where so many others have failed in Africa because it takes into account the realties of the present African context. The industry structure approach compels an examination of the actual physical and technical conditions under which goods and services are produced and marketed, rather than relying on homogenous models. The introduction of privatization structures represents an attempt to overcome the generally poor economic environment prevailing in Africa as well as the specific barriers to private-sector participation in a particular industry. And mediation is needed to respond to the uncertainty of the reform process, the lack of familiarity with market arrangements, and deficiencies in the available dispute-resolution institutions.

Map 1. Cameroon and its Provinces



Source: IFDC (1986): Figure I-1

I. INTRODUCTION

In September 1987, the Government of the Republic of Cameroon (GRC) announced its intention to privatize that country's fertilizer industry. The government stated that it would immediately hand-over responsibility for importing and distributing fertilizer to the private sector and would gradually eliminate subsidies. With the support of the U.S. Agency for International Development (USAID) and its Fertilizer Sub-Sector Reform Program (FSSRP), a private, competitive fertilizer industry has been established in the southern region of the country.[1] Competition among importers and distributors has greatly increased the efficiency and effectiveness of fertilizer marketing in the FSSRP zone. As one indication, as of 1993 fertilizer subsidies had been cut by 86 percent, from FCFA 88,660 per ton to FCFA 12,669, yet greater efficiency in both importation and distribution had kept the increase in retail prices to only 42 percent (Abbott and Dey 1993). Equally significantly, delays in shipment and delivery had been effectively eliminated. Farmers were able to buy as much high quality fertilizer as they wanted, when they wanted it.

The success of the FSSRP-supported efforts stands in marked contrast to the generally dismal record of privatization programs in Africa. In Senegal, for instance, privatization of its fertilizer industry, supported by a USAID program virtually identical to the FSSRP, led to the complete breakdown of fertilizer distribution (DEVRES 1990). In Cameroon itself, fertilizer privatization in the northern region, supported by the Commission of the European Community (CEC), has not produced the same degree of private sector involvement as the FSSRP (see the PROMT report, *Pitfalls of Privatization*).[2] Indeed, Cameroon's overall experience with privatization has been disappointing. With few exceptions, the GRC's efforts to divest or liquidate state-owned enterprises has produced nothing but delay (Hinman 1994).

Under these circumstances, the success of FSSRP-supported privatization needs to be examined at two levels. At a basic level, the FSSRP needs to be understood as a particular example of successful support to privatization. At a deeper level, the FSSRP needs to be examined for what it can add to a general understanding of how to promote privatization and craft competitive markets in Africa. Fortunately, the FSSRP has been remarkably well-documented since its inception. Assessments by outside experts have been conducted after each year of FSSRP operations (Abt Associates 1989c, 1990, 1991b, 1992a; Abbott and Dey 1993). These reports provide a wealth of detailed information on the participants in the

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[1] Although the GRC's policy reforms were national in scope, USAID did not have the financial resources in 1987 to extend its program throughout the country. In 1988 an agreement was reached with the Commission of the European Community (CEC) that partitioned donor support to the GRC's privatization efforts into two zones. Thus the FSSRP only operated in the southern seven provinces while the CEC's Programme Spécial d'Importation d'Engrais (PSIE) operated in the northern three provinces. A fuller treatment of the events surrounding the partitioning is contained in Section 5.2 of this report. For a case study of the PSIE, see the PROMT report, *Pitfalls of Privatization*.

[2] For a discussion of Cameroon's more general experience with privatization, see the PROMT reports on *Implementation of the World Bank's First Structural Adjustment Loan in Cameroon* and *Paths of Reform*.

industry and their operations. In addition, the FSSRP has been the subject of four case studies (Truong 1989, Oakerson and others 1990, Truong and Walker 1990, and Abbott 1991) and three external reviews (USAID/Washington 1991, U.S. General Accounting Office 1992, and Development Alternatives, Inc. 1994). The depth of documentation on the FSSRP allows this case to focus more on identifying lessons and generalizable patterns and less on chronicling FSSRP operations.

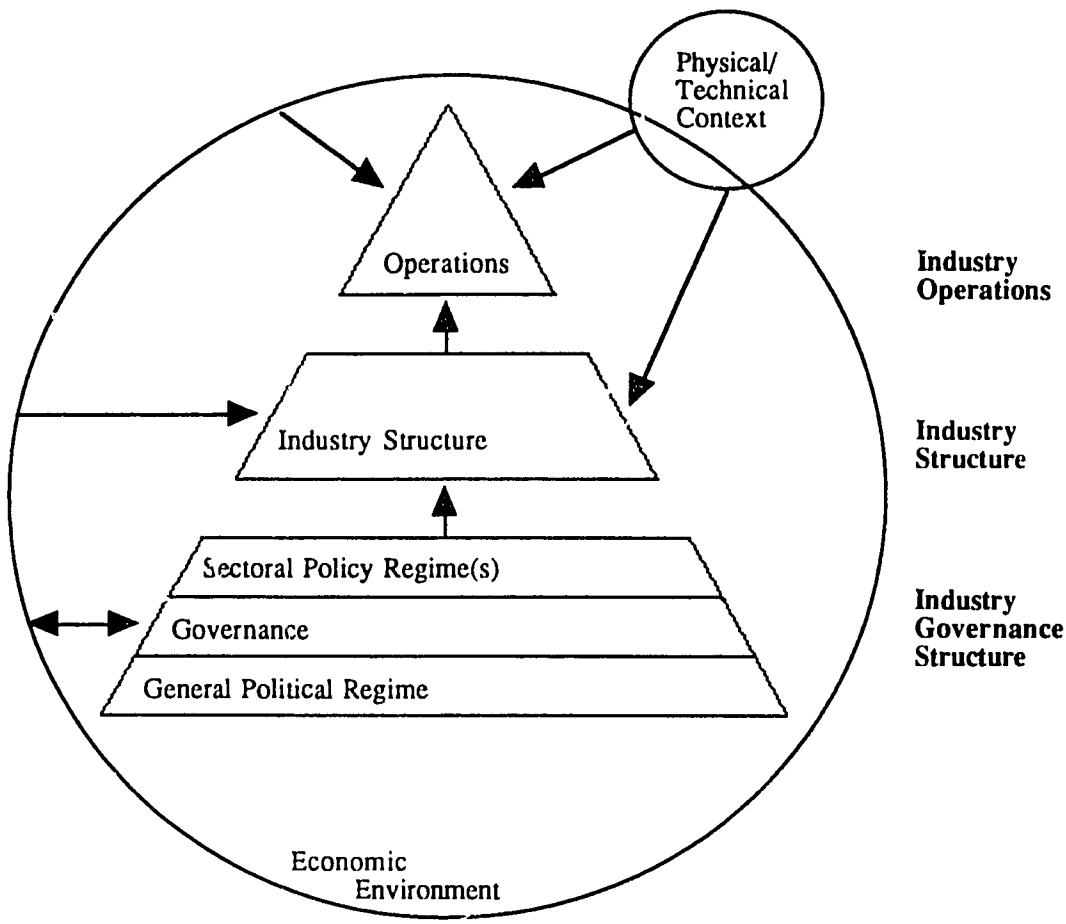
Relating the FSSRP to a more general understanding of privatization is accomplished through reference to a Framework for Analyzing Industry Structure (FAIS), a framework that is grounded in institutional analysis.[3] A graphic representation of FAIS is presented in Figure 1.1. As the name suggests, the focus of this framework is *industry structure*, the middle layer of the industry triangle in Figure 1.1. Industry structure refers to the way that economic activity is organized to produce and sell a specific class of goods or services. Among other things, industry structure includes the number and form of economic actors (for example, individuals, firms, cooperatives, government agencies) as well as the organization and distribution of different economic tasks among actors (intermediate and final production, distribution, and wholesale and retail sale). Industry structure, in turn, affects industry operations.

Institutionalist logic suggests that a particular industry structure is the product of at least three factors. One influence is the *physical-technical context* in which the industry exists. Of particular relevance to industry structure is the nature of the final good or service the industry produces and the technological processes used to produce it. Production of public goods implies a different industry structure than production of private goods (Ostrom and Ostrom 1965). Similarly, production of goods with high asset specificity implies a different industry structure than the production of goods with low asset specificity (Williamson 1985). The second, and related, influence on market structure is the general *economic environment* that surrounds the industry. The business climate--whether the economy is buoyant or stagnant or whether demand is strong or weak--can be expected to affect such aspects of industry structure as the number of participants in the industry or the economic feasibility of certain production processes.

The third influence is the set of institutional arrangements in which the industry is nested. Most directly, industry structure is influenced by a *government's policy* toward the sector in which the industry is located. Relevant aspects of the policy regime affecting industry structure include the degree to which the government participates directly in the industry (as a producer or a provider) and the extent of regulation of such elements as entry or prices. At the same time, the sectoral policy regime is itself imbedded in deeper and more general patterns of *governance*. Operating at this level are such factors as the degree of public sector accountability and the transparency of its operations as well as the independence

[3] The framework employed here is consistent with the Institutional Analysis and Design (IAD) framework presented in the PROMT report, *Institutionalism and Policy Reform*. For earlier efforts to apply the IAD framework to issues of market structure and privatization see Oakerson (1991) and Oakerson and others (1990).

Figure 1.1. An Institutional Framework for Analyzing Industry Structure



and availability of dispute resolution bodies such as courts. Finally, these patterns of governance are themselves nested in a fundamental set of institutional arrangements that define the character of the *general political regime*. Regime character is reflective of deep societal understandings about such matters as the proper scope of governmental authority and the place of the individual in relation to collectivities.

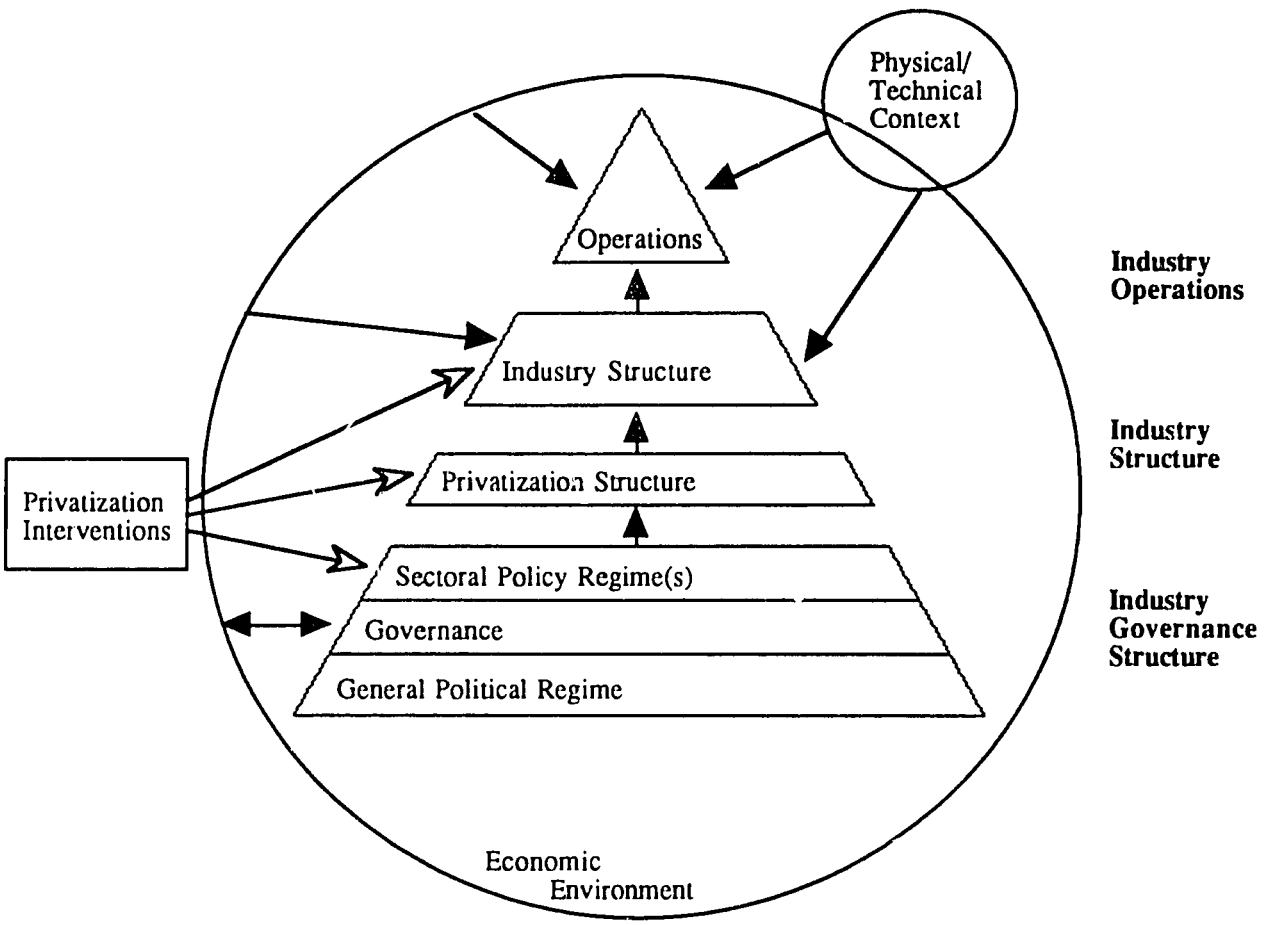
Taken together, these foundational institutional arrangements structure the governance of a particular industry. That is, they establish the boundaries within which economic actors organize themselves into industries. It should be stressed that the governing institutional arrangements do not dictate a particular industry structure; rather they rule-in or enable certain industry structures, while they rule-out or discourage other structures.

The final component of FAIS is *industry operations*. As the name suggests, this level of analysis deals with the actual operations or transactions occurring within an industry--the buying and selling of goods and services. Located at the top of the triangle, the underlying argument is that the structure of the industry, mediated by the influences of the physical-technical context and the prevailing economic environment, determines the range and volume of operations conducted within the industry.

In terms of this framework, privatization refers to a process of introducing greater latitude in how participants in the industry are permitted to organize economic activity. Privatization can proceed in a number of ways (see Figure 1.2). At a minimum, it requires a change in the prevailing policy regime. Rule changes are needed that enable new, more decentralized, forms of economic decision-making. Decisions to lower entry barriers, eliminate subsidies, or remove price restrictions are representative of such policy changes. It should be noted that altering the policy regime alone is a relatively passive, laissez-faire, or, perhaps more accurately, catalytic, approach to privatization. The presumption behind this strategy is that any industry structure or set of industry operations that emerges from the policy change is acceptable, including no industry at all.

However, a government, with or without the support of donors, may decide to take more positive action. One such action is to alter the industry structure directly, as it does when it divests itself of a state-owned enterprise or withdraws completely from direct participation. Another proactive option is to create a *privatization structure*. A privatization structure is a set of incentives, usually temporary, designed to encourage active private-sector participation in the industry and guide the industry in particular directions (Oakerson and others 1990). Such incentives might include low-cost credit facilities or a market-information clearinghouse that reduces barriers to entry. Whatever its form, a privatization structure serves to advance the new policy reform regime and to shape the industry structure. Thus it is depicted in Figure 1.2 as an additional layer in the industry structure triangle, interposed between the policy regime and the industry structure itself.

Figure 1.2. An Institutional Framework for Analyzing Privatization



This case study attempts to describe the experience of the FSSRP in terms of the FAIS. Section II is devoted to a discussion of the relatively stable factors affecting the structure of the fertilizer industry in Cameroon: the physical context of Cameroon and its agriculture, the technical context of fertilizer as a good to market or use, and institutional context of the prevailing bureaucratic regime. From 1972 to 1987, these factors worked together to perpetuate an inefficient fertilizer industry in Cameroon that was administered by the GRC. The structure and operations of the administered industry structure are described in Section III.

The inefficiencies in the administered system led to calls for reform. After several years of discussions with USAID, the GRC agreed to privatize the fertilizer industry by introducing a new policy regime and, with the help of USAID and the FSSRP, by creating a privatization structure in the southern part of the country. The new policy regime and the negotiations that led up to it are described in Section IV. The privatization structure that emerged from the policy regime is presented in Section V. The resulting structure and operations of the fertilizer industry for the years 1988/89 to 1992/93 are examined in Section VI.

The argument presented in Section VI is that the FSSRP privatization structure has supported two different industry structures, which emerged in response to two very different economic environments. During the first two years of FSSRP operations the economic situation was poor, but in the succeeding three years, it became much worse. The deteriorating economic conditions have reduced demand and eroded liquidity. These changes forced the participants in the fertilizer industry to reallocate marketing roles. The devaluation of the CFA franc in January 1994, which almost doubled fertilizer prices, combined with the imminent elimination of subsidies, suggests that the industry may undergo yet another restructuring in the months ahead.

The concluding section returns to a consideration of the privatization framework presented in this section and how the FSSRP relates to it.

II. THE CONTEXT

This section describes those aspects of the Cameroonian context that will affect the structure of any fertilizer industry. Whether government administered or privately structured, any fertilizer industry must contend with an agriculture dominated by small-holders who intercrop their production of food crops and cash crops. Cameroon's physical and agricultural context is described in Section II.A. A fertilizer industry must also contend with the nature of fertilizer as an economic good, factors influencing its demand by small-scale farmers, and the technological and infrastructural constraints at play in the Cameroonian context. These issues are examined in Section II.C.

Section II.B analyzes the foundational institutional arrangements that make up the industry governance structure. The bureaucratic regime that governs Cameroon and the bureaucratic governance it spawns have persisted throughout the period covered by this case study, roughly the decade from 1984 through 1993. Despite some tentative moves toward political liberalization since 1990, the prevailing bureaucratic orientation has not been seriously challenged. At the same time, sectoral policy toward agriculture in general, and fertilizer in particular, has undergone marked change. Until the late 1980s, the agricultural sector was organized bureaucratically. The dimensions of governmental control over agricultural decision-making is described in general in Section II.B and in more detail with respect to the fertilizer industry in Section III.

A. The Physical Context: Cameroon and Its Agriculture

The region covered by the FSSRP consists of the seven southern provinces of Cameroon: the North West, South West, West, Littoral, Center, South, and East (see Map 2.1). The region displays a varied topography ranging from sea-level along the coast to highland plateaus in the West and North West provinces at elevations averaging 1500 meters. The varied landscape, as well as distance from the sea and tropical monsoons, creates diversity in climactic conditions. The whole region is well-watered, but annual rainfall ranges from 1500 millimeters along the boarder with the Central African Republic to 2500 millimeters in the highlands to over 4000 millimeters on the western slopes of Mount Cameroon. Along the coast rainfall displays a bimodal distribution with two rainy seasons (March-June and September-October), while the remainder of the region has a single rainy season lasting generally from March to October. Temperature is affected both by altitude and rainfall. At lower elevations and closer to the sea, annual mean temperatures are around 30° C with little daily variation and only slightly more seasonal variation. At higher altitudes and further from the coast, the mean annual temperature drops to around 25° C with greater daily and seasonal movement. For example, nighttime dry season temperatures in the North West province drop close to 10° C.

The range of topology and climate supports a varied agriculture, though three major zones can be identified in southern Cameroon. In the forested zone, which covers roughly the

most-southerly quarter of the country, the staple crops are varieties of roots and tubers: particularly cassava and yams. Cocoa is the prevalent cash crop. In the highland zone, which encompasses most of the West and North West provinces, maize is the staple food crop, generally grown in association with beans, groundnuts, or tubers. At these altitudes, mild arabica coffee is the principal cash crop, though increasingly maize, tomatoes, and irish potatoes are grown for sale to the expanding urban markets. The remainder of the southern region is a mid-altitude zone, which supports a traditional cropping pattern including low-land maize, plantains, cassava and yams. In this area, robusta coffee is the primary cash crop.

Irrespective of the zone, most production, whether of food crops or cash crops, comes from small farms. For the entire country, the mean farm size is 1.74 hectares, while 43.4 percent of all farms are 1 hectare or less USAID 1987a). Farms 1 hectare or less produce 60 percent of Cameroon's cocoa, 75 percent of its robusta coffee, and 85 percent of its arabica (USAID 1990). The preponderance of small-holder production of cash crops has had a significant influence on the GRC's agricultural policy in general and fertilizer policy in particular.

B. The Governance Context: The Bureaucratic Regime and its Effect on Agriculture Policy

Most African countries, including Cameroon, are governed by bureaucratic regimes. Despite recent signs of political democratization and economic liberalization, it is the bureaucracy and bureaucratic practice that dominates political and economic life in most African countries. These regimes have a bureaucratic character not only because of the large number and political pre-eminence of bureaucrats--those receiving government salaries but are not elected to their posts--but because of the persistent tendency to organize human interactions bureaucratically. That is, the countries are characterized by a continuing effort to govern patterns of human interaction with hierarchical and administrative institutional arrangements rather than markets and other decentralized institutions.

These regimes originated in the movement toward political centralization and the creation of one-party states in the period after independence. However, they became fully developed only as this centralizing and bureaucratizing tendency was applied to the economy.[4] Needing a source of revenue to finance the expanding civil service and development projects of various kinds, bureaucratizing governments imposed heavy implicit taxes on agricultural exports, usually the largest component of GDP. Doing so generally necessitated the control of producer prices and the creation of state marketing organizations responsible for the purchase of produce and the supply of inputs. According to the World

[4] The rationale for, and methods by which, the newly independent states of Africa undertook policies of political centralization and economic intervention are detailed by Bates (1981), Sandbrook (1988), Nyang'oro (1989), and Wunsch (1990). Various reports sponsored by the World Bank provide supporting statistical evidence: World Bank (1981), Steel and Evans (1984), Swanson and Wolde-Semait (1989).

Bank (1981: 58-61), marketing boards existed "almost everywhere in Africa" in the early 1980s and in over 80 percent of countries the government had a significant role in the procurement and supply of fertilizer, seeds, and pesticides--in most cases an exclusive role. In many cases, food prices were also administratively controlled, both for the producer and the consumer.

