POSTHARVEST INSTITUTE

Privatization of Fertilizer Marketing in Cameroon: A Sixth-Year Assessment of the Fertilizer Sub-sector Reform Program

Technical Report

Richard D. Abbott

Edward K. Dey

and

François Kamajou

June 1994

Postharvest Institute for Perishables

University of Idaho
College of Agriculture

Privatization of Fertilizer Marketing in Cameroon:

A Sixth-Year Assessment of

the Fertilizer Sub-sector Reform Program

Technical Report

Richard D. Abbott

Edward K. Dey

and

François Kamajou

June 1994

Postharvest Institute for Perishables

TABLE OF CONTENTS

Page No.

APPENDICES

LIST OF EXHIBITS

GLOSSARY

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

INTRODUCTION

This report is the sixth and final annual assessment of the Fertilizer Sub-Sector Reform Program of Cameroon prepared for USAID/Cameroon by the Postharvest Institute for Perishables, University of Idaho. USAID's involvement in the program terminated with the closure of the 1993/1994 season on 30 April 1994. As documented in this report, the program will continue in a somewhat different form, the principal differences being that subsidies will no longer be paid on imported fertilizer and the private sector will take part in program management through membership on the Technical Supervisory Committee. Loan funds originally contributed by USAID will continue to be used for short-term financing of fertilizer imports and also for medium-term loans for investments in fertilizer preparation and distribution.

The principal author of the report was Richard D. Abbott of the Postharvest Institute for Perishables, University of Idaho. He was assisted by Edward K. Dey, banking specialist, and Dr. François Kamajou of the University Center of Dschang. The field work for the report was carried out in Cameroon between April 13 and May 6, 1994.

This year's report begins with an overall assessment of performance of the program, measured against goals and objective established when the program was conceived. Issues of impact and sustainability of fertilizer liberalization and privatization measures instituted by the program are also examined.

Section Two consists of a summary of findings on the 1993/94 program year, recommendations of the consultants and proceedings of the annual FSSRP seminar/workshop.

Section Three covers the performance of the 1993/94 program year, including a record of fertilizer imports, sales, and stock levels during the year, the level of participation of each category of private sector participant, fertilizer price movements, the effects on fertilizer marketing of FCFA devaluation, and finally operations of the importation loan facility and the subsidy fund.

Section Four is a separate assessment of the financial performance of the FSSRP, focusing on the role of commercial banks in the program, while Section Five examines the performance of the program at the farm level and at the retail sales level. Finally, Appendix A is a detailed discussion of proposals for the financial structure of the new FSSRP upon the withdrawal of USAID, including future operations of the Revolving Credit Fund and the Medium Term Lending Facility.

This technical version of the assessment also includes seven additional appendices. Five of these treat in turn activities of the fiduciary bank, commercial banks, importers, distributors, and retailers during the year. The sixth is a record of interviews with various financial and donor organizations. The seventh appendix is an analysis of and comments on a proposal by the SOMENAC firm to build a fertilizer mixing and bagging plant at Douala, to be financed in part by the FSSRP Medium Term Lending Facility.

This annual assessment was carried out under the supervision of the Technical Supervisory Committee (TSC) of the FSSRP and its President, M. Alinga Ateba Innocent. Assisting in the assessment were M. Felix Nkonabang, Administrative Coordinator of the TSC and M. Richard Molu, Technical Coordinator of the TSU. The authors also wish to acknowledge the support and participation of the Economic Analysis and Policy Reform Implementation (EAPRI) Unit of USAID headed by Dr. Kifle Negash. Mr. Daniel Moore of EAPRI again this year provided invaluable technical and logistical support during the authors' stay in Cameroon and prepared several of the exhibits used in this report.

1. OVERALL ASSESSMENT OF PROGRAM PERFORMANCE

In this report on the final year of USAID/Cameroon participation in the Fertilizer Sub-Sector Reform Program (FSSRP), we have included an overall assessment of performance of the program over the past six years. The assessment begins with a statement of the goals and objectives of the program, measures performance against a series of expected program outputs established when the program began, examines the impact of the program on independent economic actors and on other donor agencies, and finally makes assessments about the sustainability of the privatized fertilizer distribution system. Source documents for this analysis are listed at the end of the section.