With hopes of diversifying their economies, most African countries adopted strategies of industrialization based on import substitution. While various arguments can be advanced for such a strategy, a major consequence was to create further opportunities for administrative control over the economy (Binen and Waterbury 1989, Nyang'oro 1989). Generally, tariff barriers, quantitative restrictions, import licensing, and export controls were required to protect domestic industries (Steel and Evans 1984, Nyang'oro 1989). As a result, each import or export operation became subject to one or more forms of administrative regulation.

Citing a lack of indigenous capital and wishing to direct investment toward development priorities, African governments also intervened heavily in the financial sector, acquiring controlling interest in banks and regulating interest rates and access to foreign exchange as a means of directing private investment (Marsden and Bélot 1987). They also created state investment and holding companies to allocate government investment funds.[5] Finally, arguing a lack of private indigenous entrepreneurial capability, governments undertook commercial activity directly through the nationalization of foreign companies and the creation of new public enterprises (Callaghy 1989, Binen and Waterbury 1989, van der Walle 1989).

These general trends led to the consolidation of bureaucratic regimes on thee levels. First, the size and prominence of the bureaucracy expanded as more agencies and parastatals were established to administer the economy. Second, economic life became bureaucratized as markets and other forms of economic organization were supplanted or highly regulated. Third, the great increase in the degree of administrative discretion over economic transactions, combined with the lack of political accountability, created numerous opportunities for bureaucratic rent-seeking. As rent-seeking--and rent-paying--proliferate, a new bureaucratic imperative is created. With more people joining the bureaucracy, more opportunities for rent-seeking need to be created to accommodate the new entrants, which, in turn, gives added impetus to the expansion of administrative control over the economy.

By 1988, Cameroon was a well-developed bureaucratic regime. It had one of the largest bureaucracies, per capita, in the world (USAID 1989). The government's role in the economy was significant. Imports and exports were thoroughly regulated and the prices for many goods and services were fixed administratively. In addition, the GRC had created over 170 public enterprises and was a stock-holder in other enterprises that accounted for over 40

[5] It is very difficult to obtain a clear picture of the extent of government investment in African economies, in part because governments wanted to obscure the extent of their holdings. Tedga (1990) provides a fascinating glimpse into the politics and complex structure of government investment in Cameroon.

percent of the country's commercial output (USAID 1989). And, consistent with the general pattern, rent-seeking and rent-paying was endemic.

These forms of bureaucratic governance significantly shaped the GRC's agricultural policy, particularly with respect to export crops. The collection, processing, and export of cocoa, arabica and robusta coffee, and cotton were organized administratively, albeit somewhat differently depending on the crop and region of the country. Common to the marketing of all crops were administratively set producer prices, fixed margins for intermediaries, and a central role for the government's produce market board, ONCPB (Office National de Commercialisation des Produits de Base).

In the case of robusta coffee and cocoa marketing in the Francophone region, concentrated in the Littoral and Center provinces, farmers generally sold their produce to cooperative federations, the Union des Coopératives Agricoles du Littoral (UCAL) and du Centre (UCAC) respectively. UCAC sold all of its produce to private processors and exporters while UCAL did some of its own coffee processing before selling the produce either to private exporters or to ONCPB. The private processors had the option of selling the export-ready produce to the marketing board or, if they had been granted an export license, arranging for its sale and export directly.

In the Anglophone region, the North West and South West provinces, the cooperative federations--the North West Cooperative Association (NWCA) and the South West Farmers' Cooperative Union (SOWEFCU)--played a larger role. The cooperatives performed all of the marketing and processing tasks from collecting the produce from the farmer to readying it for export. However, they performed these tasks only as agents for the marketing board and thus relied on ONCPB for all crop financing and remuneration of services.

The marketing arrangements in the West province were the least subject to government control. There the cooperative federation, the Union Centrale des Coopératives Agricoles de l'Ouest (UCCAO), performed all internal marketing and processing operations as well as independently arranging the sale and export of arabica coffee.

Although the heavy involvement of farmer cooperatives in export crop marketing might suggest a departure from the bureaucratizing tendencies in the regime, such was not the case. The law governing cooperatives ensured full administrative control over their organization and management. Indeed, as the cooperatives received numerous government subsidies and were often staffed by managers drawing government salaries, they could well be classified, in most cases, as extensions of the central bureaucracy.

A final indication of the operation of a bureaucratic imperative in Cameroon's agricultural policy was pricing. Like other bureaucratic regimes, the GRC held producer prices for cash crops well below the export (FOB) price. Specifically, the price farmers received over the period 1971/72 to 1988/89 averaged 57.1 percent of the FOB price for cocoa, 51.5 percent for arabica coffee, and 49.2 percent for robusta coffee (USAID 1990: 21).

The stated logic for this high implicit tax was to create cash reserves that could be used for the benefit of export-crop farmers and the rural sector more generally. Funds were to be set aside in a price stabilization fund, which would support producer prices when world prices dropped. Funds were also supposed to be channeled to general-purpose rural development activities. However, in reality, most of those funds went elsewhere. Some funds were used to expand the size of the ONCPB itself, some were used capitalize parastatals or to purchase the government's position in joint ventures, and some were simply siphoned-off by bureaucrats in a position to do so.

C. The Technical Context: Fertilizer as a Good

As argued in the introduction, the nature of goods and services plays a significant role in shaping an industry. Fertilizer is no exception. Whether an industry is organized administratively or allowed to evolve more spontaneously, the inherent attributes of fertilizer and the technology associated with its use are constant. For this reason, a discussion of the attributes of fertilizer and fertilizer use must precede discussions of differing industry structures.

Chemical fertilizer has four relevant attributes:

1. *Privateness*. Fertilizer is a private good in the economic sense. Consumers can be easily excluded on an individual basis, and one individual's use fully precludes use by others. As a consequence, private marketing arrangements will not be subject to significant institutional failures.

2. *Heterogeneity*. Fertilizer may be a private good, but it by no means 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.[6] 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.

[6] Four fertilizer types figure prominently in FSSRP: two blends of NPK (NPK 20-10-10 and NPK 12-6-20) and two straight N fertilizers (low analysis ammonium sulfate [21-0-0] and high analysis urea [46-0-0]).

3. *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.

4. *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 one able to arrange the financing 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 the attributes of fertilizer itself, the nature of fertilizer demand, particularly among small-scale farmers, imposes constraints on a fertilizer industry in less developed countries. The paramount consideration in fertilizer purchases is price, or, more accurately, fertilizer's benefit-cost ratio.[7] Research among small-scale farmers worldwide indicates that farmers are generally willing to purchase fertilizer only when its benefit-cost ratio exceeds 2.0 (IFDC 1986). That is, small-scale farmers expect to see a $2 increase in output quality or quantity for each $1 of fertilizer purchased and applied. Obviously, small-scale farmers do not use sophisticated fertilizer response functions to calculate the benefit-cost ratio for their various crops. But the intuitive rules-of-thumb they do use are equivalent to a practice of purchasing only when the benefit-cost ratio is greater than 2.0.

Beyond price, the next consideration is cash availability. Fertilizer is often a farmer's largest single cash outlay. As credit is generally unavailable to farmers in Cameroon, they must have accumulated sufficient cash to make their fertilizer purchases. This cash requirement amplifies the already seasonal character of fertilizer demand. To have its full effect, the right fertilizer needs to be applied in the right quantity at the right time. For a small-scale farmer who lacks storage facilities or cash that can be tied up in fertilizer stock, the logical time to make fertilizer purchases is just before application. Such timing of purchases may minimize on-farm storage and the period before harvest, but with the effect of concentrating demand into relatively one or two brief buying seasons each year. Under these circumstances, an effective supply system is one that has sufficient stocks of the appropriate fertilizer in place at the retail level when the buying season begins. Otherwise, farmers are forced to do without.

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[7] The theoretic predictions about the importance of price and benefit-cost ratios is borne out in the Cameroonian case by survey data. See Abt Associates (1991a).

Finally, there are several characteristics of the Cameroonian setting that shape the organization of any fertilizer industry in the country. First, like most African countries, Cameroon has no domestic manufacturers of fertilizer.[8] 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, Douala's port is located on an estuary, which limits the size of the boats that can dock there. In the case of fertilizer, the largest freighters able to dock at Douala are able to carry between 10,000 and 11,000 tons at a time. At this physical limit, ocean transport is at its most cost-effective level. Fourth, road connections between Douala and the other provincial capitals in the southern Cameroon are quite good. However, the road connections between provincial capitals and secondary markets are less-well developed. Unpaved roads in many areas become impassible for hours or days at a time during the height of the rainy season.

[8] 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.

III. FERTILIZER MARKETING IN AN ADMINISTERED INDUSTRY STRUCTURE

The bureaucratic tendencies described in Section II.B also influence the way the GRC organized the importation and distribution of fertilizer. From 1972 through 1987, the GRC controlled this process administratively. Unfortunately, the institutional arrangements introduced by the GRC were not particularly well-adapted to the nature of fertilizer at its use described in Section II.C. The result was an industry that was neither efficient nor effective.

The administered industry structure took form in the early 1970s when the GRC decided to introduce fertilizer subsidies for small-scale coffee farmers (Elliot Berg Associates 1983).[9] The logic was that reducing the cost of fertilizer to small-scale coffee producers was the only way to increase its use (and thereby the quality and quantity of the output) in a policy regime that kept producer prices low (see Section II.C). Providing these farmers with fertilizer priced below total delivered cost implied some form of administrative involvement. In 1974 the Ministry of Agriculture (MINAGRI) was given overall responsibility for the program, while the rural credit agency, FONADER (Fonds National de Développement Rural), was assigned administrative responsibility due to inclusion of a farmer credit element in the program's early stages.

Over time, other groups, such as rice and food crop farmers, demanded inclusion in the subsidy scheme. With government revenue rising during the late 1970s and early 1980s due to increased world oil prices, these demands could be accommodated. As a result, during the early 1980s consumption of subsidized fertilizer grew at twice the rate of total fertilizer consumption, about 8.4 percent per year (see Table 3.1). At the same time the subsidy program was increasing, procurement of unsubsidized fertilizer by agricultural parastatals was being brought increasingly under central bureaucratic control. Thus by the early 1980s, the entire fertilizer industry in Cameroon was administratively structured.

The hallmarks of the administratively structured fertilizer industry were bureaucratic determination of fertilizer needs, centralized procurement, and administrative allocation of quotas to end users. The actual importation, 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 under the subsidy program. As Table 3.1 indicates, this represents about 60 percent of the approximately 100,000 tons of fertilizer imported on average each year from 1980 through 1985. The centralized procurement and 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

[9] 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.

Table 3.1. Consumption of Fertilizer in Cameroon, 1980-1985

Year	Total Fertilizer Consumed (tons)	Total Subsidized Fertilizer Consumed (tons)	Subsidized Consumption as a Pct. of Total Consumption
1980/81	85,692	44,000	51.3%
1981/82	90,576	42,000	46.4%
1982/83	116,423	78,000	67.0%
1983/84	124,066	82,826	66.8%
1984/85	105,056	65,313	62.2%
Five Year Avg.	104,363	62,428	59.8%
Annualized Growth Rate	4.3%	8.4%	

Source: IFDC (1986)

and parastatals.[10] Although the remaining 10 to 15 percent of imports made by smaller agricultural enterprises or private retailers was not administratively procured or allocated, these enterprises still needed to negotiate an import licensing procedure set up to protect the administered industry.

In the fully administered marketing channel, fertilizer needs were determined by MINAGRI based on estimates collected from its provincial and divisional offices. These national needs, categorized by type and quantity, were then passed to FONADER, 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, crop stabilization funds managed by ONCPB, 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 Grands Travaux et Contrats), which issued tenders for the procurement and delivery of the fertilizer to Douala, evaluated the bids received, and awarded the contracts. Responsibility then passed back to FONADER for the administration of the contract,

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

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 that 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 always 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 arrangement. 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. Additional 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 industry structure was also prone to financial inefficiency. As a product of a bureaucratic regime, there were numerous opportunities for rent-seeking and kickbacks. A particularly problematic tendency was to issue tenders for lots of only a few thousand tons. Not only did this practice create orders that could not take advantage of the economies of scale in shipping, but it permitted less competitive bidders to obtain contracts as well. Another cost-increasing requirement was that all importers had to use the government-owned shipping line, CAMSHIP. All of these factors contributed to raising 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 FCFA 6 to 7 billion ($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 centralized contracting procedures and the disarticulated distribution channel.

Inefficient and costly though Cameroon's fertilizer industry may have been, it was by no means the only way, or even the worst way, to structure a fertilizer industry that was consistent with a bureaucratic regime. Indeed, a far more common structure in other African countries with bureaucratic regimes was complete government monopolization. As in Senegal or Ghana, for example, a government agency was created and granted sole authority to procure fertilizer and distribute it to retailers. The major difference between the government monopolies and the Cameroonian administered industry was that where the GRC contracted with the private sector for importation, storage, and internal transport, the government monopolies performed these functions internally and thus owned warehouses and fleets of trucks.

While there is no evidence to suggest that one administered industry structure is unambiguously more efficient than the other, an advantage of the Cameroonian arrangement was its greater accommodation of the private sector, albeit in a very limited way. The GRC's administered industry at least supported private sector capacity to store and transport rather than crowding it out. Still, the private sector role was very limited. Performing specific contracts for the government requires little managerial or entrepreneurial skill. Indeed, to the extent that contracts were awarded for reasons other than cost, the bureaucratic regime rewarded those who were bureaucratically astute and well-connected rather than those who were efficient or entrepreneurial.

The best example of this phenomenon was the importers. With few exceptions these importers were simply agents for European brokers (Truong 1989, Oakerson and others 1990). All of the significant bidding and import functions were handled by the brokers behind the scenes: preparing bids, contracting with suppliers, obtaining short-term finance, and arranging shipment. The functions of the "mail box" importers, as they were called, were to submit the bids, follow the dossier, and channel any payments back to the broker. They were compensated for these tasks based on their ability to obtain contracts (a sales commission) at non-competitive prices (creating a price spread between the contract award price and the price quoted by the broker).

IV. PRIVATIZING THE FERTILIZER INDUSTRY IN CAMEROON: THE EVOLUTION OF AN IDEA[11]

A. The Germ of an Idea

By the early 1980s, the shortcomings of the administered fertilizer industry described in Section III were widely known. The 1983 release of a detailed World Bank study of input supply in Cameroon provided further understanding of the fertilizer industry's systemic inefficiency (Elliot Berg Associates 1983). The discouraging picture of the administered fertilizer industry painted by this report was of particular concern to USAID/Cameroon. The Mission was embarking on a program of long-term support to Cameroonian researchers developing high-yielding varieties of local food crops. As these 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 in late 1983.

As USAID's initial contacts with the GRC about fertilizer marketing were handled by the Mission's agricultural office, the agronomic deficiencies of the industry were highlighted. In addition to the problem of untimely delivery, USAID focused on the limited range of fertilizer types that were imported. The limited selection of formulations meant that the match between recommended fertilization and the nutrients provided by the available fertilizer types could be very imprecise. While the GRC conceded USAID's point, a possible solution was not identified until a brief visit by a consultant from International Fertilizer Development Center (IFDC). He suggested that a bulk-blending and bagging facility could provide a wide range of blends and cut import costs at the same time. This prospect became the germ of a USAID-funded activity.

The immediate stumbling block was funding. USAID/Cameroon's development budget was fully programmed for several years into the future. The announcement from AID/Washington in early 1985 that a special fund had been set up under the newly launched African Economic Policy Reform Program (AEPRP) provided some hope.

The AEPRP represented AID's first foray into the realm of policy and economic reform in Africa, terrain the World Bank and the International Monetary Fund (IMF) had been treading for at least five years.[12] Like World Bank structural adjustment loans or IMF stand-by agreements, AEPRP activities were to be policy-based. As the AID Administrator

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[11] This section draws on a review of EAPRI files conducted in June 1993 and interviews with those involved.

[12] A more detailed discussion of the AEPRP and AID's approach to policy reform can be found in the PROMT report on *Organizational Approaches to Policy Reform*. See also Wolgin (1987).

described the new initiative to Congress, "[AEPRP funds] will be tied to major policy reform measures...[and] used to support implementation of the reform package once promulgated" (US Congress 1984: 9). However, unlike the policy-based lending of the multilateral donors, which dealt with structural adjustments to entire economies, AEPRP funding would be directed to achieving reforms in priority sectors, including agriculture, within a limited number of countries "prepared and able to establish a comprehensive economic policy framework conducive to growth and long-term development" (US Congress 1984: 9). As it was implemented, the AEPRP was established as a special fund to which USAID Missions in Africa could apply each year for funding to support implementation of sectoral policy reforms.

B. The First Iteration: Bulk-Blending

With some prospect of AEPRP financing for a reform program focused on the fertilizer industry, USAID/Cameroon began work on a proposal in early 1985. In anticipation of a favorable response, the Mission also contracted with IFDC to conduct a major review of the fertilizer sector during the last quarter of the year. The AEPRP proposal was submitted in September 1985 to the competition for FY1986 AEPRP funding (USAID/Cameroon 1985). The major policy reform to be obtained in the five-year $23.5 million program was a 50 percent reduction in the subsidy rate (from an estimated 71 percent of total delivered cost to 39.4 percent). However, consistent with the Mission's agronomic concerns, the centerpiece of the program was the construction of a bulk-blending and bagging facility intended to assure the availability of a broader range of fertilizer formulations. This facility would be built with program funds for the GRC who would lease the plant to a US-Cameroonian joint venture company. To make the investment attractive, the program also contained financing for 60,000 tons of fertilizer from which the differing blends would be produced and a provision that the GRC would guarantee annual orders of 23,000 nutrient tons from the blending plant during the program's five-year life.

USAID/Cameroon's proposal was reviewed in Washington along with those from 11 other countries in October. Although Cameroon's proposal was among the three most well received, the review committee found several serious weaknesses, which the Mission was asked to address in future design work (USAID/Washington 1985). Specifically, the review team felt that the proposal did not push the policy reform agenda far enough. Complete, rather than partial, elimination of subsidies was seen a preferable objective. The review team also felt that GRC participation in, and subsidization of, the blending facility was incompatible with the AEPRP objectives of market liberalization.

The weaknesses notwithstanding, the Mission was encouraged by AID/Washington's response. The encouragement was short-lived. In early 1986, USAID/Washington determined that Cameroon would be ineligible for FY1986 funding; eligibility for FY1987

was still unclear.[13] Having devoted considerable resources to the design of a reform effort centered on fertilizer, the Mission decided to refocus its attention on the FY1987 funding. In the meantime, the Mission adopted a strategy to use the IFDC review as a way to draw even more attention to the deficiencies of the administered industry while providing the Mission with the technical foundation for a better submission for the FY1987 AEPRP competition.

The IFDC team conducted its work in late 1985 and presented a voluminous report of its work in early 1986 (IFDC 1986). The report contained a wealth of information on soil and cropping patterns in Cameroon, fertilizer recommendations for different crops in different regions, historic fertilizer consumption, and fertilizer response functions. From these data, the team calculated forecasts of the country's future fertilizer needs. With these forecasts serving to estimate future fertilizer demand, the team then examined differing industry structures to supply that demand. They examined the economics of manufacturing urea domestically from the country's sizable off-shore natural gas reserves. They examined the advantages of bulk-blending and bagging. They documented the inefficiency of the current procurement and distribution system and identified where improvements could be made. Based on these analyses, the IFDC team recommended that (1) domestic manufacture of fertilizer should be deferred as uneconomical, (2) subsidies should be eliminated, but gradually, and (3) the administered industry structure should be replaced with a US-Cameroonian joint venture company which would hold a monopoly on the importation of fertilizer, establish a bulk-blending and bagging facility, and create a private distribution network.

C. The Second Iteration: Joint Venture

Once the IFDC report was finalized, the Mission pursued the first element in its strategy by conducting an extensive dissemination program. The IFDC's findings and recommendations were presented at the technical level in various ministries and the agricultural training school. A presentation was also made to senior ministry and Presidency officials. In these meetings, USAID stressed the budgetary savings to be realized by the GRC in eliminating subsidies over time. They also highlighted IFDC's calculations that more efficient ordering and introduction of bulk-blending and bagging would significantly dampen the retail price increases stemming from the subsidy reductions. The major concern voiced by the Cameroonians during these meetings was the effect that the proposed changes would have on fertilizer consumption. They saw maintaining, if not increasing, fertilizer consumption as the paramount objective, an objective that could not be realized with a significant decline in the benefit-cost ratio for fertilizer. Maintaining the present benefit-cost

[13] Cameroon had been declared ineligible for the FY1986 AEPRP competition because the country's per-capital GNP was too high. In an agreement with the State and Treasury Departments, USAID limited FY1986 AEPRP funds to those countries who were eligible for the World Bank's Special Loan Facility for Africa. Eligibility to that facility was based on per-capita GNP and Cameroon's at $870 was too high. The tie between the AEPRP and the Special Loan Facility was ultimately dropped for FY1987.

ratio implied either maintaining subsidies at some level or increasing producer prices for export crops in tandem with the reduction in subsidies.

Technical level discussions continued in a desultory way during the remainder of 1986 and early 1987. In February 1987, the Mission sent a letter to the Africa Bureau's chief economist, seeking his reaction to a proposal that the Mission hoped to develop and submit to the FY1987 AEPRP competition. That proposal embraced the IFDC's recommendations of gradual elimination of subsidies and introduction of a US-Cameroonian joint venture company to assume procurement and distribution responsibilities. The response from Washington was much the same as it had been 16 months earlier: the reforms did not go far enough. The joint venture, in particular, was considered suspect. The Mission was encouraged to pursue full privatization of fertilizer importation and distribution as well as full subsidy elimination.

D. The Third Iteration: Privatization

After internal discussions in February and March 1987, the Mission decided to pursue a more vigorous policy dialogue with the GRC with the objective of eliminating subsidies and privatizing the fertilizer industry. In April, USAID/Cameroon began circulating a 'concept paper' within the GRC that laid out its position (USAID 1987a). The stress remained on subsidy elimination--over a five-year period as recommended in the IFDC report. However there were some new wrinkles. First, one objective was a "free-market system for fertilizer distribution." Second, subsidy removal was to be tied to producer price increases so as to maintain the benefit-cost ratio. Third, as an inducement to the participation of commercial banks and private firms in fertilizer marketing, USAID/Cameroon proposed creating some sort of credit facility available to fertilizer importers and distributors through the commercial banking sector.

Clearly the continuing pressure from AID/Washington to be more aggressive was one factor in changing USAID/Cameroon's stance. Equally important, however, was the deteriorating Cameroonian economy, which suggested that the GRC might be more amenable to significant policy reform. By the spring of 1987 the Cameroonian economy had been in a tailspin for a little over a year. During 1986 prices for all of Cameroon's major exports--oil, coffee, cocoa, and cotton--had declined sharply. Due to the collapse of the International Coffee Agreement, arabica prices declined by 53.2 percent and robusta by 53.6 percent. Oil and cocoa prices were off by more than 20 percent, while cotton prices dipped about 15 percent. Lower world prices led to lower export earning and, perhaps most importantly for a bureaucratic regime, government revenues dropped by almost a third. As a result, the GRC ended the 1986/87 fiscal year with a FCFA 463.8 billion ($1.2 billion) budget deficit.

The repercussions of the growing government deficit were being felt throughout the economy. As the GRC withdrew its deposits in various banks to cover expenditures, the liquidity of the banking sector deteriorated. However, even these withdrawals were insufficient to keep the list of unpaid creditors from growing larger. Under these

circumstances, the government was looking for places to cut expenditures. With fertilizer subsidies accounting for about one-sixth of MINAGRI's budget, they became a target of GRC budget cutters in the Ministry of Finance and the Presidency (van der Walle 1990; Truong 1989). In February 1987 the GRC had announced that FONADER would not be making further loans and by May all of its activities except loan recovery would be suspended. In short, the foundations of the administered fertilizer industry were beginning to crumble.

The GRC's reaction to the concept paper was generally of two sorts. At the technical level there was great reluctance to embrace something as radical as privatization. Moreover, those earning rents from the administered system were opposed to measures that would see them disappear. However, at the senior levels of government, both in the ministries and in the Presidency, the reaction was much more positive. Aware of the country's rapidly deteriorating economic situation, the view was that an orderly withdrawal from the fertilizer industry was preferable to a financially-induced collapse (Truong 1988, Truong and Walker 1990).

This time around, USAID went outside the bureaucracy to the private sector for comment on, and discussion of, its proposals. What had been to that point a two-way conversation now became three-way. Bankers, importers of fertilizer and other agricultural products, coffee exporters and cooperative managers were contacted and asked for their reaction to the concept paper. The Mission Director even hosted a luncheon for selected businessmen in May to seek their support for the reform measures. These initial meetings had three results. First, the Mission developed a close working relationship with about a dozen individuals in the private sector who served as an informal advisory panel or focus group for USAID's proposals throughout the design stage and beyond (see Truong 1989). Second, the Mission deepened its understanding of the types of credit needed. Third, the Mission learned that the administered system had developed a large, new defect: insolvency. As the GRC's budgetary situation continued to deteriorate, FONADER was having an increasingly difficult time paying importers and other contractors. Several importers refused to participate in the 1986/87 tenders because they had not been fully paid for fertilizer delivered the previous year.

Based on the generally favorable response to the concept paper within the private sector and the highest circles of the Cameroonian government, the Mission made a formal request to AID/Washington on June 3 to authorize the final design of a fertilizer policy reform program and allocation of $9 million in FY1987 AEPRP funding.[14] Three weeks later AID/Washington responded favorably, though noting some concerns that needed to be addressed in the final design phase. Among their concerns were the willingness of the GRC to adjust export crop prices to offset increased fertilizer prices as the subsidy was removed,

[14] Ordinarily this formal request is made in the form of an initial design document called, for programs, a Program Activity Initial Paper (PAIP). In this case, the request was made in a seven page cable (USAID 1987b: Annex I), which AID/washington accepted in lieu of a PAIP because only three months remained before the end of the fiscal year.

the imprecision over the credit arrangement, and the continued inclusion of the bulk-blending facility. However, AID/Washington's greatest concern was the ability of the Mission to complete the final design document and get it approved in Washington, conclude the policy reform negotiations with the GRC, and sign an agreement before the end of the fiscal year. If USAID/Cameroon was unable to meet the deadline, the $9 million allocated to Cameroon from the AEPRP would be lost all together. It was under this time pressure that the Mission conducted its final negotiation and design activities.

E. Negotiation and Design of the New Policy Regime

The final phase of negotiating a new policy regime for the fertilizer sector began on July 25 with a meeting of teams from USAID and the GRC. USAID's team was comprised of several staff supplemented with consultants. The GRC's team was chaired by the Director of Planning in the Ministry of Plan and Territorial Administration (MINPAT) and included representatives of the ministries whose portfolios were affected by USAID's proposals including Agriculture, Commercial and Industrial Development (pricing), Finance (credit and banking), and Higher Education (agricultural research).[15] Such an inter-ministerial working group was somewhat unusual, but USAID had asked the Minister of Plan to organize one given the breadth of the proposed policy reforms and the need to act expeditiously so as to meet the fiscal year deadline.

From the beginning of these meetings, it was evident that the deteriorating economic environment had put the Cameroonian side in a conciliatory mood. In his opening remarks, the Director of Planning noted that USAID's principal reform measures--gradual elimination of the subsidy, linking subsidy removal to increases in producer prices and incentives to encourage private sector involvement in the fertilizer industry--had been accepted by the GRC. He then noted that the purpose of the final negotiations was for the technical experts to work out the details within that general framework.

Over the next four weeks USAID and the GRC crafted a new policy regime for the fertilizer sector that had six elements:

1. *Government withdrawal from fertilizer procurement and distribution.* The GRC agreed to (1) refrain from issuing public tenders for fertilizer, (2) abolish import quotas for fertilizer, and (3) end quantitative allocations to cooperatives and other distributors. The net effect was complete government withdrawal from fertilizer importation and distribution and, by extension, the dismantling of the administered industry.

[15] MINPAT's leadership in this committee was due to its responsibility for negotiating, approving and coordinating the implementation of all foreign assistance.

2. *Gradual elimination of the subsidy.* Subsidies were defined as a fixed amount per unit of fertilizer. These *fixed unit* subsidies were to be eliminated over four years. Although there were interim targets for subsidy reductions, the actual subsidy rate would be negotiated between USAID and the GRC based on the results of annual reviews of producer prices and fertilizer demand. This particular element represented a compromise between those in MINAGRI who were pushing for a direct linkage between producer prices for export crops and subsidy reduction and the view expressed by AID/Washington that such linkage would prove impractical. The continued depression of world commodity prices and hints from senior members of the GRC that the government would be hard pressed to maintain producer prices at their current levels prompted the Mission to back away from a direct tie.[16]

3. *Subsidy payment transferred from the government to the banking system.* Rather than have the GRC or one of its agencies make direct subsidy payments to importers or distributors, the GRC would make an annual deposit all of the funds budgeted that year for fertilizer subsidies into an account in a commercial bank. Eligible importers or distributors would then be paid from this account. There were two reasons why USAID pressed for this provision. The first was to insulate the fertilizer sector from the bureaucratic regime and its penchant for turning discretion into rent-seeking. By making a single subsidy deposit each year, the GRC was effectively removed from direct involvement in fertilizer operations. The second reason was to lower the risk of private sector participation in the fertilizer industry by making subsidies payments rapid and certain.

4. *Decontrol of prices.* In a concession to the GRC, USAID agreed to a system of *target ceiling prices* as long as fertilizer prices were subsidized. The target ceiling price was to be calculated as the full-cost delivered price of a unit of fertilizer less the unit subsidy. To the GRC, this formula guaranteed that even if the private sector charged the ceiling price, farmers would still be fully benefitting from the subsidy. To USAID, this arrangement was less desirable than full market pricing, but it achieved two minimal objectives. It provided the private sector with adequate price incentives and it abolished uniform pan-territorial pricing. Under this pricing arrangement, target ceiling prices would reflect the differing costs of differing formulations as well as the variable costs of delivery to farmers in different locations around the country.

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[16] Nevertheless, the FSSRP design document devotes considerable attention to the relationship between producer prices and the subsidy reduction (USAID 1987b: Section V.6.3). The results of USAID's analysis are quite encouraging, showing hat if retail fertilizer prices were to triple as a result of complete subsidy elimination, maintaining the prevailing benefit-cost ratio for fertilizer would require only modest increases in producer prices. For example, arabica coffee prices would need to increase 12 percent, robusta 3 percent, and maize 13 percent.

5. *Provision of credit to fertilizer importers and distributors.* The funds contributed by USAID to support the new policy regime would be used to create a credit fund which would supplement the resources that commercial banks would have available to lend to fertilizer importers and distributors. Initially all of the credit funds would be devoted to providing short-term working capital. A medium-term facility to finance capital investments, such as blending or bagging installations, would be added later in the program.

6. *Active monitoring.* The progress of the reforms was to be monitored actively. On the GRC side, the ad hoc inter-ministerial working group was to be formalized as a Technical Supervisory Committee (TSC). The TSC would serve as the GRC's point of contact with USAID and the private sector, including the banks, as well as coordinate the activities of the operational ministries on matters affected by the fertilizer reforms. On USAID's side, over $3 million was allocated to finance the series of annual reviews as well as supporting studies.

The design of USAID's support to the policy reform regime proceeded simultaneously with the negotiation of the reforms. The final design of the Fertilizer Sub-Sector Reform Program (FSSRP) was completed on August 28 (USAID/Cameroon 1987b). It provided $20 million in support for the new policy regime over five years: a $17 million *program* component and a $3 million *project* component. AEPRP funds would initially finance $7.5 million of the program and $1.5 million of the project, with the remainder to come from the Mission's normal development assistance budget (see Table 4.1). The program component provided a series of five cash grants, each to be released to the GRC upon the fulfillment of certain conditions precedent (CPs). The CPs for the first disbursement were essentially the implementation of the six elements of the new policy regime.[17] The three subsequent disbursements would be made annually as long as the GRC maintained the reformed policy regime. The final disbursement would be made when the subsidies were eliminated.[18] The project component contained funds that USAID/Cameroon would manage to provide the monitoring and evaluation of the reforms.

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[17] The first set of CPs also included some minor implementation measures such as setting up the necessary bank accounts to receive the cash grants and obtaining a legal opinion that the GRC was bound by Cameroonian law to obey the provisions of the reforms. See USAID/Cameroon (1987c, 1987d) for the complete list.

[18] That Table 4.1 indicates that neither the fourth or fifth disbursements were made should not be taken as a sign that the CPs were not met. However, in light of the U.S. Government's displeasure with progress toward democratization, in particular the way the October 1992 Cameroonian presidential elections were conducted, USAID determined that further dollar disbursements would send the wrong signal to the Biya Administration. Therefore neither the fourth nor the fifth cash grants will be disbursed.

Table 4.1. FSSRP Program and Project Disbursements

Disbursement No.	Amount ($ millions)	Date of Disbursement	
		Planned	Actual
Program:			
1	6.0	November 1987	April 1988
2	1.5	March 1988	August 1988
3	2.5	November 1988	November 1989
4	3.0	November 1989	never disbursed
5	4.0	November 1990	never disbursed
Program Subtotal	17.0		
Project:			
1	1.5	September 1987	October 1987
2	1.5	November 1990	never disbursed
Project Subtotal	3.0		
FSSRP Total	20.0		

Source: USAID/Cameroon (1978c: Annex I); USAID/Cameroon records

AID/Washington approved the FSSRP's final design and the CPs attached to the cash grants on September 17. Twelve days later, on September 29, 1987, the GRC, represented by the Minister of Plan, and the U.S. Government, represented by the Ambassador, officially signed the FSSRP's program (USAID 1987c) and project agreements (USAID 1987d). The ceremony took on added symbolism because the fertilizer industry reform agreement was the first in a long succession of policy reform initiatives the GRC would adopt at the behest of bilateral and multilateral donors to combat the economic 'crise'.

The two sides had made great strides in two months to give shape to the new policy reform regime. Even so, there was much more to be negotiated and clarified before the private sector could begin financing, importing, and distributing fertilizer. Having identified the contours of the new policy regime, USAID and the TSC had now to turn their attention to the articulation of what can be termed a privatization structure--a set of rules to govern the subsidy, the credit fund, and pricing that would promote private sector involvement in fertilizer importation and distribution and do so in a way that would establish a competitive industry structure.

V. THE FSSRP PRIVATIZATION STRUCTURE

The time-pressure under which the policy reform regime had been negotiated and the FSSRP had been designed continued after the signing of the grant agreements. Within days of the signing, USAID prepared a list of steps that needed to be taken in order to make the program operational and a timetable that would have them completed by January 1, 1988. Among the key steps identified were opening the necessary bank accounts, constituting the subsidy fund, constructing the pricing scheme, and specifying the terms and conditions of access to the credit fund. In pressing forward on these various fronts USAID initially adopted a very workman-like stance. Where the objective had been to negotiate the policy reforms and sign the agreements, the goal was now to make the FSSRP operational. In these initial planning stages there was no conceptual or theoretical discussion of institutional arrangements or "intensive" implementation, much less privatization structures. The focus was on getting the job done and meeting another deadline.

This time, however, the deadline was not met. Indeed, it took an additional 4½ months, until mid-May 1988, before all the pieces were in place and the private sector could begin defining the new industry structure. By that time, USAID had developed a much more precise conception of the privatization process and the contribution of both the FSSRP and USAID's technical advice to that process. The undirected "gung-ho" spirit and simple faith in the spontaneous development of a competitive industry that had prevailed early on was replaced by a sober, three-part recognition: (1) policy reform was a continuous and contentious process; (2) in a deteriorating economic environment, the incentives provided through the FSSRP to encourage private sector participation in the fertilizer industry had to be crafted assiduously and could easily spell the difference between success and failure; and (3) continued USAID vigilance would be required to keep the privatization process moving forward. In other words, in the process of getting the FSSRP off the ground, the work of the Mission on policy reform in general, and the FSSRP in particular, was acquiring a distinctive orientation.

For the most part, this evolving self-consciousness was a product of the experience of translating the general orientation of the policy regime into the specifics of the privatization structure. However, an important contributing factor was a shift in program management responsibility within USAID. Through the negotiation of the policy regime, the Mission's agriculture office had retained management responsibility. However, with FSSRP tasks shifting more and more to financial and commercial issues, USAID's staff economist played an increasing role. Indeed, within months, mission management responsibility for the FSSRP was transferred completely to the economist because the prominence of financial and commercial issues seemed permanent. This shift in management responsibility brought with it a change in perspective, most importantly an "economic" conception of decision-making.[19]

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[19] The change in perspective is best exemplified by the change in FSSRP's stated objective. In the FSSRP design document, the program's stated objective reflects the agricultural emphasis: "to ensure the timely availability of fertilizers for export and food crop producers at the lowest possible cost to the GRC and small

Individuals were seen to make decisions based upon the incentives they faced. Hence, the way to get the private sector to participate in the fertilizer industry was to provide them with sufficient incentive to do so.

This focus on incentives pervaded the process of establishing the privatization structure described in this section. Whether suggesting subsidy rates, calculating target ceiling prices, or specifying loan maturities, USAID saw each task as an opportunity to create incentives for private entities to participate in the fertilizer industry and to do so in a way that would promote efficiency through competition. While the following presentation deals serially with the various tasks of creating the privatization structure, in reality work on all fronts proceeded simultaneously.

A. Formalizing the Basic Financial Relationships

USAID's initial operational priority was for the GRC open the set of bank accounts needed to receive the cash grant and the credit and subsidy funds. To do so, this first meant selecting the Fiduciary Bank. Although the notion of a Fiduciary Bank did not appear either in the body of the FSSRP design document (USAID 1987b) or in the program or project agreements (USAID 1987c, 1987d), the idea had been discussed during the final negotiations and accepted by the GRC. The idea was to select a single commercial bank that would serve as the repository and manager of all FSSRP-related funds, including the revolving credit fund and the subsidy fund. The Fiduciary Bank would manage the funds and make disbursements from them based on a set of rules or guidelines established by the GRC. Nevertheless, the bank would still operate with discretion in a number of areas, such as establishing an applicant's eligibility for access to the subsidy fund. The proximate reason for turning FSSRP funds management over to a commercial bank was to remove the GRC from a direct financial role. However, it had other beneficial effects as well. First, it instilled confidence that subsidy and credit payments would be made in a timely manner. Second, it reenforced the private and commercial image of the entire program.

Given the central role the Fiduciary Bank was to play in the FSSRP financial system, it was important that the bank selected have the reputation and liquidity necessary to inspire confidence from the private sector. This was all the more important in a period when many banks were having severe liquidity problems caused by the rapid withdrawal of government deposits and a large portfolio of non-performing loans. Of the banks meeting the minimum conditions, three expressed initial interest in serving as Fiduciary Bank (USAID 1987b: Annex E). The three banks were contacted again by the TSC in October 1987 and asked to submit proposals for review. At that point one of the three banks withdrew because of the

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farmers" (USAID 1987b: 43). In an amendment to the Project Grant Agreement, the objective is recast to reflect the economic perspective: "to establish a private market for fertilizer importation, distribution, and financing that is competitive, sustainable, and subsidy-free."

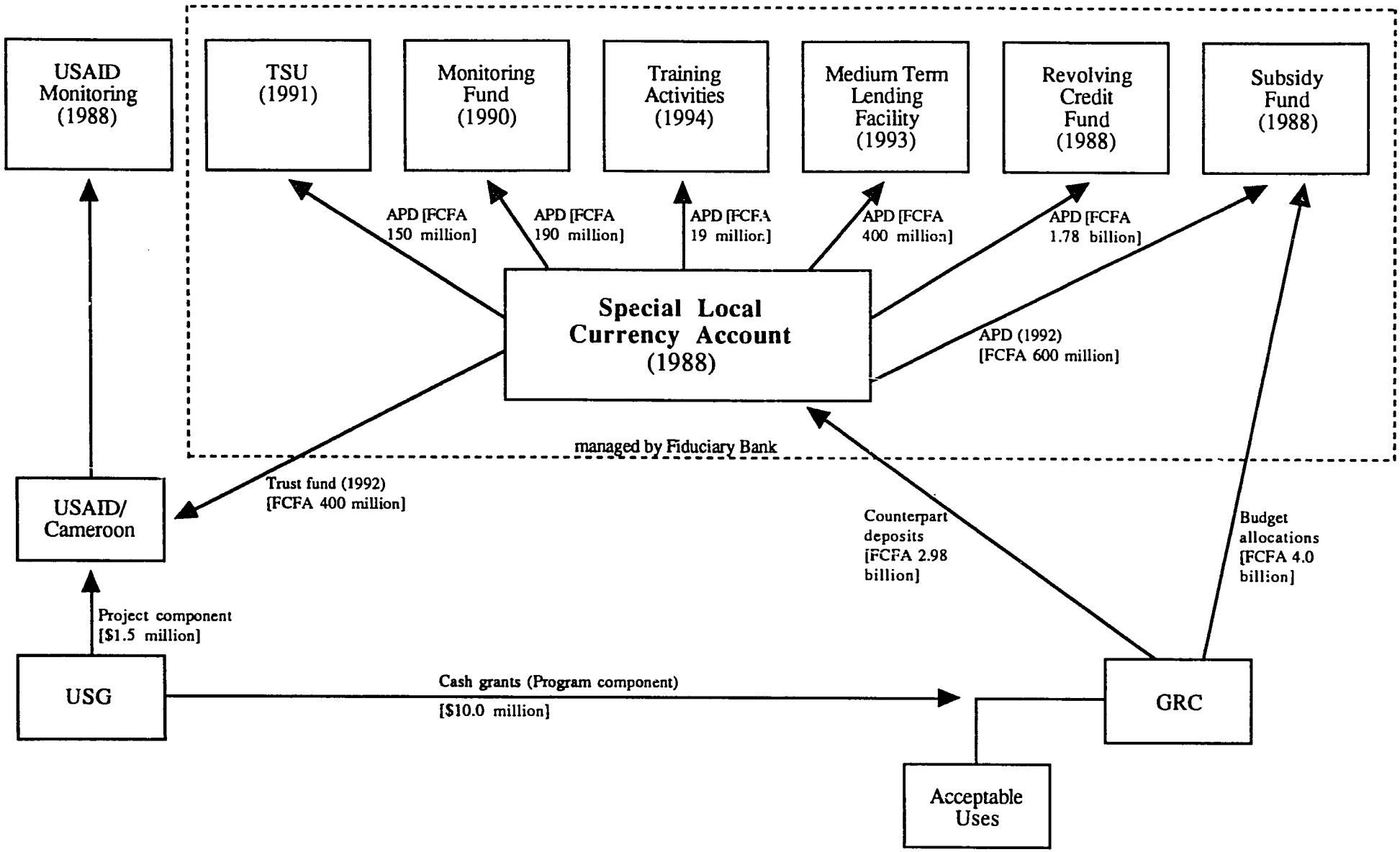
stipulation that the Fiduciary Bank would not be permitted to make loans to clients from the revolving credit fund so as to avoid any potential conflicts of interest.

Proposals from the two contenders were received and reviewed by the TSC and USAID in early November 1987, followed by oral presentations later in the month. The Bank of Commerce and Credit Cameroon (BCCC) was ultimately selected for a number of reasons, including a lower proposed management fee and a willingness to serve in a fiduciary capacity without also assuming major responsibility for overseeing program implementation. Although the selection of the Fiduciary Bank proceeded quickly, it would take much longer for BCCC and the TSC to come to terms on the management contract that established the guidelines under which BCCC would operate. Part of the reason for the delay was the unprecedented nature of the relationship being established between the GRC and a commercial bank and some resulting confusion over respective roles. The other factor holding-up the management contract was the lack of agreement over the details of the credit fund (see Section V.C). The management contract was finally signed on March 20, 1988.