1.1 Goals and Objectives of the FSSRP

The goal of the FSSRP is to establish a private market for fertilizer importation, distribution, and financing that is competitive, sustainable, and subsidy-free.

Program objectives are to:

- Liberalize the importation and distribution of fertilizer.
- Progressively eliminate government subsidies on fertilizer.
- Promote the expansion of the private sector in the financing, importation and distribution of fertilizer.
- Provide technical and other assistance to support the program's objectives.

1.2 End of Program Status Conditions (Program Outputs)

Performance of the FSSRP is measured below against a set of seven "Life of Program Outputs" (LOP Outputs) established by USAID and the Government of Cameroon (GRC) at the outset of the program.

LOP Output #1: The GRC has implemented the policy reforms which are necessary for market liberalization and which permit the private sector full access to the importation, distribution, financing, and sale of fertilizer in the part of Cameroon covered by the FSSRP.

The government of Cameroon has instituted all policy reforms necessary to privatize and liberalize the fertilizer importation and distribution process. This has been accomplished by (1) the cessation of activities of the FONADER agency, which formerly contracted for fertilizer with importing companies and allocated the product among users, (2) the progressive removal of subsidies until they reached zero at the end of the 1993/94 program year, (3) the elimination of price controls on fertilizer, and (4) allowing private sector entities to freely import and distribute fertilizer.

LOP Output #2: The private sector alone is responsible for the full range of importation and distribution activities in the FSSRP area of operation and receives no external or technical support from outside agencies, including subsidies from the GRC.

The private sector, including commercial banks, importers, and distributors, have taken over full responsibility for importation and distribution of fertilizer. Direct payment of subsidies to importers has been eliminated. However, importers and distributors may still benefit from below-market interest rates on loans through the Revolving Credit Fund of the program.

LOP Output #3: The private sector is providing a range of fertilizer types for retail sale at reasonable prices at the times and in the quantities sufficient to meet demand in those areas of the country covered by the FSSRP.

LOP Output #5: The importers and distributors of fertilizer are responsive to quantitative and qualitative changes in demand.

CIF costs of imported fertilizer declined from an average of FCFA 97,600 per mt under the FONADER program to FCFA 50,100 per mt in 1992/93 under the FSSRP while world market prices remained stable. This decrease has been almost entirely due to more efficient procurement practices by the private sector, such as negotiation of better terms with suppliers, and importation in shipload lots rather than partial shiploads. In the competitive fertilizer market now existing in Cameroon, distribution costs have also declined--from FCFA 36,000 per mt under FONADER to FCFA 26,500 under the FSSRP in 1992/93. These striking cost reductions point up the gross inefficiencies which existed in the old government monopoly system.

In accordance with the objectives of the FSSRP, subsidies have been progressively reduced, dropping from 66.3% of delivered cost under the old FONADER program in 1987/88 to zero in 1994/95. However, the efficiency gains noted above moderated retail price increases, an indication that fertilizer prices are reasonable under current conditions in Cameroon.

The wholesale/retail network described above is making fertilizer available virtually year round in the high consumption areas to any user with cash to pay for it. Some interruptions of supply still occur, however, as in the 1993/94 season when CFA franc devaluation created demand uncertainties and payment problems for importers. The availability of subsidies throughout the six years sometimes created supply irregularities when competing importers earmarked for subsidies in excess of their needs and discouraged other importers from acting. With the termination of subsidies, this factor has been removed. It should also be noted that the impact of the FSSRP was felt mainly in the four western provinces of Cameroon--the West, Littoral, North West and South West--where demand was high. It had little impact on the low consuming provinces of the Center, South and East. (A different program covered the three northern provinces.)

As to qualitative changes in demand, under the terms of the FSSRP fertilizer types were limited to the five types formerly imported through the FONADER program. These types--intended mainly for coffee--were not always optimum for vegetables and other food crops, which became important users of subsidized fertilizer with the decline in coffee prices. A decision was made in May 1994 that the revised FSSRP program will henceforth open imports to any type of fertilizer which the market demands. The private sector distribution system has responded well to the shift toward vegetable crops by seeing to it that supplies were available throughout most of the year rather than only at the two application periods for coffee. General satisfaction with the program by farmers in the four western provinces was revealed by farm level surveys carried out in 1990 and 1992.