With BCCC selected as the Fiduciary Bank, the various required accounts could be opened. Figure 5.1 presents the relationships among the accounts graphically. The GRC was required to open a Separate Dollar Account in an American bank into which the cash grants would be deposited once USAID/Cameroon had certified that the conditions precedent had been met. Once deposited into the account, the funds became the property of the GRC, though subject to two conditions. The first condition was that the funds could only be used for certain agreed-upon uses, such as purchasing imports or repaying debt to multilateral donors. The other condition was that the funds could not be used for those purposes until the GRC had deposited into an account at the Fiduciary Bank a sum of CFA francs equal to the dollar amount of the cash grant at the prevailing exchange rate. The GRC was to deposit these counterpart funds into the Special Local Currency Account within 45 days of the disbursement of the cash grant. Once the counterpart funds were deposited, the GRC could proceed with using the dollars as had been agreed.[20]

[20] For a country like Cameroon that has a freely convertible currency, the advantage of gaining access to hard currency is more modest than for a country with an non-convertible currency. Even so, there is still something to be gained from having access to funds held outside of the franc zone financial apparatus. However, all recipient countries do benefit from the inflow of funds. Because budgetary resources are fungible, a recipient country is now able to afford both debt repayment and the programmed uses.

Figure 5.1. FSSRP Financial Relationships



Note: Disbursements may exceed deposits due to interest earnings.

The Special Local Currency Account was an interest-bearing account jointly controlled by USAID/Cameroon and the TSC. In principle, the counterpart funds deposited into this account could be used for almost any activity mutually agreeable to the two parties, whether or not it had any relationship to the program's goals.[21] In the case of the FSSRP, only one use of the funds was envisioned at the outset--the revolving credit fund. However, as can be seen from Figure 5.1, over time other uses for counterpart funds were identified. These other uses will be discussed in Section VI.

The last major financial element was the subsidy fund. An account to receive these funds was also opened at the Fiduciary Bank. According to the Program Grant Agreement (USAID 1987c), the full amount of the GRC's budgetary allocation for fertilizer subsidies was to be deposited into this account by January 1. Although setting up the subsidy fund account was straightforward, constituting the subsidy fund itself proved to be another matter.

B. Constituting the Subsidy Fund

During the final negotiations, USAID and the TSC had developed a set of projections for the financial resources available during the first year of FSSRP operations and the flow of fertilizer it would support. According to those calculations, the first FSSRP cash disbursement would generate FCFA 1.8 billion in counterpart funds for the revolving credit fund. In addition, the GRC's 1987/88 budget indicated that FCFA 3.6 billion would be available for deposit into the subsidy fund. Together, these funds were estimated as sufficient to support the importation and distribution of 60,000 tons using a subsidy rate of 45 percent of total delivered cost (USAID 1987b: 54-56). The target of 60,000 tons covered the entire country and was approximately the same quantity as had been imported under the administered industry in its last years of operations.

However, calculating subsidy and credit needs was a non-trivial exercise due, in part, to the number of variables that had to be factored in.[22] By October 1987 many of the assumptions underlying the August estimates seemed unrealistic. In particular, world fertilizer prices had increased and the GRC indicated that, due to the worsening economic situation, at

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[21] The programming flexibility of the counterpart funds proved very enticing to USAID and GRC staff alike. On numerous occasions, FSSRP program staff successfully fended-off overtures from other projects with funding shortfalls. The problem became particularly acute as budgetary austerity made it impossible for the GRC to live up to its financial commitments to other USAID projects. The only time this policy was not upheld was over the decision to channel counterpart funds into USAID's local operating account through the mechanism of a "trust fund."

[22] 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. Tired of making all of the calculations by hand, USAID eventually developed a computerized simulation called MASSACRE (Model to Assess the Sufficiency of Subsidy and CREdit).

most FCFA 2 billion would be available for deposit into the subsidy fund. Re-analysis of credit and subsidy needs incorporating these new factors showed a funding shortfall of approximately FCFA 700 million in the subsidy fund and FCFA 500 million in the credit fund.[23]

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 provided. The first option was unpalatable for several reasons. First, USAID had made assurances to the GRC during negotiations that the privatized industry would be able to supply at least as much fertilizer as had the administered industry. Second, MINAGRI was increasingly insistent that true subsidized fertilizer needs were closer to 90,000 tons than 60,000 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 United Nations Development Program, the Food and Agriculture Organization, and the CEC, about possible cash contributions to make up the funding gap.[24] Only the CEC was receptive.

However, even the CEC's initial receptivity to a co-financing arrangement evaporated as time went on. By January 1988, enough complications had arise to kill-off the co-financing idea. Even so, the CEC expressed its commitment to find another way of supporting fertilizer sector reform. In April 1988, the CEC proposed 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. As this proposal was reviewed by the GRC and USAID, all parties, including the CEC, stressed that the two regionally distinct programs would support the same reformed policy regime and would ultimately be merged to create a single privatization structure and a single, national industry structure. With this understanding, USAID narrowed the focus of the FSSRP to the southern seven provinces and the CEC delegation proceeded with the design of its program, which came to be called the Programme Spécial d'Importation d'Engrais (the Special Fertilizer Import Program, or PSIE). A synopsis of the CEC program is presented in Box 5.1.[25]

Partitioning the country into two zones eliminated the funding gap for the revolving credit fund, but still left one for the subsidy fund. The uneven effect was caused by the low proportion of subsidized fertilizer heading to northern Cameroon. The cotton parastatal

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[23] 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).

[24] 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.

[25] The companion PROMT case study of the PSIE, *Pitfalls of Privatization*, contains a more detailed discussion of the factors influencing its design.

Box 5.1. The PSIE

Under the PSIE design, fertilizer would be procured through international tenders and paid for by the CEC. The fertilizer would then be distributed through existing fertilizer distribution channels in northern Cameroon 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 which, after sales of two year's worth of fertilizer, should be large enough to cover the annual needs of farmers in the North in the ensuing years.

There were a number of features of the PSIE design that deeply troubled USAID/Cameroon, particularly its reliance on state agencies and parastatals as the principal distribution network. However, by the time the design was released, in September 1988, the first year of FSSRP operations were too far advanced for USAID to do anything other than go along with the PSIE. It did so with the continued assurance of 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 FCFA 6.5 billion in additional credit funds for the single, national program (CEC 1988b: cover letter to USAID).

However, when USAID and the TSC attempted to pursue the merger two years later, their overture was soundly rebuffed (for details on this event, see the PROMT report, *Pitfalls of Privatization*. To this day, the two fertilizer industry structures co-exist: a private, competitive industry structure in the southern region and an administered industry structure serving northern Cameroon.

SODECOTON was by far the largest fertilizer consumer in the region, but it was not covered by the subsidy scheme. Thus USAID and the GRC needed to take additional measures to accommodate the 60,000 ton target. Ultimately it was agreed to let the subsidy rate drop to a level such that the target tonnage could be accommodated with the available subsidy contribution of FCFA 2.0 billion. USAID's calculations showed this to be a subsidy rate of 33 percent, which then became the revised 1988 target (see Section V.C for further detail on calculating actual subsidy rates).

With the larger subsidy questions resolved, attention could be focused on more mundane issues. The first issue concerned the types of fertilizer eligible for the subsidy. Not having to consider the fertilizer types used in northern Cameroon simplified matters somewhat. USAID and the TSC also agreed that fertilizer intended for use on food crops should be included as well as fertilizer intended for use on coffee. These and other factors, led to the designation of five fertilizer types as eligible for the subsidy: two "coffee" fertilizers (NPK 20-10-10 and NPK 12-6-20), a "food crop" fertilizer (NPK 10-30-10) and two general purpose nitrogenous fertilizers, ammonium sulfate and urea.[26] The only controversial choice was the ammonium sulfate, which, though widely used, was criticized by MINAGRI officials for having a lower nutrient content than urea as well as contributing to the acidification of the soil in some areas of the country. However, the buying patterns of farmers proved more persuasive.

[26] Although NPK 10-30-10 was eligible for the subsidy, none has ever been imported under the program. For this reason it is dropped from most future discussion and analysis.

The last remaining subsidy issue concerned access--who would be eligible to receive a subsidy payment under the program. The working assumption was that importers would procure fertilizer at world market prices and import it into the country. At that point the importers would request the appropriate payment from the subsidy fund. The importers would then be able to sell to distributors and others at a subsidized price. In considering this arrangement, USAID, the TSC and the Fiduciary Bank each had somewhat different concerns. USAID pressed for the widest possible access. Seeing the subsidy as a financial incentive for private sector participation in the new fertilizer industry, the Mission feared that narrow access rules would limit participants to the existing set of "mail box agents." The TSC's major concern was over potential charlatans; people who would devise schemes to get paid out of the subsidy fund without actually importing fertilizer. From this perspective, past importers were seen to be more reliable than any new entrants. The Fiduciary Bank's concern was that whatever rules were selected be clear so that it could determine eligibility unambiguously.

The rules ultimately devised for subsidy access represented a synthesis of the contending views. In response to USAID's position, eligibility was extended beyond the present set of fertilizer importers to include (1) joint-ventures where one of the partners was an existing fertilizer importer or distributor and (2) entities that "add a significant amount of value" to the fertilizer industry in terms of warehouses, trucks, or bulk-blending equipment (GRC/TSC 1988). To meet the TSC's fears, the subsidy would not be disbursed without presentation of an official customs clearance document attesting that the fertilizer had been delivered and passed through customs. The Fiduciary Bank's worries were alleviated by rules it considered to be clear and enforceable.

C. Designing the Pricing System

From USAID's perspective, the presence of the subsidy was expected to provide some incentives for private sector participation in the reformed fertilizer industry. However, a more important incentive would be price. Having agreed to some measure of fertilizer price control in the policy regime, USAID wanted to be sure that the mechanism did not produce retail prices that limited profits to levels that importers and distributors would not find attractive enough to participate. The specific price control mechanism adopted--ceiling prices--would not pose problems for importers and distributors as long as the ceiling price was set high enough to accommodate all reasonable costs and margins.

To come up with the target ceiling prices was a three-step process. The first step was to calculate estimates of the total delivered cost. From the network of private sector contacts developed during the negotiation phase, Mission staff were able to develop accurate estimates of fertilizer prices and the costs associated with port handling, transport, and storage. With these data, USAID was able to construct a table listing the total delivered cost for each of the five fertilizer types covered under the program in each of the seven provinces in the FSSRP zone. The second step in the process was to determine the actual unit subsidies for the five

types of fertilizer. This was done by applying the agreed-upon first year target subsidy rate of 33 percent to an average of the provincial total costs. The final step was to deduct the respective unit subsidies from the total delivered cost. The result was the ceiling price. For example, if the CIF cost of a ton of NPK 20-10-10 was estimated to be FCFA 70,000 and the cost of delivering that fertilizer to the West Province was 40,000, including a 15 percent profit margin, then the total delivered cost of that ton of fertilizer would be FCFA 110,000. If the unit subsidy was fixed at FCFA 36,000 (roughly 33 percent of total delivered cost), then the ceiling price for NPK 201-10-10 in the West Province would be FCFA 74,000.

The table of ceiling prices calculated by USAID was quickly adopted by the TSC in February 1988. However, if they were to have any force, the prices would have to be approved by the MINDIC's Directorate of Prices, Weights and Measures (DPWM) and issued as a inter-ministerial decree. Here USAID and the TSC ran into the bureaucratic regime.[27] Up to this point, all discussion and negotiation had been between USAID and the small group of GRC officials sitting on the TSC. This group had already become aware of the collapse of the administered fertilizer industry structure and were convinced of the need to take some un-bureaucratic steps in order to create a privatized industry. However, that message had not reached the DPWM, which saw the USAID/TSC pricing proposal as a threat to its bureaucratic prerogatives. The proximate problem was that USAID's approach to calculating the total delivered costs violated the standard methodology used by the DPWM. Under the DPWM formula (*homologation des prix*), the total delivered cost is calculated as 145 percent of the CIF costs plus a standardized transport rate (*valeur mercurial*) for the distance from the port to the retail point. The more serious problem was that the prices produced using the DPWM methodology were lower than those calculated by USAID. The lower DPWM ceilings raised the possibility that the controlled prices would stifle private sector participation in the industry.

The situation remained in a stalemate for three months. A combination of pressure and creative economics finally broke the logjam. With no line authority over the DPWM, neither the chair of TSC nor its MINDIC representative was unable to exert much pressure. Instead, USAID pressed both the Minister of Commerce and Industrial Development and the Presidency to compel greater DPWM cooperation. At the same time, USAID adopted a different tack in its negotiations with DPWM. Instead of arguing the superiority of its calculations, USAID proposed slight modifications to the DPWM methodology (inclusions of margins of error) that would produce ceiling prices at or above those originally proposed by USAID and the TSC. This combination of factors finally prevailed, and the DPWM approved a set of ceiling prices. These prices were issued as an inter-ministerial decree on May 3, 1988. The price grid for 1988 showing the ceiling price (listed as the target subsidized farmgate price) and the unit subsidies is reproduced as Table 5.1.

[27] This episode is drawn from Truong (1989).

Table 5.1. Target Celing Prices and Unit Subsidies for the FSSRP Zone, 1988

ANNEX

Summary Table of Target Prices and Subsidies by Province[1/]

	NPK 20-10-10	NPK 12-06-20	NPK 10-30-10	Ammonium Sulfate	Urea
Center Province[2/]					
- Target subsidized farm-gate price	91,300	88,100	92,900	63,500	79,000
- Unit subsidy	28,200	27,000	28,700	17,300	23,800
East Province					
- Target subsidized farm-gate price	106,400	103,200	108,000	78,600	94,100
- Unit subsidy	28,200	27,000	28,700	17,300	23,800
Littoral Province					
- Target subsidized farm-gate price	79,600	76,600	81,100	53,600	68,100
- Unit subsidy	28,200	27,000	28,700	17,300	23,800
West Province					
- Target subsidized farm-gate price	86,100	83,100	87,600	60,100	74,600
- Unit subsidy	28,200	27,000	28,700	17,300	23,800
North West Province					
- Target subsidized farm-gate price	90,200	87,100	91,700	64,200	78,700
- Unit subsidy	28,200	27,000	28,700	17,300	23,800
South Province					
- Target subsidized farm-gate price	96,100	92,800	97,600	68,200	83,800
- Unit subsidy	28,200	27,000	28,700	17,300	23,800
South West Province					
- Target subsidized farm-gate price	85,700	82,700	87,200	59,700	74,200
- Unit subsidy	28,200	27,000	28,700	17,300	23,800

1/ The figures are expressed in francs CFA per ton. The sum of the target subsidized farm-gate price and the unit subsidy is equal to the total delivered cost inclusive of all margins.

2/ The Adamaoua, North, and Extreme North Provinces are not covered by this decree because they are covered by the Special Fertilizer Import Program.

D. Developing the Credit Program

The final element in the design of the privatization structure was the articulation of the credit program. Given that endowing the credit fund was USAID's major financial contribution to the privatization process, it is somewhat curious that the FSSRP design documents provide almost no detail on the shape of the credit program. All of the detail would come in the months following the signing of the grant agreements.

Above all, USAID wanted the credit program to be useful and attractive, as much for commercial banks as for fertilizer importers and distributors. USAID believed that active participation from the commercial banks was essential for the success of privatization in the short-run and the long-run and that a viable credit program was the key to commercial bank participation. In the short-run, USAID wanted the commercial banks to play a role in screening participants in the industry. Neither USAID nor the TSC wanted the subsidy fund to be dissipated or the revolving credit fund de-capitalized through disbursements to unreliable entities. At the same time, USAID did not want administrative determinations of who would receive loans or be eligible for subsidy. Creating incentives for commercial banks to participate in the program and to conduct diligent credit analysis of credit and subsidy applications seemed to offer an alternative. Looking to the long run, USAID saw commercial finance as an inherent part of the fertilizer industry. Therefore, during the transitional phase, USAID wanted the privatization structure to create incentives for importers and distributors to work out their financing arrangements with commercial banks and for the commercial banks to develop an expertise in loaning to participants in the fertilizer industry.

To fulfill these objectives, USAID began with the idea that the financial flows from the FSSRP (both subsidy and loan disbursements) should be well-matched to the physical flow of fertilizer. With this general orientation, USAID began a round of discussions with its banking and commercial contacts. These discussions led to refinements in the proposal and further private sector review. After several iterations of proposal and comment, the following loan program emerged:

1. *Two credit lines.* Initially two short-term credit lines would be available: a 90-day importation loan and a 180-day distribution loan. As the names suggest, the importation loan was intended to provide short-term working capital to importers and the distribution loan was intended to provide working capital for distributors, though it was possible for an importer who also distributed fertilizer to receive one form of credit after the other. A medium-term credit arrangement was postponed for future consideration.

2. *Preferential interest rates.* To make the FSSRP loans attractive to importers or distributors, both credit lines carried the lowest interest rates allowable in Cameroon, approximately 8 percent in 1988. By contrast, the going short-term commercial rate ranged between 15 and 18 percent. In addition, the commercial banks were permitted

an interest spread of 3 percent to make handling FSSRP loans financially attractive to them.

3. *Partial financing.* For a variety of reasons, neither the TSC nor USAID wanted the FSSRP to provide 100 percent of credit financing on either credit line. If the amount of an importation was calculated to be FCFA 100 million, the idea was that some of that amount would come from the commercial bank's and the applicant's own resources and some from a FSSRP importation loan. Such an arrangement expanded the amount of imported fertilizer that the revolving fund could support. It was also expected to increase the diligence with which commercial banks reviewed credit and subsidy applications and reduce the applicant's moral hazard. The selected ratios were 30 percent FSSRP financing and 70 percent other financing for importation loans and 70 percent FSSRP financing and 30 percent other financing for distribution loans.

4. *Commercial banks assumed all the risk.* To provide the incentive to the commercial banks to screen applications carefully, the program shifted all risk of possible default to them. A commercial bank obtaining a loan for a client had to guarantee its repayment to the Fiduciary Bank. In other words, the commercial bank was obligated to repay the loan to the revolving fund whether or not it was repaid by its client.

5. *Subsidy tied to credit.* To extend commercial-bank screening to subsidy applicants as well as to credit applicants and to require commercial banks and the fertilizer industry to work together, a stipulation was made that only those importers and distributors participating in the credit program would be eligible for access to the subsidy fund.

E. Pulling it All Together

By March 1988, the pieces of the privatization structure were coming together. The Fiduciary Bank had been selected, and the management contract between the Fiduciary Bank and the TSC had been negotiated and signed. The subsidy fund account had been opened, and FCFA 2 billion had been deposited into it by the GRC. The pricing schedule had been calculated and the credit program was going through its last iterations of review. At this point, USAID began receiving inquiries from potential participants--both newcomers to fertilizer marketing in Cameroon and veterans--interested in getting the details on subsidy access, loan terms, and other requirements. From these initial contacts, USAID learned two things. First, there was a need for an informational document, which could be handed to potential participants, that listed all of the terms and conditions of the subsidy and credit components. A *General Information Pamphlet* (GRC/TSC 1988) was produced and released in the name of the TSC to give the document added legitimacy.

The second piece of information USAID picked up from contacts with potential participants was the importance of an earmarking arrangement for FSSRP financial resources. Although the risk to FSSRP applicants had been reduced by transferring disbursement

responsibilities to the Fiduciary Bank, prospective importers were still concerned that fertilizer would be imported only to find that the subsidy fund had been used up. This would make importers reluctant to arrange big shipments. To remove the risk, USAID and the TSC agreed to allow for temporary earmarking of both subsidy and credit funds. Under this arrangement, an importer (or distributor) could have a portion of the subsidy and credit funds set aside and held for his use for 90 days. If the importer successfully concluded the transaction within the earmark period, his loan and subsidy payments were guaranteed. If he failed, the earmark would lapse, and he faced the risk that sufficient funds would not be available.

In April 1988 the *General Information Pamphlet*, including the earmarking provision, was released. The same month, the first cash grant was disbursed. In May, the pricing decree was finally issued. All that remained was for the GRC to make the counterpart deposit into the Special Local Currency Account and transfer it into the revolving credit fund. Although this step was to take the GRC until mid-June to complete, the privatization structure was complete. The general contours of the reformed policy regime had been transformed into the specific rules and incentives that enabled an industry structure to take shape. To give widest exposure to the rules, USAID and the TSC conducted joint informational tours throughout the FSSRP zone in June. Meetings both large and small were held with a full range of interested parties in the private sector and the bureaucracy. USAID also fielded a large number of informational requests at its office in Yaounde. Also in June the first contracts were signed between importers and distributors. Earmarkings of subsidy and credit funds were issued in early July. In August, the first shipment of fertilizer under the FSSRP arrived in Douala. The privatized industry structure was taking shape.

VI. FERTILIZER MARKETING IN A "PRIVATIZING" INDUSTRY STRUCTURE

Although fertilizer marketing is naturally a perpetual process of ordering, distributing and selling, under the FSSRP privatization structure it is best thought of as a series of discrete, annual campaigns. Each campaign is launched once the subsidy account has been endowed, the target ceiling prices and unit subsidies have been calculated, and the rules governing the credit program have been established and published in the *General Information Pamphlet*. Economic operations can then go forward, structured by the rules in force. Firms, cooperatives, and other economic agents form, contract, import, distribute, and sell. After several months of activity, the earmarking process for the subsidy and credit is suspended, and the campaign is closed. At the close of the campaign, the TSC and USAID jointly conduct a review of the year's operations with support from one or more outside experts.

The annual review process is extensive, involving interviews with a wide-range of economic operators, including bankers, importers, distributors, and retailers--both those that actually participated in marketing and those that did not. Based on these interviews, the consultants draft a report describing the industry's structure and operations for the year and offer suggestions on changes that could improve industry performance in the year to come.[28] The report and recommendations are presented at a two-day seminar attended by TSC members, USAID staff, and as many private sector participants as choose to attend. The annual review report and the comments generated during the review seminar then form the basis for modifications to the rules that will be in force for the subsequent campaign. The modifications are incorporated in the *General Information Pamphlet* and the process starts over again.

Superimposing the framework presented in the Introduction (recall Figure 1.2) on the cyclical pattern of FSSRP operations reveals that the contents of the *General Information Pamphlet*--the rules in force for a given campaign concerning the subsidy fund, pricing, and the credit program--constitute the privatization structure. These rules then structure the operations of the fertilizer industry for that campaign, which, in turn, produce certain operational outcomes. Through the annual review, recommendations for changes to the privatization structure are elicited. Incorporated changes produce a modified privatization structure for the subsequent campaign, which, in turn, is expected to improve the industry structure and its operations.

Five cycles through privatization structure, industry structure and operations have been completed (1988/89, 1989/90, 1990/91, 1991/92 and 1992/93), a sixth (1993/94) is in progress. This section describes them. While changes in the privatization structure over the

[28] The annual review reports (Abt Associates 1989c, 1990, 1991b, 1992a, and Abbott and Dye 1993) provide a wealth of detailed information on FSSRP operations. The description of the FSSRP provided in this section draws heavily on these reports as well as interviews conducted in June 1993 and the author's experience coordinating the FSSRP from October 1988 through April 1991.

course of the FSSRP have produced modifications in industry structure and operations, an equally important influence has been the prevailing economic environment. Two different economic environments--bad and worse--have interacted with the privatization structure to spawn two different industry structures--Phase 1 (covering the first two years) and Phase 2 (covering the subsequent three years). In recognition of the fundamental differences between Phases 1 and 2, this section is organized accordingly.

One final observation on the overall process before turning to Phase 1. Despite annual modification of the privatization structure, the policy regime on which it rests has remained stable. Apart from USAID's recent decision to withhold disbursement of the fourth and fifth cash grants, the policy regime negotiated in August 1987 has remained constant. This need not have been the case; reneging on the fundamental understandings or renegotiation of their terms has certainly been a possibility.[29] That it has not occurred has provided the privatization process with an important measure of stability.

A. Phase 1 (1989/90)

1. Economic Environment

Economic conditions in Cameroon continued to deteriorate during the 1988/89 period. As one indication, the country's GDP declined 20 percent between 1987 and 1989. The precipitating factor remained the depressed prices for Cameroon's principal export crops on world markets. However, Cameroon's cash crop producers were largely shielded from the decline in world prices as domestic producer prices were not lowered concomitantly until October 1989. One effect of the inflated domestic producer prices was to keep the benefit/cost ratio for fertilizer well in excess of 2.0 for most of the period (see Table 6.1). Thus, fertilizer demand remained fairly strong through most of Phase 1.

While artificially high producer prices sustained fertilizer demand, the policy had deleterious effects in other areas. First, it put a huge strain on the marketing board, which was paying out to producers and processors of coffee and cocoa more per kilogram than it received when selling these commodities on the world market. With stabilization reserves quickly exhausted, the ONCPB coped with the situation by halting payments to creditors and amassing huge arrears to banks, processors, cooperatives, and farmers. As of November 1989, ONCPB arrears were estimated to be close to FCFA 100 billion (USAID 1990). The arrears owed to the banking sector exacerbated the already strained liquidity situation of the major banks. Arrears owed to cooperatives and farmers created a liquidity problem in rural areas. Without cash payments for produce, farmers found it increasingly difficult to make cash purchases, including purchases of fertilizer.

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[29] The unraveling of fundamental understandings was a problem for both the CEC's fertilizer program and the World Bank's first Structural Adjustment Loan. For a description of these two reform efforts, see the PROMT reports *Pitfalls of Privatization* and *Implementation of the World Bank's First Structural Adjustment Loan in Cameroon.*

Table 6.1. Evolution of Coffee/Fertilizer Benefit-Cost Ratios

Year		Benefit-Cost Ratio	
		Arabica	Robusta
1987/88	Admin. System	7.90	4.35
1988/89	FSSRP begins	5.93	3.57
1989/90	Before coffee price cut	4.47	2.60
	After coffee price cut	2.93	1.07
1990/91		2.70	1.08
1991/92		2.79	0.98
1992/93		2.38	n/a
1993/94	Before devaluation	2.39	n/a
	After devaluation	3.51	n/a
1994/95	Projected	3.43	n/a

Source: Arabica data from USAID/Cameroon (1994); Robusta data from USAID/Cameroon (1991)

Despite the growing strain on the banking sector and on those involved in export crop industries, the GRC and the marketing board attempted to keep the problem hidden from view. A mighty attempt was made to make it seem as if everything was under control. During this period, the precarious financial situation of ONCPB and the export crop industries did not greatly affect the fertilizer industry structure. In October 1989, the strain became too great and the system cracked. Producer prices for coffee and cocoa were halved. The coffee-fertilizer benefit-cost ratio declined proportionately, in the case of robusta producing a ratio below 2.0 (see Table 6.1). This policy change had a significant effect on fertilizer demand and the fertilizer industry more generally and thus signaled the end of the FSSRP's Phase 1 and the start of Phase 2. Although this action occurred in the middle of FSSRP's second year of operations, most orders and imports had already been executed, making Year 2 more like Year 1 than Year 3 in terms of importation and distribution levels.

2. *Modifications of the Privatization Structure*

The privatization structure described in Section V is the one that remained in effect throughout the first year of operations. Responding to some imprecision in the Year 1 rules, a number of relatively minor changes were made to the privatization structure for Year 2. The general aim was to clarify some murky provisions, make the application procedures less onerous, and modify a few provisions attached to the subsidy and credit programs to make them more useful to importers (see GRC/TSC 1989). Among the changes were:

- more clearly specifying of the process by which a commercial bank and the Fiduciary Bank determined the eligibility of importers to receive subsidy and loan payments.

- starting the 90-day earmarking period when the Fiduciary Bank granted the earmark rather than the date of the fertilizer supplier's contract, which had the effect of lengthening the earmarking period.

- changing the debt/equity ratios to 50 percent FSSRP credit financing and 50 percent other financing for both credit lines, thus making the importation loan more attractive.

- permitting subsidy disbursement on the notification by the commercial bank that the fertilizer had arrived at the port rather than the receipt of a customs clearance document which both sped up the subsidy disbursement and broke the link between the subsidy payment and the speed or lethargy with which the stevedores and customs officials completed their tasks.

The other facet of the privatization structure that changed from Year 1 to Year 2 was the subsidy rate. The target rate of 33 percent in 1988/89 was lowered to 25 percent in 1989/90. At this rate, the FCFA 1.9 billion deposited into the subsidy fund was expected to cover 70,000 tons of imports. Another implication of the Year 2 target rate was that the subsidy elimination proceeded faster than originally negotiated during Phase 1.

3. *Industry Structure*

The industry structure that prevailed during the first two years of FSSRP operations is summarized numerically in Table 6.2 and graphically in Figure 6.1. In general, the structure is one in which importers and distributors continued to play the distinct roles they played under the administered system. The coffee cooperatives continued to serve as the predominant distribution channel to the retail level. The importers serviced specific contracts, arranging financing and importing only when one or more contracts were in hand.

Figure 6.1. Schematic of FSSRP Fertilizer Industry Structure, 1988/89

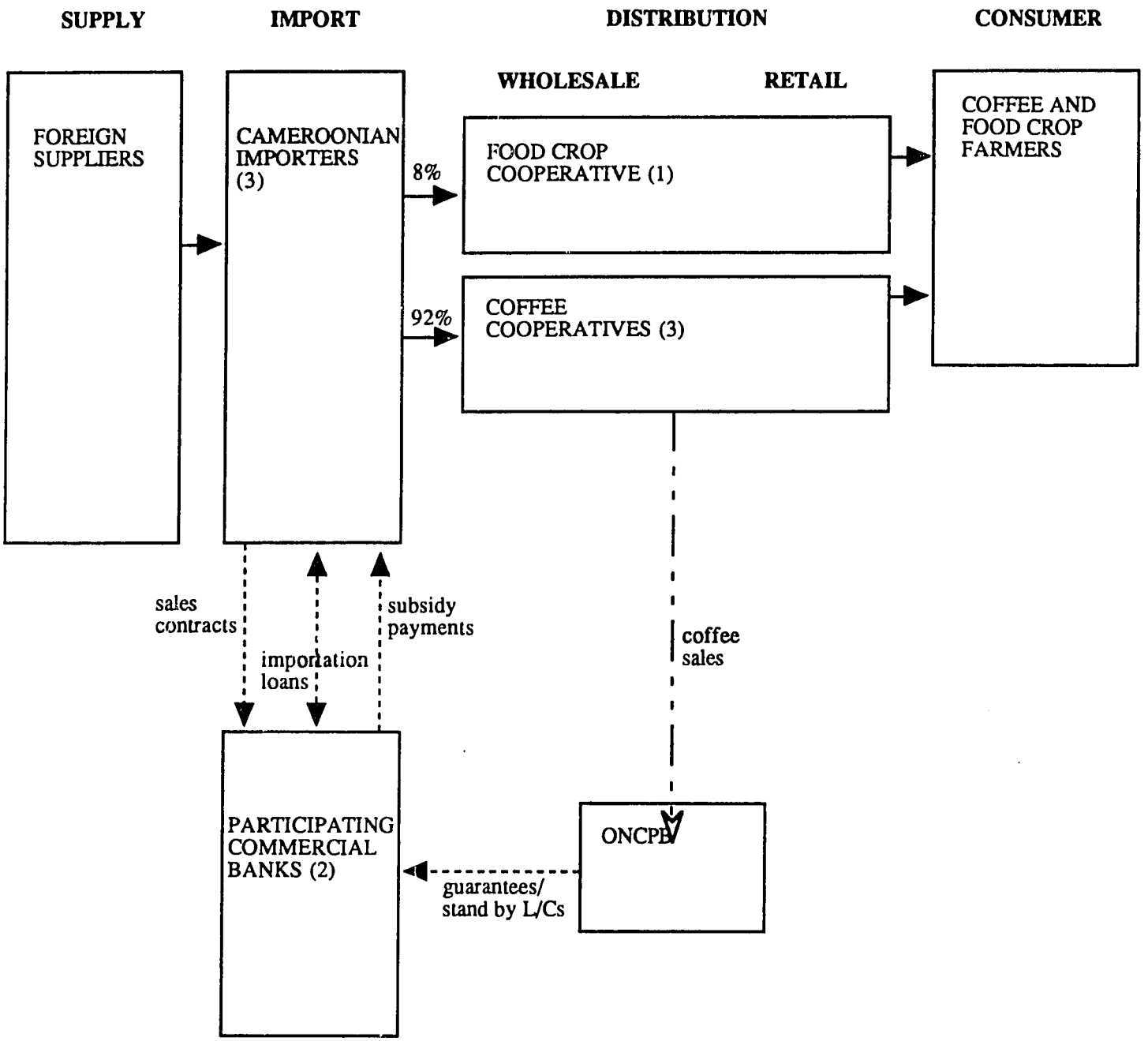

Table 6.2. Structure of the FSSRP Fertilizer Industry, Phase 1

Economic Operator	1988/89	1989/90
Fiduciary Bank	1	1
Accredited commercial banks	4	4
of which actually participated	2	2
Active importers	14	10
of which actually imported	3	2
Active distributors	6	16
of which actually distributed	4	10
of which are cooperatives	4	6
of which are 'for profits'	0	4
Provinces covered (out of 7)	3	5

Source: Abbott and Dey (1993): Exhibit 3

As can be seen in Figure 6.1, three coffee cooperatives (UCCAO, UCAL, and NWCA) distributed 92 percent of the fertilizer procured during Year 1, but these same three cooperatives plus UCAC distributed only 41 percent of the Year 2 imports. The rest of the fertilizer was distributed through a vegetable marketing cooperative (COOPROVINOUN) in Year 1 and a combination of private wholesalers and plantations in Year 2.

The general ordering procedure followed by the cooperatives, including COOPROVINOUN, was to issue a tender, indicating the types and quantities of fertilizer desired and the delivery period. Interested importers then responded with bids. Many importers submitted bids. This is indicated in Table 6.2 by the number of active importers. However, seven of the nine contracts issued by the four cooperatives over two years were awarded to two of four importers.

The unsuccessful bidders were the "mail-box agents" that had dominated the administered industry (see Section III). In all but one case, the successful bidders were new entrants into the Cameroonian fertilizer industry. Two of these--the most successful--were joint-ventures between American companies and Cameroonian entities. The American partners were Ethiopian-run firms in both cases. The Cameroonian partner was an import firm in one case (CAMATREX) and a group of three cooperatives in the other case (IBEX). The other new entrant was a successful general-purpose importer (Aminou) who qualified for FSSRP incentives because his well-established distribution network offered substantial value-added to the fertilizer industry. The fourth successful importer (ADER) was the latest reincarnation of a French-Cameroonian joint-venture company that had been importing and selling fertilizer and other agricultural inputs in Cameroon for many years.

The ability of the two (Ethiopian) American-Cameroonian joint ventures to obtain 63 percent of the imports in Year 1 and 100 percent in Year 2 deserves consideration. Deep knowledge of Cameroonian business procedures or dense market intelligence played a relatively small role as in both cases the American partner was new to Cameroon and the Cameroonian partners were not active in the management of the joint-venture. Instead, the relatively passive attitude adopted by most of the mail-box agents compared to the entrepreneurship exhibited by the joint-ventures seems a more powerful explanation.

For the most part the mail-box agents took a wait-and-see position, both hoping and expecting that the FSSRP arrangements would fall apart so the GRC would be forced to return to administering the industry. When the former agents did participate, they seemed bewildered by the complexity of the rules in force governing subsidy and credit access. The provision requiring participation in the credit program to obtain access to the subsidy proved particularly bothersome and controversial as it effectively ruled out the suppliers' credit mechanism that they had used under the administered system. Where before the European supplier had arranged financing for the transaction and provided the fertilizer essentially free of charge to the local agent for 60 to 90 days, the agents now had to arrange the financing with Cameroonian banks independently. Finally, if these agents submitted bids, they found that their price offers were not competitive. Where the GRC's tender board may have had incentives to award contracts that contained generous profit margins, the cooperatives did not.

In contrast, CAMATREX and IBEX embraced the new policy regime and the privatization structure. As newcomers, they were not wedded to the ways and means of the past. They developed an intimate familiarity with the rules in force. Experienced in international business generally and fertilizer importation more specifically, both joint-ventures had well established relations with fertilizer manufacturers and brokers, and they were familiar with structuring the financial side of the transaction. As a result, they were able to arrange the best financing terms, and these savings were reflected in the bids they submitted in response to the tenders. Further, these companies seemed willing to accept a lower profit margin in order to gain a reputation and a sizable share of the market.

Given the grim economic conditions and the even bleaker condition of the banking sector, skill in negotiating and arranging financing was crucial. Commercial banks in Cameroon are generally conservative when it comes to trade finance. This general conservatism was heightened by the poor liquidity position of most banks, their exposure in the agricultural sector due to the collapsing export-crop credit system, and their tentativeness about something as untried as the FSSRP's credit and subsidy schemes. Most banks, even those that had signed memoranda of understanding with the Fiduciary Bank to participate in the FSSRP, were simply not willing to touch fertilizer importation and distribution. During Phase 1, only two of the four banks that had signed memoranda of understanding actually participated--the Banque Internationale pour le Commerce et l'Industrie de Cameroun (BICIC) and Meridien Bank. BICIC, an affiliate of the French Banque Nationale de Paris, is one of Cameroon's largest banks. Meridien, based in Zambia, at that time had only recently entered Cameroon, having purchased Chase Bank-Cameroon.

The standard financing arrangement was for the local commercial bank to issue a letter of credit (L/C) in favor of the importer's supplier for the amount of the contract. The financing problem for the importer was to come up with the collateral required by the bank to issue the L/C. For fertilizer transactions, the banks required collateral that had zero, or a very small level of, risk and represented 100 percent of the value of the L/C. Among the acceptable forms of collateral were cash deposits, guarantees issued by reputable banks or organizations that were considered highly credit-worthy, and the subsidy payment. The fertilizer itself was generally considered too risky a commodity to be factored into the financing arrangements. Obviously, these terms meant that the commercial banks had very little exposure.

In Year 1, the subsidy payment covered 57.3 percent of L/C's value; in Year 2, 45.2 percent (Abt Associates 1990: 12). This left the importer to come up with collateral from other sources for the remaining 42.3 percent of the L/C's value in Year 1 and 54.8 percent in Year 2. It was in cobbling together this remaining collateral that the American-Cameroonian joint-ventures excelled. Each L/C was handled somewhat differently, depending on the bank in question, the supplier, and the distributor. One of the more common components of L/C financing where coffee cooperatives were involved was a guarantee issued by the marketing board. The procedure, which is depicted in Figure 6.1, calls for the coffee cooperative to promise to sell a certain quantity of coffee to the marketing board. With that physical commodity as collateral, ONCPB would instruct its bankers to issue a financial guarantee on behalf of the cooperative. If the cooperative did not pay the importer on time and the importer is unable to pay to bank, then the bank could recover the guaranteed amount from ONCPB.[30]

The importance of the subsidy payment in financing fertilizer imports was unexpected. The subsidy payment could assume this prominence because the commercial banks viewed its disbursement from an account managed by the Fiduciary Bank as a near certainty. Given the conservatism of the local banks, the contribution of the subsidy payment to the financing of imports was crucial. Had it not been there, it is highly unlikely that even the joint-ventures would have succeeded in importing fertilizer. Hence the subsidy took on double significance as an incentive to private sector participation in the fertilizer industry. Not only did it help boost demand by lowering the cost of fertilizer to farmers, but it made a crucial difference in the ability of importers to consummate transactions at a critical juncture in the privatization process.

Equally unexpected was the role the importation loan assumed. From the outset, the provision of short-term working capital had been seen as essential to attract the participation of generally cash-starved importers and distributors, enabling them to carry a stock while waiting for sales or payments. The importation loan did prove to be essential for inducing

[30] In the one instance in which the ONCPB guarantee was called (during Year 2), the marketing board was so illiquid that it almost defaulted on the guarantee. Thereafter, ONCPB guarantees were not accepted as part of the collateral packages.

private sector participation, but the participation of the banks and not the importers and distributors. Indeed, at no time did the commercial banks extend the importation loan amounts received from the Fiduciary Bank to their clients. Instead, the bank would place the importation loan payment in a blocked account. While such an arrangement did not make working capital funds available to an importer, to a bank it increased the attractiveness of participating in the fertilizer industry on three levels. First, it lowered risk. On the one hand, the commercial banks were obligated to repay the importation loan amounts to the Fiduciary Bank on time. On the other hand, loaning to importers with no track record and who were engaged in an uncertain market was a risky proposition.[31] Not extending the loan lowered risk by ensuring that the funds would be available to repay the loan when it came due. Second, it increased the return on the entire transaction. Cameroonian regulations limit the fee a bank can charge for a L/C to 1 percent of its value per year. Under these circumstances, the 3 percent spread that the bank can earn on the importation loan increases the total return on the transaction. Third, the presence of the loan funds in its treasury increases the bank's liquidity, whether for FSSRP-specific transactions or for others.

Despite the changed function of the importation loan, the commercial banks assumed the role that had been envisioned for them. Although their financial exposure was not as broad as had been expected, it was sufficient for them to play their intermediary role with diligence. As a banking expert who participated in an annual review (Abt Associates 1991: 25) noted:

> The financial structure of the FSSRP seems to have functioned well, even if not as originally intended....Since [the commercial banks] assume a certain amount of risk when issuing any letter of credit, they have at least been obliged to assure minimum standards of business conduct by importers. They also play a surveillance role since they are required to pass along shipping documents to the Fiduciary Bank which link the importation loan and subsidy funds released to a qualified FSSRP fertilizer import.

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[31] One common observation, and often a criticism, was the extent to which the successful participants in the privatized industry were small, under-capitalized firms. The GRC worried these firms' lack of investment in infrastructure indicated a lack of commitment to the Cameroonian market and that once these "travelling merchants" extracted what profit they could, they would abandon the market. The banks argued that the lack of "surface financiere" presented by these firms and a lack of trust created by a long-term commercial relationship heightened an already risky venture. Others questioned the seriousness or sustainability of the privatized fertilizer industry if larger, more entrenched, and better capitalized firms, such as the local subsidiary of the French chemical conglomerate Rhône-Poulenc, did not enter the market. Indeed, PSIE program managers used the absence of these larger firms from the privatized market as evidence that privatization was incomplete and a merger of the two fertilizer programs was premature. In fact, larger firms, like Rhône-Poulenc, did express interest in participating in the industry, but only on terms that would give them privileged access.

4. *Industry Operations: Imports, Distributions, and Sales*

The industry structure created under Phase 1 of the FSSRP yielded operations that were clearly more efficient and effective than those produced by the administered industry. The operational results are summarized in Table 6.3. At the importation level, the privatized industry immediately matched the volume achieved by the administered system, yet did so at much higher levels of efficiency. Over Phase 1, the average CIF cost of imported fertilizer declined 40.5 percent. As world fertilizer prices were essentially flat over the period, almost all of the improvements were due to the actions of the importers operating under a new industry structure. Among the cost-saving measures were (1) identifying lower-cost suppliers, including material produced in Eastern Europe and Nigeria; (2) lowering the per-unit cost of ocean freight by importing larger lots; (3) avoiding the payment of large kickbacks and other rents to obtain contracts and (4) accepting reduced profit margins. Another improvement realized by the importers was reducing the delay between orders and deliveries. Without the cumbersome government procurement procedure to contend with, the importers were able to cut delivery time in half (Table 6.3, line 7).

Details of Phase 1 imports are presented in Table 6.4. Rearranging the data by importer shows that CAMATREX was the leading importer during Phase 1, importing 73,000 tons, or 57.4 percent, of the two year total of 127,172 tons. IBEX was the next largest importer, importing 31,172 tons (24.5 percent), all of it during Year 2. ADER imported 15,000 tons (11.8 percent) and Aminou 8,000 tons (6.3 percent), both during Year 1.

Table 6.3. FSSRP Imports, Phase 1

	Year: 1988/89			Year: 1989/90			Phase 1 Totals
Type	Quantity (tons)	CIF cost (CFA/ton)	Importer	Quantity (tons)	CIF cost (CFA/ton)	Importer	Quantity (tons)
NPK 20-10-10	16.300	62,650	Camatrex	11,000	60,909	Camatrex	
	5,000	63,500	ADER	2,730	66,500	IBEX	
	5,000	64,994	Aminou	5,500	66,500	IBEX	
				4,000	66,500	IBEX	
Totals	26,300	63,257		23,230	63,853		49,530 38.9%
NPK 12-6-20	7,000	61,600	Camatrex	500	66,500	IBEX	
	5,000	61,000	ADER	1,500	66,500	IBEX	
Totals	12,000	61,350		2,000	66,500		14,000 11.0%
Urea 46-0-0	6,500	51,250	Camatrex	11,000	55,605	Camatrex	
	700	51,250	Camatrex	4,992	54,484	IBEX	
	5,000	53,000	ADER	8,950	57,800	IBEX	
	3,000	62,500	Aminou				
Totals	15,200	54,046		24,942	56,168		40,142 31.6%
A Sulf 21-0-0	3,500	39,300	Camatrex	3,000	45,567	IBEX	
	6,000	39,300	Camatrex	11,000	37,955	Camatrex	
Totals	9,500	39,300		14,000	39,586		23,500 18.5%
TOTAL	63,000	56,411		64,172	57,944		127,172

Source: Abbott and Dey (1993): Exhibit D-1

Table 6.4. FSSRP Summary Statistics, Phase 1

	State Administered System	Fertilizer Sub-Sector Reform Program		Total Change
	1987/88	1988/89	1989/90	
1 Fertilizer imports (tons)				
Target	-	60,000	75,000	
Actual	64,000	63,000	64,171	
2 Fertilizer sales to distributors (tons)	64,000	63,000	25,000	
3 Total Delivered cost (FCFA/ton)	133,600	86,235	82,858	-38.0%
of which import cost	97,600	56,512	58,031	-40.5%
of which distribution cost	36,000	29,723	24,827	-31.0%
4 Average unit subsidy (FCFA/ton)	88,600	31,638	25,030	-71.7%
5 Subsidy rate				
Target	-	33.0%	25.0%	
Actual (row 4/row 3)	66.3%	36.7%	30.2%	-54.4%
6 Average retail price (FCFA/ton)	45,000	54,597	57,828	28.5%
7 Lag between order and delivery (mos.)	13	6	5	
8 Number of Provinces served (out of 7)	7	3	5	

Source: Abbott and Dey (1993): Exhibit 4

As the importers procured fertilizer in response to specific contracts during Year 1, distribution was essentially automatic. Once the fertilizer arrived in the country, the cooperatives arranged for collection (see line 2 of Table 6.3). Year 2 began the same way, but even then the financial strain on the cooperatives was evident. As one indication, the cooperatives were unable to meet the schedules they had negotiated for collecting ordered fertilizer from the port and paying the importer. In one case, COOPROVINOUN simply defaulted on a large order of ammonium sulfate it had placed with CAMATREX. The situation deteriorated even further when the GRC announced dramatic cuts in producer prices for coffee and cocoa in October 1989. Farmer demand for fertilizer almost completely dried up in the robusta regions and was sharply lower in the arabica regions. The growing inability of the cooperatives to fulfil their contracts and absorb fertilizer had several effects. First, for the first time the importers were forced to hold sizable stocks (see line 2 of Table 6.3). Second, to reduce their stocks and their dependence on the cooperatives, the importers began

seeking out alternative clients, including government and privately operated plantations; small, independent distributors; and commercially oriented vegetable producers.[32]

The impact of the producer price cut would have been significantly worse had not the privatized industry not realized such substantial cost efficiencies. The efficiency gains at the importation level were met with equivalent gains at the distribution level, a 31 percent reduction over two years. The principal component of these savings was reduced domestic transport costs. As a consequence, though the subsidy rate declined 54.4 percent from FCFA 88,600/ton to FCFA 25,030/ton during Phase 1, the retail price of fertilizer increased by only 28.5 percent, from FCFA 45,000/ton to FCFA 57,828/ton.

5. *Monitoring and Mediation*

The previous two subsections have shown that a private, competitive industry structure emerged during Phase 1, and that it operated with greater efficiency and effectiveness than the industry administered by the GRC. However, the process was by no means spontaneous or smooth. USAID and the TSC monitored both industry formation and its operations closely, and at numerous points they were compelled to mediate the transitional process.

Mediation took a number of forms. Early on, the predominant form of mediation was informational. The rules comprising the FSSRP privatization structure were complex and very different from those structuring the administered fertilizer industry. These rules needed to be explained to a variety of audiences through varied channels. In addition to the informational tours mentioned in Section V.E, USAID and the TSC worked with journalists to produce stories that appeared in the press and on radio and television. Briefings were held with GRC officials at the national and provincial levels and with representatives from donor organizations. However, the most frequent form of information exchange consisted of one-on-one exchanges with bankers, importers, or distributors who were trying to understand how to participate in the newly forming industry. Usually these exchanges would begin with a review of the logic behind the FSSRP and an explanation of the rules in force. Information was also supplied on appropriate contacts (potential suppliers, importers, or distributors as the case may be) to those lacking the information.

Once operations began, mediation of another sort began. During Year 1, every single transaction encountered difficulty with one or more of the provisions contained in the *General Information Pamphlet*. When these problems arose, the importers, commercial banks, and the Fiduciary Bank turned to the TSC for resolution. In trying to resolve these disputes, the TSC and USAID juggled a number of competing concerns. Many members of the TSC, reflecting the prevailing distrust of business people, were reluctant to offer the private sector any relief.

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[32] Several of these clients came from Adamona Province, outside the FSSRP zone. This trend persisted throughout Phase 2. By zone estimates, as much as 10 percent of FSSRP fertilizer was distributed in the PSIE zone. For a discussion of the factors that led to this unmet demand from PSIE sources, see the PROMT report, *Pitfalls of Privatization*.

They maintained that the rules were clearly spelled out, so that efforts to obtain exemptions were likely to be an attempt by a party to gain some unfair advantage. MINAGRI's representative on the TSC, by contrast, took the position that any rule was worth sacrificing if it meant that fertilizer would arrive in country. USAID's position was generally to grant a waiver if the source of the problem was a particular rule in the *General Information Pamphlet*, maintaining that there was nothing sacred about the way the rules had been written and that they could be waived in specific instances if the spirit of the program was advanced. However, USAID was equally committed to preserving the general integrity of the privatization structure . They were therefore willing to grant case-by-case waivers of the rules, but were not willing to modify the rule itself until the end of a particular annual campaign when the problem could be examined more globally. Given this range of concerns, it is not too surprising that these discussions about how best to mediate programmatic conflicts were often highly contentious. In the end, the arguments in favor of granting waivers prevailed during Year 1.

For the most part, the rules creating difficulty during Year 1 were modified prior to Year 2 (see Section VI.A.2). The modified rules were not so problematic during Year 2. Instead other aspects of the *General Information Pamphlet* necessitated interpretation and mediation, specifically the lack of any provision governing the granting of subsidy earmarks when requests for earmarks exceeded the amount of subsidy available. This situation arose in August 1989. IBEX and CAMATREX were locked in a heated competition for market share. Both firms aggressively earmarked subsidy, not only to secure it for themselves, but also to limit the other firm's access to it. As of July 31, 1989, CAMATREX and IBEX had together earmarked a total subsidy to import 61,500 tons. Early in August both firms forwarded requests through their commercial banks to earmark the subsidy to cover another 51,000 tons of imports. A third importer, Pelenget, also alerted the Fiduciary Bank that it would be making a request for subsidy to cover a 5,000 ton import. The unearmarked funds remaining in the subsidy fund were sufficient to accommodate only about 8,000 tons. As the *General Information Pamphlet* contained no guidance on this sort of situation, the Fiduciary Bank turned to the TSC.

It so happened that chairmanship of the TSC had just changed hands. The new chairman called a meeting with USAID and, accustomed to administrative determination of outcomes, announced that he intended to annul all of the earmarks and allocate the entire subsidy amount between the three firms himself. Such a decision would clearly have violated the policy regime, and so USAID lobbied hard over the next few days to obtain a resolution that was more consistent with privatization. Intensive briefings were held with the new TSC chairman to introduce him to the aim and objective of the program. Letters were sent to both the Minister of Plan and staff at the Presidency. USAID took these opportunities to press for its preferred solution: early deposit of Year 3 subsidy funds to accommodate all of the earmarks. USAID did not expect all of the earmarks to materialize into imports, but insisted that calculations of profitability and market forces were much more appropriate allocative mechanisms than administrative fiat.

The TSC and USAID disputed this issue for two months, causing considerable disruption in industry operations. Ultimately, a compromise was reached. The initial earmarks would be honored, and the unearmarked residual would be allocated evenly among the three firms. Almost at the moment of resolution, the reductions in producer prices for cash crops were announced. The speculative bubble of fertilizer earmarks burst quickly. Only IBEX imported fertilizer under one of the administratively allocated earmarks. In this instance, while USAID's mediation of the problem was not fully successful, its active lobbying did protect the integrity of policy regime in the face of a serious challenge.

Besides informational and programmatic mediation, USAID and the TSC also engaged in a third form. From time to time, participants in the privatized industry ran into difficulties with government agencies or each other. In these instances, both the TSC and USAID would attempt to facilitate dispute resolution through mediation or use of their good offices.[33] For example, discussions between the TSC and the Douala port authority resulted in the cancellation of punitive charges assessed to one importer who was slow in removing fertilizer from the port area. In another instance, USAID mediation between a cooperative and a commercial bank enabled the cooperative to secure the low-interest distribution loan it thought it had wanted and not the 18 percent interest commercial line of credit it received.

The need for vigilant monitoring of the privatization process, the extent of the mediation, and the press of USAID's internal program management requirements, convinced USAID early in Year 1 that a full-time program coordinator was needed to assist the Mission's economist, who had been managing the program singlehandedly since late 1987. About the same time, the Chairman of the TSC concluded much the same thing with respect to a GRC monitoring unit. Thus began a year of wrangling between USAID and the TSC. USAID was not opposed in principle to supporting the GRC's monitoring capacity with FSSRP funds. At the same time, it wanted to do so in a way that did not create a unit that was unsustainable or, worse, would take regulation of the industry as its mission. For its part, the TSC did not object to USAID using project funds to hire staff to support USAID's monitoring of the FSSRP. However, the chairman of the TSC reserved full endorsement of the arrangement until USAID acceded to a GRC support unit, though he did approve a series of ad-hoc arrangements, which let USAID employ a program coordinator beginning in October 1988. By August 1989, a more permanent solution had been negotiated. USAID was permitted to hire an FSSRP program coordinator and support staff with project funds. On the GRC side, funds from the Special Local Currency Account would be allocated to finance the creation of a Technical Support Unit (TSU) located in the Department of

[33] To a large degree, the need for USAID or the TSC to mediate these dispute is a result of the absence of realistic alternatives. The Cameroonian court system is neither low-cost nor impartial. As the court system is also administered by the bureaucracy, it is not a forum in which aggrieved parties can press claims against governmental agencies. Under such circumstances, appeals through administrative channels are generally a more effective strategy. USAID and the TSC provided such a channel.

Agriculture in MINAGRI (see Figure 5.1).[34] The local currency would be used to equip the office and hire support staff. Professional staff would be made available by MINAGRI.

One of USAID's continuing concerns is monitoring the effectiveness and impact of its activities. The FSSRP was no exception. Hiring a full-time program coordinator was the first step. Next came developing and executing a monitoring plan. With the aid of a consultant, USAID and the TSC examined information needs in light of the FSSRP's overall objectives (Abt Associates 1989b). They concluded that with some slight modification in format, the monthly reports prepared by the Fiduciary Bank, supplemented by the intensive annual reviews, would provide sufficient data to monitor industry structure and supply operations. However, other essential information, particularly on farm-level demand and impact, would require a different information collection strategy. Specifically, the consultant recommended a series of annual farm-level surveys to address questions of farmer demand and impact and several special studies. He also suggested that the FSSRP support a limited number of agronomic trials of fertilizer response. The proposed monitoring strategy was noncontroversial; how to fund it was more problematic. Although the FSSRP's project component was intended to finance monitoring activities, the number of U.S. regulations governing the expenditure of dollars made it extremely difficult to contract with the local organizations that were expected to carry out many of the surveys and studies. Consequently, USAID and the TSC agreed to use counterpart funds from the Special Local Currency Account to establish a Monitoring Fund that would be available to finance any monitoring work conducted locally. While the Monitoring Fund was established before the end of Phase 1, no activities were funded from it until Phase 2.

B. Phase 2 (1990/91, 1991/92, 1992/93)

1. Economic Environment

While the efforts of multilateral and bilateral donors may have helped to slow Cameroon's economic free-fall, the economic conditions influencing the fertilizer industry continued to worsen during Phase 2. By far the most significant aspect was the effect of the GRC's decision to bring domestic producer prices for coffee and cocoa more in line with world prices. At the start of the 1989/90 cocoa season, the GRC announced that the price for a kilogram of cocoa would drop from FCFA 420 to FCFA 250, robusta prices from FCFA

[34] The agreement to use the Special Local Currency Account to finance activities in addition to the revolving credit fund required a formalization of the procedures for programming local currency. The idea was to create a mechanism that preserved flexibility, but at the same time imposed a level of accountability. Eventually, USAID/Cameroon developed the Activity Programming Document (APD). An APD was prepared for each local currency use. It listed the purpose of the particular use and its relation to the overall program's objectives, established the disbursement and monitoring procedures for the particular use, and provided a budget. The APD was then approved and signed, in the case of the FSSRP, by the USAID Mission Director, the Chairman of the TSC, and the director of the organization receiving the funds, thus forming a three-way contract.

470 to FCFA 175 per kilogram, and arabica prices from FCFA 520 to FCFA 250 per kilogram. The price cuts represented reductions of 43, 63, and 52 percent respectively. The reduction in producer prices also had the effect of lowering the benefit-cost ratio for fertilizer (see Table 6.1). Fertilizer demand dropped accordingly.

During FSSRP's Phase 2 there was considerable liberalization of export crop industries, particularly the arabica industry.[35] However, liberalization did not bring higher producer prices. On the contrary, because world prices for cocoa and coffee remained low, producer prices either remained stagnant or fell still further. During Year 5, for example, the producer price for cocoa was FCFA 200 per kilogram, robusta was FCFA 135 per kilogram, and arabica prices ranged between FCFA 200 and 260 per kilogram.

Another outcome of the liberalization of the export crop industries was the dissolution of the marketing board. The end of restrictive ties to ONCPB and increased self-governance afforded by a new cooperative law, gave the coffee cooperatives much more control over their own destinies.[36] At the same time, none of the cooperatives were in good financial health and several of them were technically insolvent. Without the guarantees they had been able to receive from ONCPB in Phase 1, cooperatives found it difficult to continue fertilizer distribution and sale on any significant level. One bright spot in the economic picture for farmers was the payment of arrears by ONCPB. The debts were paid off through grants from donors, including USAID, the French, and the CEC through its STABEX program.

Cameroon's economic recession also continued to strain the banking sector. Payments of ONCPB arrears provided some cash inflows, but these were insufficient to improve bank liquidity significantly. Continued government withdrawals of deposits, capital flight, and weakening confidence in the solvency of many banks, so strapped many banks that they were unable to conduct banking operations. A thick portfolio of nonperforming loans exacerbated the problem. Figures from the central bank indicated as of 1992, private and public debtors had defaulted on over FCFA 425 billion in loans, well over half of the total outstanding debt in Cameroon representing 15 percent of annual GDP (Abt Associates 1992a: 24).

With the entire banking system on the verge of collapse, the GRC, with the support of donors, began to restructure the industry. Four banks were closed and liquidated; a third (Société Camerounais de Banque) was reconstituted with the help of a new foreign partner. (Credit Lyonnais) to form SCB/CL. Meridien Bank purchased parts of the much larger Banque Internationale pour l'Afrique Occidentale (BIAO) from BMBC. Banks were allowed to hand over some of their non-performing assets to a newly created governmental credit-collection agency. At the same time, the GRC also liberalized banking regulations. These

[35] The liberalization of the export crop industries with a particular focus on arabica coffee is contained in the PROMT report, *Paths of Reform: PRAMS I and the New Cooperative Law.*

[36] The impact of the new cooperative law on marketing cooperatives is examined in the PROMT report, *Restructuring NWCA*, which includes a research note on impacts in West Province, as well.

new polices have permitted the creation of a number of small banks and other financial institutions. They have also permitted banks more independent management and greater flexibility in conducting transactions. These measures may have prevented the collapse of the banking system, but without improvement in the economy as a whole, the situation in the banking system remained bleak. During the Year 5 annual review (Abbott and Dey 1993: 31), the banking expert observed: "Taken as a whole, the banking system in Cameroon may be technically insolvent and certainly is highly illiquid...the FSSRP has to rely on a banking system that has by no means overcome the problems of earlier years."

Contrary to this general trend, a new agriculturally-oriented bank started operations during Phase 2. Crédit Agricole du Cameroun (CAC) was conceived as the successor to FONADER. It is a joint venture of a German donor agency and the GRC. Unlike its predecessor, CAC being set up as a commercial venture and with a sizable expatriate presence, has been able to minimize outside influences on banking operations thus far. Despite the gloomy economic situation, CAC was able to register continued growth during Phase 2.

2. *Modifications of the Privatization Structure*

Where the thrust of the Phase 1 modifications of the FSSRP privatization structure were to improve internal functioning, the Phase 2 modifications were largely responses to the deteriorating economic environment. Modifications of the basic relationships and the subsidy, pricing, and credit elements of the privatization structure will be discussed in turn.

Basic Relationships. During Year 5, Standard Chartered Bank Cameroon (SCBC) assumed responsibilities as the Fiduciary Bank. This change was necessitated by the collapse of BCCC in the wake of the closure of its international parent bank, the Bank of Credit and Commerce International. Fortunately, BCCC had sufficient liquidity to transfer all of the FSSRP funds to the new Fiduciary Bank, thus averting a potential catastrophe. A subsequent audit of BCCC's handling of program funds during its tenure as Fiduciary Bank revealed no irregularities. There have been few problems reported with the transfer of Fiduciary Bank responsibilities.

Subsidy. A constant refrain during the annual review seminar held at the close of Year 2 was that it would be disastrous to continue following the subsidy elimination schedule that had been negotiated in 1987. Under that plan, the Year 3 target subsidy rate would be 10 percent. The unanimous feeling of those participating in the fertilizer industry was that such a substantial subsidy reduction following on the heels of the cuts in producer prices for cash crops would kill off demand. The grim situation of the banking industry and the importance of the subsidy payment in satisfying the collateral requirements for financing imports was also noted. At the concluding session of the seminar, the participants adopted a recommendation requesting that subsidy levels in Year 3 be kept at, or near, those applying in Year 2.

Although generally sympathetic to such a recommendation, agreeing to a more gradual reduction of the subsidy rate was not something USAID could take lightly. There were a number of issues to sort out. The first question was whether the Mission and the GRC had flexibility on this matter under the terms of the policy reform regime they had negotiated. A careful reading of the FSSRP Program Grant Agreement (USAID 1987c) suggested that the provisions relating to annual reviews and the coordination of subsidy levels and producer prices provided some flexibility in the policy regime. The next question was the availability of funds to cover a subsidy prolongation. Based on the FSSRP agreements, the GRC had allocated FCFA 1 billion for subsidies during the 1989/90 fiscal year, and none thereafter. Given the pressures to continue reducing governmental expenditure, expecting the GRC to provide subsidy funds beyond 1989/90 was unrealistic. Therefore, if the subsidy was to be extended, other funding sources would have to be identified. The third issue was to obtain a better estimate of the probable effects of subsidy reduction on fertilizer demand in light of substantially lower producer prices. To address this question, the Mission calculated fertilizer benefit-cost ratios for robusta and arabica under a variety of different subsidy rates.

After considerable internal analysis and deliberation, USAID proposed the following plan to the TSC:

- Subsidy elimination would be postponed for two years, from Year 4 to Year 6.
- The intermediary steps would be modified accordingly. USAID insisted that the subsidy rates continue to decline each year and proposed target rates of 19 percent in Year 3, 15 percent in Year 4, and 10 percent in Year 5.
- Local currency from the Special Local Currency Account would be used to meet whatever subsidy requirements could not be covered from GRC budgetary allocations.

The TSC adopted these principles, which then served to guide the subsidy component of the privatization structure during Phase 2. Thus, when the GRC was able to deposit only half the Year 3 subsidy funds due to liquidity difficulties, USAID prepared to disburse local currency if needed. When the GRC's funds were finally exhausted in Year 4, and then again in Year 5, local currency was used to replenish the subsidy fund (see Figure 5.1). And when, at the conclusion of Year 5, economic conditions remained grim, a final one-year extension of the subsidy elimination to Year 7 was approved.

Pricing. Upon the recommendation of all the participants in the fertilizer industry and USAID, the TSC agreed to dispense with the target ceiling price controls beginning in Year 3. The ceiling controls were serving no purpose as actual retail prices were only 60 to 80 percent of the ceiling price. And while they served no economic purpose, the controlled prices reinforced the impression that the government was still directly involved in the fertilizer industry. Bowing to the wishes of importers, distributors, and farmers and to the accumulated data, the TSC abandoned price controls. This decision was reinforced by a

decree issued by the Ministry of Commerce and Industrial Development in January 1990 removing price controls on a wide range of goods and services, including fertilizer.

Credit Program and Procedural Rules. Over the course of Phase 2, a number of modifications were made to the rules governing access to subsidy and credit funds. Of these, only two are significant enough to deserve mention. First, in response to the speculative earmarking of subsidy during Year 2 (see Section VI.A.5), a "first-come, first-served" procedure for granting credit and subsidy earmarks was introduced for Year 3. However, competition for subsidy and credit funds was never keen enough during Phase 2 for these procedures to be tested.

Second, the requirement that an importer seeking a subsidy payment also participate in the credit program was removed midway through Year 5. This provision had withstood challenges from a number of quarters throughout the first four years of the program because of the over-riding desire to keep the local commercial banks involved in the industry. Despite the liquidity problems, the commercial banks continued to play an essential surveillance and intermediary role. This arrangement had been supported by banking experts participating in the annual review (Abt Associates 1991, 1992a). However, bowing to the pressure initiated by a new importer, the TSC removed the tie between the loan and subsidy elements six months into Year 5. The decision was reviewed critically by the banking expert participating in the Year 5 annual review (Abbott and Dey 1993: 24). In his assessment of the decision, the banking expert rebuts the major claim made by the TSC in support of the rule change. He agrees with the TSC that doing away with the credit requirement will increase the role of suppliers' credit in financing imports. However, he maintains that suppliers' credit will not help small importers, like the mail-box agents, enter the industry as the TSC had argued. Rather, greater reliance on suppliers credit would principally benefit large, financially well-connected firms, like the importer who pressed for the change. Beyond the critique made in the annual review, the TSC's decision also represented a deviation from the established norm that changes in the privatization structure should be introduced only between campaigns and not during them.

3. *Industry Structure*

The industry structure that emerged during Phase 2 is summarized numerically in Table 6.5 and depicted graphically in Figure 6.2. The major change in the industry structure between Phases 1 and 2 was the diversification of marketing channels and, with it, the integration of wholesale distribution and importation. Where in Phase 1 importers generally imported in response to specific contracts, in Phase 2 importers usually imported on the basis of marketing plans that included some small specific contracts as well as forecasts of sales to independent distributors or retailers. The major motivation for this change was the declining demand for fertilizer by coffee producers. Considering the precarious financial condition of the cooperatives, it became quite evident to the importers that other ways of organizing business needed to be developed--that other distribution channels needed to be opened. The emergence of these alternative distribution channels--private wholesalers and distributors--is captured in Figure 6.3.

Table 6.5. Structure of the FSSRP Fertilizer Industry, Phase 2

Economic Operator	1990/91	1991/92	1992/93
Fiduciary Bank	1	1	1
Accredited commercial banks	4	5	3
of which actually participated	1	2	2
Active importers	10	13	12
of which actually imported	1	3	3
Active distributors	18	22	>25
of which actually distributed	17	20	>20
of which are cooperatives	6	9	n/a
of which are 'for profits'	11	11	n/a
Provinces covered (out of 7)	5	6	7

Source: Abbott and Dey (1993): Exhibit 3

Figure 6.2. Schematic of FSSRP Fertilizer Industry Structure, 1992/93

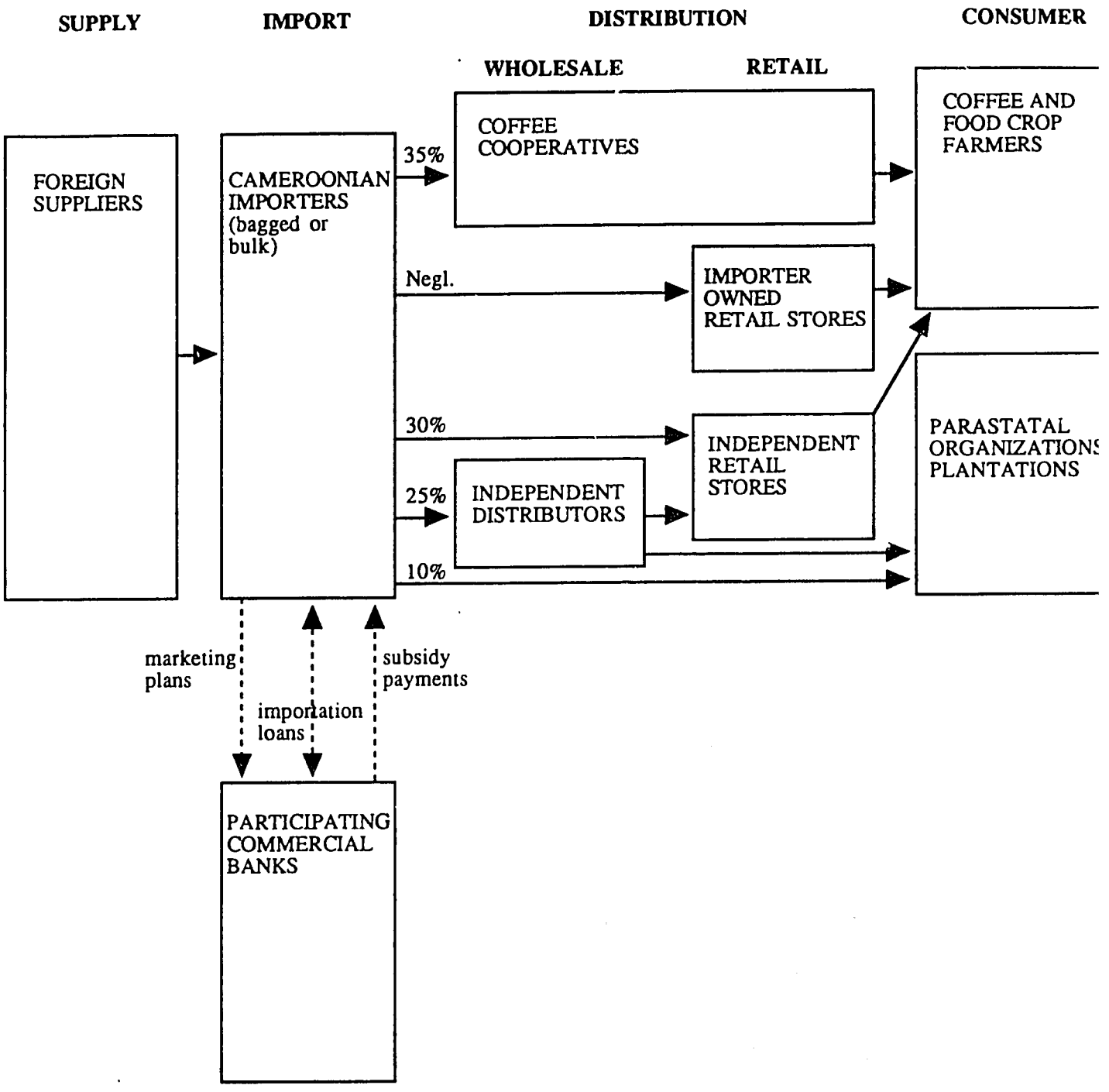
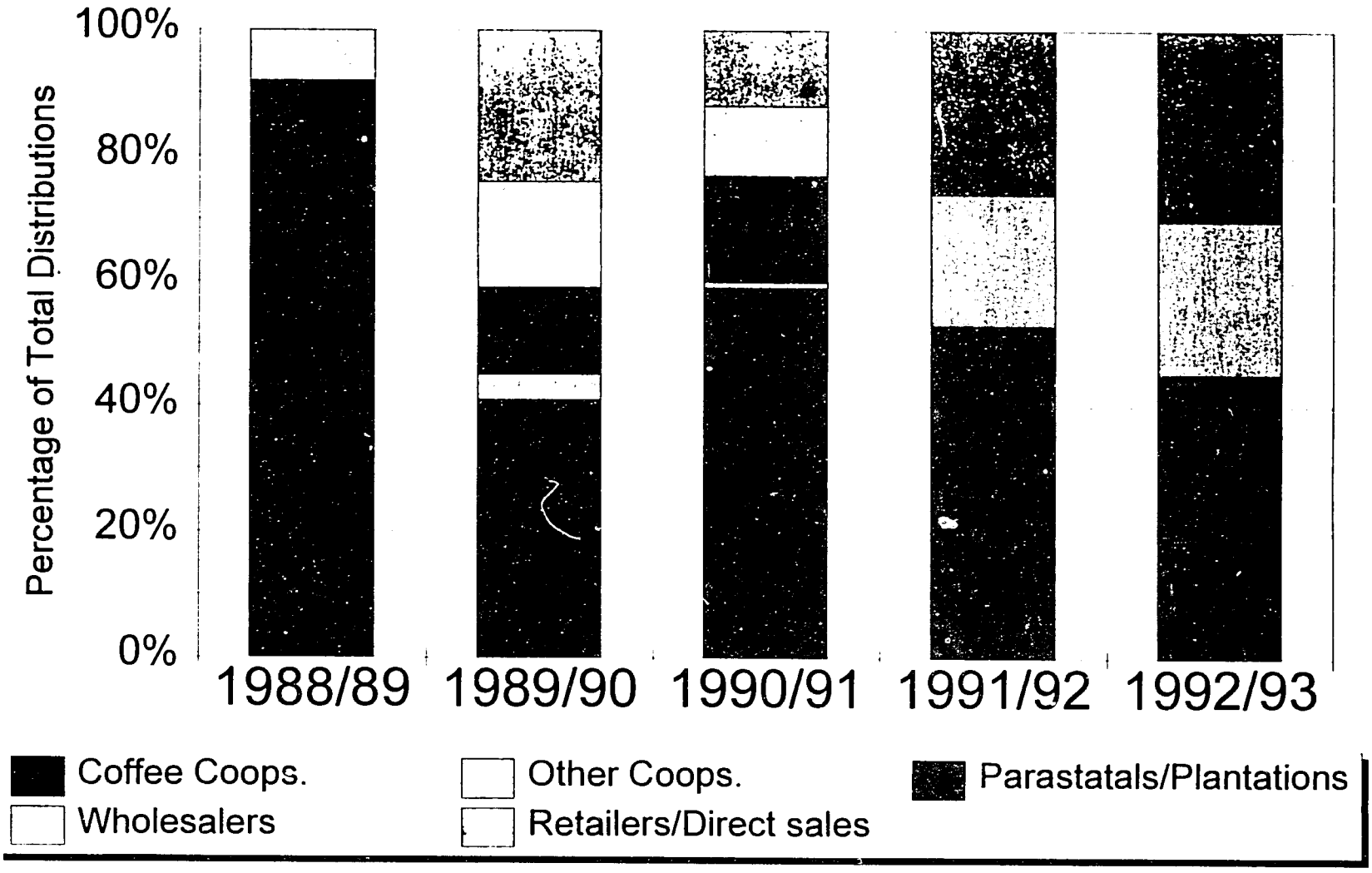


Figure 6.3.
Changing Distribution Channels



The contraction in fertilizer demand by coffee producers is clearly demonstrated by the experience of UCAL and UCCAO. UCAL, a robusta marketing cooperative, was the second largest consumer of fertilizer in Phase 1, acquiring 31,000 tons during the period. However, fertilizer demand almost completely dried up with the producer price cuts of October 1989. Fertilizer application was no longer seen as remunerative. As a result, UCAL ordered no fertilizer during Phase 2. A similar situation obtained at UCCAO, the largest fertilizer distributor in Phase 1 at 42,000 tons. As a predominantly arabica marketing cooperative, the benefit-cost calculations are more favorable and some demand should persist. Still, UCCAO only placed one order during Phase 2--a tender that started at 13,500 tons, was reduced twice to 4,500 tons, and then canceled. One reason for the cancellation was that the commercial banks were no longer willing to accept UCCAO guarantees as part of the importer's collateral package.

IBEX was the importer most successful in lining up clients other than the coffee cooperatives. It imported each year during Phase 2 and accounted for over 75 percent of all imports undertaken during the period (see Table 6.6). In addition to servicing the limited needs of the coffee cooperatives, IBEX also supplied fertilizer to a banana plantation and initiated various ventures with a range of independent retailers in the West, North West, and Adamoua provinces. IBEX experimented with local bagging of a bulk import during Year 3, using a portable bagging unit. Cost savings were not sufficient to try this method again. Instead, IBEX is actively trying to arrange financing for a permanent bulk-blending and bagging facility.

The next largest importer during Phase 2 was a new entrant, IBE/Cameroon, which imported 11,780 tons during Year 5. IBE/Cameroon is a joint-venture of a large American trading company, IBE Inc. and a Nigerian-American owned company, ENTRECOM, which specializes in arranging trade between the U.S. and Africa. IBE/Cameroon relied principally on independent distributors to market the tonnage it imported. IBE/Cameroon also tried quay-side bagging. Its results were similar to IBEX's.

The remaining 9 percent of Phase 2 imports were handled by 3 different firms: ADER; Pelenget, a long-time importer of agricultural chemicals; and Africa Import, a multi-purpose import company. Note that CAMATREX, the largest importer during Phase 1, made no new imports during Phase 2.

Table 6.6. FSSRP Imports, Phase 2

	Year: 1990/91			Year: 1991/92			Year: 1992/93			Phase 2 Totals	5 Year Totals
Type	Quantity (tons)	CIF cost (CFA/ton)	Importer	Quantity (tons)	CIF cost (CFA/ton)	Importer	Quantity (tons)	CIF cost (CFA/ton)	Importer	Quantity (tons)	Quantity (tons)
NPK 20-10-10	3,227	64,000	IBEX	2,450	58,750	IBEX	150	60,750	A Import		
	5,424	64,000	IBEX	5,400	63,750	IBEX	850	60,750	IBEX		
	3,400	66,750	IBEX	2,600	54,050	IBEX	3,000	52,500	IBEX		
				5,600	60,750	IBEX					
				3,000	53,800	Pelenget					
				2,000	63,750	ADER					
Totals	12,051	64,776		21,050	59,754		4,000	54,563		37,101 49.1%	86,631 42.7%
NPK 12-6-20	1,492	64,600	IBEX	1,100	52,500	IBEX	375	61,250	A Import		
				3,100	56,000	IBEX	2,125	61,250	IBEX		
Totals	1,492	64,000		4,200	55,083		2,500	61,250		8,192 10.8%	22,192 10.9%
Urea 46-0-0	5,176	51,000	IBEX	750	55,850	IBEX	800	50,000	IBEX		
	1,709	31,750	IBEX	2,000	56,000	IBEX	1,700	55,000	IBEX		
				1,500	54,000	IBEX	150	59,750	A Import		
				1,000	61,000	ADER	675	59,750	IBEX		
							7,280	36,200	IBE/Cam		
Totals	6,885	46,222		5,250	56,360		10,605	42,087		22,739 30.0%	62,881 31.0%
A Sulf 21-0-0	1,575	40,000	IBEX	300	37,155	IBEX	300	36,250	IBEX		
				1,000	35,000	IBEX	4,500	16,500	IBE/Cam		
Totals	1,575	40,000		1,300	35,497		4,800	17,734		7,675 10.0%	31,175 15.4%
TOTAL	22,003	54,988		31,800	54,384		21,905	50,039		75707	202,879

Source: Abbott and Dey (1993): Exhibit D-1

On the financial side, all but three of the imports were handled by BICIC. SCB/CL were the bankers for ADER's single importation under the program, IBEX used CAC once, and IBE/Cameroon collected its subsidy payment through Amity Bank, one of the small banks to open in response to the liberalization of banking regulations. Collateral requirements remained similar to those operating in Phase 1. Even so, arranging the financing package became increasingly difficult. With the subsidy rates declining each year, the subsidy payment covered less and less of the L/C value. Moreover, fewer and fewer local distributors were able to provide acceptable guarantees to the banks. The one exception to this pattern was the importation handled by CAC, which was willing to accept a fraction of the fertilizer itself as collateral.

4. Industry Operations: Imports, Distributions, and Sales

The impact of the poor economic environment that prevailed during Phase 2 on industry operations is clearly evident in the statistics reported in Table 6.7. Fertilizer imports declined 66 percent between Year 2 and Year 3. The contraction occurred earlier at the distribution level, dropping 60 percent between Year 1 and Year 2 due to the effect of the producer-price cut in the cash crop industries. The net result was a shrinking fertilizer market during Phase 2, but not by as much as import figures alone would suggest. Imports averaged a little more than 25,000 tons during Phase 2, compared to more than 63,500 tons in Phase 1. A more accurate indication of the market size is the average of sales to distributors, 34,400 tons during Phase 2.

While the quantitative results of Phase 2 have been worse than those in Phase 1, the efficiency gains have been sustained. The total delivered cost has continued to decline each year during Phase 2 as it did during Phase 1. Similarly, import (CIF) costs have also declined each year, this despite the smaller shipments occurring during Phase 2 (see Table 6.6). In Year 5, distribution costs registered a modest increase, reflecting the increased storage costs associated with reduced demand. These efficiency gains continued to dampen the effects of the subsidy removal. By Year 5, the subsidy had been cut by 85.7 percent since the elimination of the administered system, yet retail prices had risen only 42 percent, to FCFA 63,901/ton.

5. Monitoring and Mediation

Like almost every other aspect of the FSSRP, USAID's mediation differed under Phase 1 and Phase 2. Although USAID continued to be involved in all of the sorts of mediation that it had in Phase 1, it was at a much diminished level. Informational mediation continued throughout Phase 2, but less frequently than during the start-up years of the program. The kind of programmatic troubleshooting that absorbed a great deal of USAID management attention during Phase 1 almost completely evaporated during Phase 2. By Year 3, almost all of the procedural kinks had been worked out of the subsidy and loan disbursement procedures. Both the major importers and participating banks were thoroughly familiar with them; therefore operations proceeded smoothly without the need to involve

either USAID or the TSC. When USAID needed to be involved in a programmatic issue, it was generally in response to more extraordinary problems, such as the collapse of BCCC and the transfer of Fiduciary Bank operations to SCBC, or to the strains on the program created by IBE/Cameroon's entry into industry. USAID's mediation of disputes between industry participants or between participants and government also decreased, again largely due to the greater experience on all sides.

Besides the growing experience and confidence of industry participants, another factor reducing USAID's mediation role was the increased involvement of the government's Technical Support Unit (TSU). Although it took almost two years following authorization to become functional, the unit quickly took on many of the routine administrative and programmatic duties that USAID had been undertaking. The selection of an experienced and well-respected individual to coordinate the TSU's day-to-day operations and the establishment of a cooperative working relationship between USAID and the TSU allowed USAID to reduce its profile. Prior to the creation of the TSU, TSC meetings were the only forum for USAID and the GRC to exchange views, sometimes quite confrontationally. With the TSU in place, issues could be discussed and a common position developed at the technical level prior to review by the TSC.

With less need to mediate the privatization process, USAID program staff could focus on other matters. Of growing importance were longer-range issues related to the sustainability of the privatization process. One such issue was attempting to gauge the effects of economic factors on the industry, such as the reduction and elimination of the subsidy or a devaluation of the CFA franc. Another issue was attempting to bring off the unification of the fertilizer industry created under the FSSRP with that created under the CEC's fertilizer program in northern Cameroon. A major motivation for this effort was to expand the size of the market in order to sustain participation and competition in the industry.[37] A third issue was trying to build a coalition of stakeholders in the privatized industry.

The general stakeholder strategy was to try to convince as many active or potential participants in the industry as possible that they had more to gain in supporting a privatized industry than in advocating a return to government administration (see Truong and Walker 1991). Mobilizing stakeholders was seen as the most effective deterrent against retrogressive alteration of the policy reform regime once USAID was out of the picture. It was not particularly difficult to convince the banks, active importers, or the distributors of the superiority of the privatized industry over the old administered one. It was far more difficult to convince the mail-box agents, who had done quite well under the administered system but found it very difficult to break into the privatized industry. Moreover, because these individuals were politically well-connected--for example, one was the President's cousin--they had influence far in excess of their economic weight. Thus for strategic reasons, USAID devoted considerable effort into turning the mail-box agents from detractors to supporters,

[37] The unsuccessful efforts to orchestrate the merger of the two fertilizer programs is discussed in greater detail in the PROMT case study of the PSIE, *Pitfalls of Privatization*.

principally in helping them surmount barriers to entry. As there was little USAID could do about the financial condition of the firms these agents ran, the FSSRP program managers focused more on the knowledge barriers. They provided direct technical assistance by explaining FSSRP provisions, reviewing marketing plans and credit applications, and suggesting contacts. They also arranged for the former agents to participate in seminars on fertilizer marketing organized by the International Fertilizer Development Center.[38] To some extent, the strategy seems to be working. Several of the mail-box agents have participated in the industry; not as the importers they once were, but as independent distributors, a role much more in keeping with the size of their firms.

Devoting less time to mediation also permitted USAID to focus more on monitoring during Phase 2. The Monitoring Fund finally became operational in 1990. Since then, an eclectic mix of activities has been financed, including an econometric study of the determinants of fertilizer demand by arabica coffee farmers in the West province and some fertilizer demonstration plots in the South West province.[39] However, the most significant activities were the farm-level surveys. A first round of surveys was conducted in 1990 and analyzed in 1991 (Abt Associates 1991a); a second round was conducted in 1992.

The 1990 survey provides a view of the fertilizer industry emerging under in FSSRP from the farm-level at the transitional point between Phase 1 and Phase 2. On balance, farmers noted and appreciated the changes in the fertilizer industry. The favorable reaction was more pronounced in the major fertilizer consuming provinces than in those with less demand and fewer retail outlets. Farmers also noted improvements in the availability and quality of fertilizer but decried the increase in prices and the lack of retail credit. Smaller-scale farmers saw more improvements than larger ones, as they were no longer squeezed-out as they had been when fertilizer was rationed. The analysis of the 1990 surveys also provides insight into patterns and determinants of fertilizer use, application techniques, and farmer knowledge about fertilizer use. The 1992 survey was designed to permit the same sort of analysis. Unfortunately, the government agency conducting this survey has not yet completed its work. About the only data to emerge from the later survey is confirmation of the declining use of chemical fertilizer by farmers.

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[38] Ten importers and distributors were sent in January 1991 to an IFDC seminar on fertilizer marketing held in Jamaica. A second seminar was organized in Cameroon in March 1994 and paid for with funds from the Special Local Currency Account (see Figure 5.1).

[39] A number of activities included in the initial monitoring plan (abt Associates 1989b) were later determined to be outside the scope of the FSSRP. These included support for agronomic trials to establish recommend fertilization rates on maize and efforts to consolidate and standardize all of the data generated in Cameroon on the response of crops to fertilizer.

C. Toward a Phase 3?

The privatization of the fertilizer industry in Cameroon is presently an unfinished story. As this report is written, the annual review of the sixth year of the privatization process in underway. Although a detailed discussion of Year 6 is not possible at this point, there are a number of indications that the fertilizer industry is presently in the midst of a transition into a new phase:

- *Creation of a Medium-Term Lending Facility.* Providing the means for Cameroon's fertilizer industry to take advantage of the economies and flexibility of local blending and bagging has been a persistent theme in USAID's involvement in the sector (see Section IV). During Year 6 a medium-term credit facility was created with funds from the Special Local Currency Account to complement the short-term loans offered by the revolving credit fund. The medium-term facility offers loans of up to FCFA 400 million for up to five years at preferential rates for capital investments in the fertilizer industry (GRC/TSC 1993b). The most obvious investment is a bulk-blending and bagging plant. Three different groups are in the process of arranging the outside financing needed to gain access to the medium-term facility. Should one or more of the groups be successful, the fertilizer industry in Cameroon would become more vertically integrated with prospects of greater efficiency and the availability of a wider range of products.

- *Elimination of the subsidy.* Year 6 will be the last year that fertilizer will be subsidized. The target subsidy rate was set at 7 percent for the year and will be eliminated at the end of the campaign. Obviously, this will lead to increases in the retail price and will increase the difficulty of arranging local finance for imports.

- *Withdrawal of USAID.* USAID will be closing its office and withdrawing from all of its activities in Cameroon in 1995. Although the industry is to be fully privatized at the close of Year 6 and USAID would have only a very minor role to play in a completely privatized system, USAID's continued presence in the country and interest in developments in the fertilizer industry would likely limit any tendency for the GRC to back away from the reformed policy regime. This check is removed with USAID's withdrawal.

- *Devaluation of the CFA franc.* After years of anticipation, the CFA franc was devalued on January 11, 1994. The parity rate between the French and CFA francs was devalued from FCFA 50 to FF 1 to FCFA 100 to FF 1. One effect of this move is to double the nominal cost of all imports, including fertilizer. However, the nominal price received for exports should also increase. Thus the effect of the devaluation on the fertilizer industry is ambiguous. Those farmers who produce food crops for sale within the franc zone are likely to buy

much less fertilizer. However, farmers who produce crops for export, whether bananas, pineapples, or coffee, might actually buy more fertilizer after the devaluation than before. Indeed, analyses conducted by USAID since the devaluation indicate that the benefit-cost ratio for fertilizer on arabica coffee actually increased after the devaluation (see Table 6.1). USAID also reports a new optimism in the arabica coffee industry about its prospects, which should translate into increased fertilizer consumption. A resurgence of fertilizer consumption by coffee farmers could well lead to a further modification of distribution channels.

While the combined effects of these developments is certain to produce changes in the structure of the fertilizer industry in Cameroon, it is still to early to determine the direction of the change. Hopefully, the devaluation of the CFA franc will bring renewed demand, and the introduction of a medium-term credit facility will introduce further efficiencies in industry operations sufficient to compensate for both the elimination of the subsidy and the complete withdrawal of USAID's support to the industry. Moreover, Cameroon still faces a serious economic recession. Its basic regime and governance orientation remains highly bureaucratic. In such a context, the sustainability of the privatized industry structure, even one that had demonstrated its efficiency, is by no means certain.

VII. CRAFTING A MARKET: PRIVATIZATION STRUCTURES AND MEDIATION

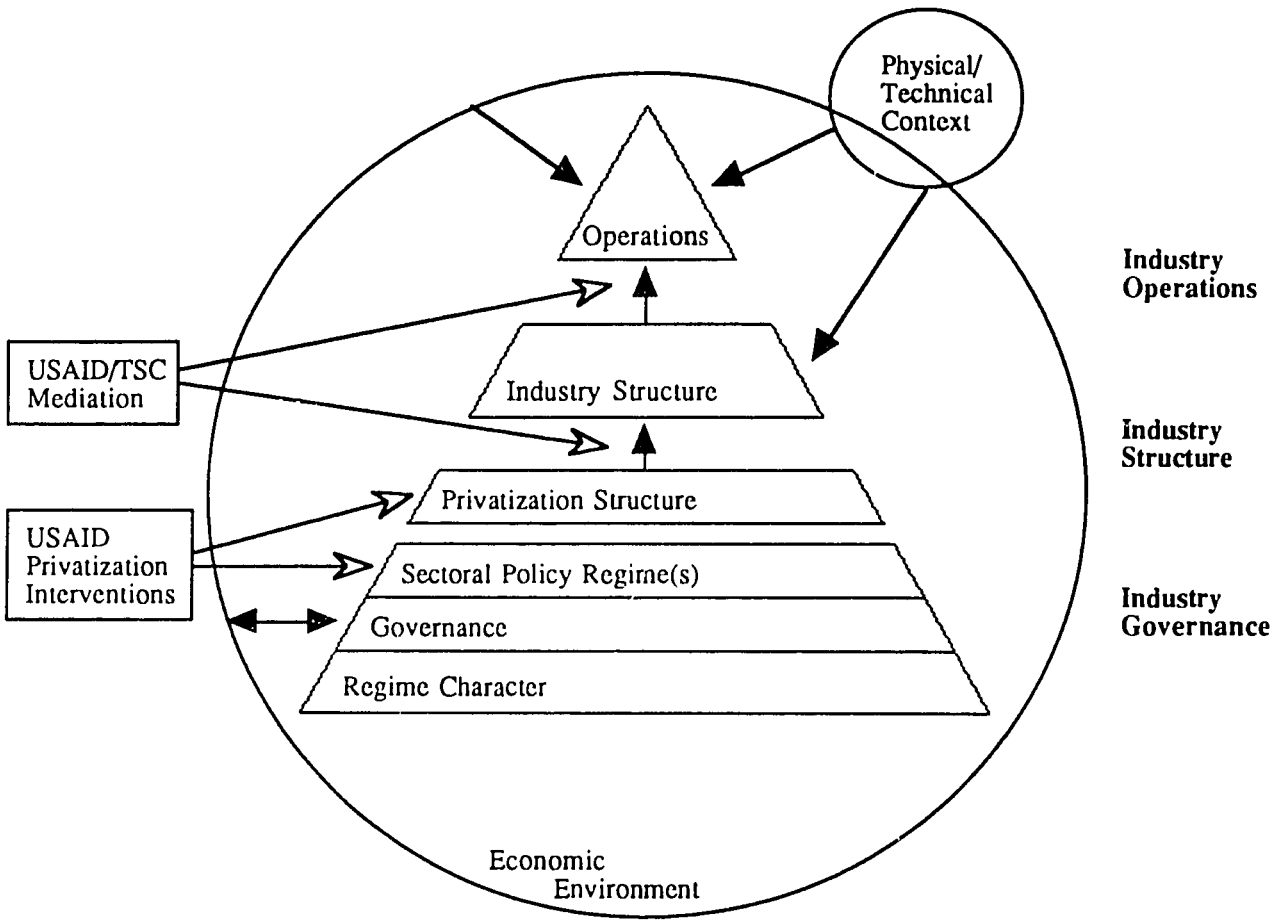
The view among those who have evaluated the FSSRP is that the program has succeeded well in achieving its objective of a private, competitive, and subsidy-free fertilizer industry (see USAID/Washington 1991, U.S. GAO 1992, Development Alternatives, Inc. 1994). Based on the description of the FSSRP and its impact in Section VI, it is clear why the most recent evaluation (Development Alternatives, Inc 1994: 10) concluded that the FSSRP had helped "liberalize and privatize the fertilizer distribution system and in the process increased competition and reduced marketing costs." This evaluation goes on to note that the FSSRP's achievements are all the more impressive because of the poor economic environment that prevailed and because it was accomplished with the expenditure of only $11.5 million of the total $20 million originally authorized for the program.

Accepting that the FSSRP has helped to privatize the fertilizer industry, the crucial question becomes "why?"; What was it about the FSSRP that contributed to crafting a market? Applying the framework for analyzing industry structure (FAIS) introduced in Section I, three elements of the FSSRP emerge as having contributed to successful privatization of the fertilizer industry: (1) its industry structure approach, (2) the introduction of a privatization structure, and (3) mediation (see Figure 7.1). In the case of the FSSRP, these three elements were combined into a single, coherent strategy. However, it is important to recognize that these elements are logically independent of one another; that is, each of these elements can be a part of a privatization strategy without necessarily including any of the others. What accounts for the FSSRP's success, however, is not the presence of any one of these elements, but all three working synergistically with one another.

A. The Case for an Industry Structure Approach

To adopt an industry structure approach is to place industries and their structures at the center of both analysis and efforts to introduce reform. Analytically, an industry structure approach begins with the recognition that the goods and services traded in an economy are not uniform, homogenous widgits. Rather, goods and services vary considerably from one another. These differences are fundamentally important because the differences inherent in the goods and services become reflected in the ways economic agents organize to produce and distribute them. Hence differences in goods and services, or more generally, differences in the physical-technical context, give rise to different industries. Turning the issue around, analysis of industries only becomes meaningful when careful attention is paid to the particular physical-technical context and its effects on the industry.

Figure 7.1. The Privatization Framework Applied to the FSSRP



The particular features of fertilizer and fertilizer consumption were identified in Section II.C. The effects these attributes have had on the fertilizer industry have been substantial. The administered industry described in Section III was so mal-adapted to fertilizer attributes that massive inefficiency resulted. When permitted more latitude in organizing the industry in the privatized policy regime, economic actors were far better able to respond to the exigencies created by fertilizer's inherent properties in terms of the allocation of economic functions (importing, distributing, retailing). Substantial economies and a deepening of the market structure have been realized.

Of course, the physical-technical context is not the only force shaping industry structure. Two others are key. First, the governance structure for the industry affects the options available to economic actors in organizing and shaping the industry. Of particular salience in efforts at policy reform is the government's policy related to the industry in question. Second, the general economic environment influences the size, profitability, and level of activity in the industry. Indeed, if conditions are sufficiently poor, the industry may cease to exist. Throughout this case study, the effects of these factors have been noted. Economic conditions played a crucial role in provoking the evolution of the privatized industry from Phase 1 to Phase 2 that was described in Section VI. And clearly it was the change in the governance structure occasioned by the GRC's pronouncement of a new policy regime for the "fertilizer sub-sector" in September 1987 that permitted a more efficient, market-oriented industry to emerge.

If the analytical side of the industry structure approach suggests that an industry structure is shaped by three key factors, the reform side of the approach suggests that these factors become the major points of leverage on the industry and its operations. In theory, reform can be introduced through changes in the physical-technical context, the industry governance structure, or the prevailing economic environment. As a practical matter, these three factors are not equally manipulable. Although reform inspired by changes in the physical-technical context or the economic environment should not be wholly discounted, they are much more cumbersome than changes in the industry governance structure produced through policy reform.

Thus policy reform becomes the principal means by which to improve the functioning of industries from an industry structure perspective. Such a conclusion does not distinguish this perspective from many others. What is distinctive is the nature of the policy reform introduced. It must be true to the industry-structure emphasis. That is, reform proceeds from an thorough understanding of the physical-technical contest surrounding the good or service in question and then identifies the full set of reforms that will produce an appropriate industry structure.

Although the designers of the FSSRP did not explicitly use an industry-structure framework, they operated very much as if they did. They approached their work by giving due consideration to the ways in which participants in the industry related to the physical-technical context, the economic environment, and to one another. USAID spent a

considerable amount of time learning about the physical and financial flows involved in marketing fertilizer (see Truong 1989). It also sought out the views of a wide spectrum of private sector actors on the shortcomings of the administered industry and what would be needed to improve the financing, importation, and distribution of fertilizer. Thus USAID approached the reform of the "fertilizer sub-sector" from a holistic perspective. They focused on a total and sustainable transformation of the way fertilizer was marketed in Cameroon rather on the achievement of disparate and unrelated reforms.

From this perspective, the inverse of an industry structure approach is *not* a focus on broad, cross-cutting reforms like modifications to the cooperative law or the investment and labor codes. Rather the inverse of an industry structure approach is piecemeal and scattershot reform, such as that found throughout the World Bank's Structural Adjustment Loan. As an example, the World Bank attempted to reform the arabica industry by relying on the single requirement that the marketing board be forced to introduce competition among its buying agents. More profound analysis conducted by USAID (USAID 1990) indicated that such a move taken in isolation of a whole series of other reforms would probably cripple the industry rather than introduce greater efficiency. This analysis lead USAID to undertake a reform program of the arabica industry that also relied on an industry structure approach. It too has been largely successful (see the PROMT reports on *Restructuring NWCA*, *Paths of Reform*, and *Analyzing Market Transitions*).

B. The Case for Privatization Structures

In some institutional contexts, industry structures can be reformed by changes in the policy regime alone. Where capital markets are well developed, medium- and short-term finance is available, contracting is reliable and enforceable, information is readily available, and entrepreneurship is well established, there is every reason to believe that private economic operations will respond to changed policy regimes by modifying industry structures rapidly, efficiently, and independently. However, few, if any, of these conditions prevail in the current African context. Moreover, given the existing regime structure prevalent in Africa, it is unlikely that privatization will be undertaken except in response to severe recession. Under these more economically and institutionally austere conditions, providing additional incentives to industry participants through a privatization structure is likely to be necessary to overcome barriers to participation in the privatizing industry.

Many of the potential barriers to entry can be lowered or removed through privatization structures. Perhaps the most pervasive barrier is uncertainty. In most African economies, liberalizing and privatizing industries is an uncertain venture. There is uncertainty surrounding the true policy commitment of the government. Will it tolerate market outcomes or feel it necessary to intervene? There is uncertainty about profitability in industries that were heavily regulated or subsidized, as well as uncertainty about the kinds of skills or organizational arrangements that will work in a new environment. Taken together, these uncertainties can seriously limit the interest of investors, producers, or distributors in entering

the industry, or of bankers in financing them. While uncertainty cannot be fully eliminated, measures can be taken to reduce it. The presence and commitment of donors, such as USAID in the case of the FSSRP, can lend credibility to the durability of policy reform. Restricting or eliminating the scope for governmental discretion can lower uncertainty, as did the handing over of subsidy payment to Fiduciary Bank under the FSSRP. Subsidies can help to lower financial risks.

A second barrier to entry may be informational, the perception that success in the industry depends on detailed market intelligence. Given that intelligence about who to see or how to proceed is often determinative in a heavily bureaucratized industry, projecting that perception to a privatized industry is not too surprising. However, such perceptions can limit entry. In the case of the FSSRP, this barrier was confronted aggressively at two levels. First, information was available to all-comers on how to participate in the privatized fertilizer industry. Between the informational tours, the wide distribution of the *General Information Pamphlet*, and face-to-face contacts, every effort was made to minimize informational advantages on access to FSSRP resource. Second, USAID initially, and later the TSU, kept all industry participants apprised of changes in market conditions in order to reduce the advantages of market intelligence.

A third barrier is financial. Private sector participants need to be reasonably certain of profit in order to participate. While there is little that can be done to affect profitability directly, a privatization structure can provide financial incentives to participants, such as subsidies or low-cost credit as was done in the FSSRP. Attention can also be directed toward ensuring that the policy regime contains no severe limits on potential profitability. It was this concern that prompted USAID to lobby so forcefully for a modification in the pricing methodology applied to fertilizer during Year 1.

In addition to inducing greater participation, a privatization structure can also be designed to promote a particular industry structure. In the case of the FSSRP, the best example was the requirement that those seeking access to the subsidy fund also need to participate in the credit program. This arrangement required the participation of local commercial banks and encouraged them to learn more about the fertilizer industry. Such an arrangement fostered the maturation of relations between the commercial banks and the importers. In similar fashion, the terms of the credit program were gradually loosened during Phase 2 to enable importers to migrate into wholesaling.

For these several reasons, privatization structures can promote the objectives of the policy reform. If they are absent, there is a greater likelihood that participation in the industry will be too low (as it was in the Senegal case cited in the Introduction) or the policy reforms alone will be insufficient to alter prevailing patterns of interaction (as has been the case with the PSIE, see the PROMT report, *Pitfalls of Privatization*).

C. The Case for Mediation

Three types of mediation were identified in Section VI: informational, programmatic, and dispute-resolution. These types of involvement in the evolution of the industry structure and its operations were a key element of USAID's policy-reform strategy in the FSSRP and were essential to its success.

Informational mediation has two dimensions. One is simply to provide information to an interested party on how to enter the market and take advantage of the incentives offered through the FSSRP privatization structure. The objective here was, as noted earlier, to lower any informational barriers to entry. The second dimension of informational mediation was to assist those who were inexperienced in the operation of competitive markets. Those accustomed to responding to government tenders were often at a loss about how to identify potential customers or suppliers or how to prepare the documents a bank would need to consider financing. Where private markets are still the exception and not the rule, it is hard to see what other sources of technical assistance would be available.

Programmatic mediation arises in response to the changes in rules accompanying the introduction of a new policy reform regime, a privatization structure, or both. Rules can be imprecise and subject to interpretation. Despite serious efforts at constructing them, rules can create bottlenecks or unintended consequences. Given the configurational nature of all of the factors impinging on the industry structure, it is unlikely that all rules and regulations will achieve the desired results on the first try. Under these circumstances, it is important to adopt an iterative approach, as did the FSSRP. Each annual cycle of the program provided an opportunity to make improvements in the rules and test how they worked. However, in the midst of an annual cycle, a program-induced problem cannot be allowed to undermine the overall objectives. On these occasions, careful and judicious mediation of the problem can introduce a needed measure of flexibility without undermining the integrity of the entire rule set.

Dispute resolution is probably the most controversial aspect of mediation (see AID/Washington 1991). Clearly there is a fine line between facilitating resolutions and dictating or imposing them. However, much of the rationale for this type of mediation is due to deficiencies in the industry governance structure. The absence of low-cost, independent courts has encouraged a reliance on administrative remedies for disputes. Thus when a donor, such as USAID, or a government agency, such as the TSC, provides a forum for the airing of disputes and even serves as an arbitrator, these functions are consistent with the prevailing adjudicatory process. However, for a donor to become an advocate for a particular party before a government agency is to overstep the boundaries.

One final observation about mediation. It is not a constant. Rather it can be expected to diminish over time, as has been the case with the FSSRP. Informational and programmatic mediation can be expected to disappear as the participants become more familiar with the rules and more experienced with the new industry structure. Dispute resolution, on the other

hand, is unpredictable. For the FSSRP, Years 2 and 5 required the most dispute resolution. There was almost none in Years 3 and 4.

D. Threats and Counter-Strategies

Although adopting an industry structure approach, introducing a privatization structure, and mediating the process can promote privatization, it affords no guarantee of success. There are numerous threats to success, many of which are beyond the control of donors or the industry participants. One such threat is the deterioration of economic conditions to the point that the industry disintegrates and operations cease. One of the characteristics of markets is that they disappear when profits disappear. Although the fertilizer industry has not succumbed to the continuing Cameroonian recession, there is no doubt that the market has shrunk.

A second threat is back-sliding, the reversal or negation of policy reforms and a return to some form of administered system. Such a possibility is always present in situations, like Cameroon's, where reforms are negotiated at the sectoral level, but a contrary bureaucratic orientation persists at both the governance and political-regime levels. Thus far, this fate has not befallen the fertilizer industry, but with USAID's withdrawal from the country, one of the biggest brakes against back-sliding will disappear.

While there is little that donors or others can do directly to improve the economic environment or alter regime characteristics, two counter-measures are available. Information collection and dissemination and stakeholder mobilization are strategies that can be employed to parry these threats. Information on program successes has considerable strategic value. Data on cost efficiencies can demonstrate the effectiveness of the new industry structure. Farm-level survey information can allay fears that farmers are being harmed. Even if economic conditions force a suspension of economic operations, the existence of performance data may head off efforts to re-introduce administered procedures. Further, such data can provide ammunition for new stakeholders in the privatized system and blunt the efforts of former stakeholders in an administered industry.

In the end, the only sustainable counter pressure to back-sliding will be the demands of stakeholders in the privatized system. For these stakeholders to have the greatest chance of success, they need to be mobilized. First, they need to understand that they are stakeholders in the new arrangements. Many individuals or groups that are benefiting from the efficiency of the privatized system may not realize it. They need to be so informed and encouraged to add their support to maintaining the privatized regime. Next, stakeholders need to be provided with the information they need to make their case. Third, efforts need to be made to reach out to stakeholders in the administered industry, to convert them if possible, and to blunt their arguments if necessary. The FSSRP pursued all three strategies with notable success..., so far.

One necessary element for effecting these counter-measures is a strong monitoring component. The FSSRP had such a component. The annual review and the annual review seminar provided an opportunity to gather valuable performance data and communicate it to stakeholders. The Monitoring Fund financed farm-level surveys as well as a number of other useful studies, sometimes in response to the concerns raised by advocates of a return to an administered structure.

In sum, the FSSRP has been path-breaking in terms of the strategy it adopted toward policy reform and privatization. It has facilitated the creation of an efficient, private fertilizer industry. USAID has used information strategically to support privatization and has attempted to mobilize stakeholder support. Whether all of these measures will be sufficient to assure the continuation of a privatized fertilizer industry is still unclear. The prevailing governance structure is still bureaucratically inclined and hostile.

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