LOP Output #4: There are enough active or potential private sector participants to assure that competitive conditions prevail throughout the fertilizer marketing chain.

A key objective of the FSSRP was to create a private sector distribution system for fertilizer in Cameroon. Significant changes took place in the system during the life of the program. Under the old FONADER program, coffee cooperatives were the only beneficiaries of subsidized fertilizer imported by the government, which was distributed to members through what was essentially a closed system. Other farmers, such as those growing food crops, could choose either to pay the much higher price for non-subsidized fertilizer or try to purchase subsidized fertilizer diverted from cooperative supplies. By the end of the FSSRP, the following conditions existed:

- As many as five commercial banks have been accredited under the program in any one year, and typically two to four banks opened letters of credit for importers.
- Two or three importers participated each year of the program, although as many as 14 solicited orders from distributors. Importing firms now compete in selling to smaller wholesalers who have their own networks of retailers. Several importers have standing arrangements with distributors under which credit is extended for purchases, creating the essential elements of a privately-financed distribution system.
- Independent distributors (privately-owned companies selling at wholesale) sold 45% of the total amount imported in 1993/94. This included eight companies handling more than 100 mt, and a large number dealing in smaller quantities. This compares to four firms in the first year of the program and none at all under the FONADER program. All but one of these companies are Cameroonian-owned.
- Coffee cooperatives have decreased in importance as distributors. Cooperatives now compete in a free market with independent distributors, though some choose to subsidize the cost to members, and to recover the subsidy through coffee sales.
- At the retail level, there has been a proliferation of small merchants in the West and North West Provinces selling fertilizer in sack lots. These merchants purchase their fertilizer from the distributors, generally on a cash basis, and sell in 50 kg sack lots, and sometimes in smaller sizes. "Cup sellers" selling in even smaller quantities have recently made their appearance in village markets.

LOP Output #6: The participants involved in the fertilizer sub-sector, including the GRC, the private sector, and the farming public are committed to, and practicing, their new roles and their new relationships with other participants resulting from the privatized system.

The commitment of the private sector to the privatized system is demonstrated by the steadily increasing number of participants and by new investmentts in fertilizer wholesale facilities (warehouses) and retail stores, particularly in the past two years. At the import level, several companies now have plans in advance stages of preparation for investments in fertilizer mixing and bagging at the port of Douala. Further evidence of commitment was the formation in May 1994 of the *Association Camerounaise des Professionnels d'Engrais* (ACPE), grouping importers and distributors, and also associating commercial banks. There has been no evidence that the GRC plans any change in its indirect supporting role.

LOP Output #7: The GRC is performing appropriate public functions to support a liberalized, privatized fertilizer sub-sector, including: maintaining quality controls, coordinating research and extension related to soil fertilization, and collecting, analyzing, and disseminating information related to the present status and future of the fertilizer market in Cameroon.

The Technical Support Unit of the FSSRP, now renamed the Agricultural Inputs Development Unit (AIDU), has taken on responsibility for dissemination of market and technical information through a periodical publication ("*Conjoncture*"), and through radio and television spots. Plans are to expand the range of information provided and eventually to make current market information available to subscribers through facsimile. Much remains to be done in terms of research and extension on fertilizer use. The AIDU has recently been given responsibility for coordination and funding of these activities through the Ministry of Agriculture and other agencies.

1.3 Impact of the Program

The Bloch and Eriksen report (Ref. # 2) makes a useful distinction between accomplishments and impacts. Accomplishments are defined as outputs directly attributable to the provision of resources--cash grants, technical assistance, policy dialogue, participant training, etc. These have been discussed above. In Bloch and Eriksen's definition, "impacts are actions taken by independent economic actors in response to the new opportunities presented by successful policy reforms". The authors found the following evidence of impacts of the FSSRP, some of which are linked to arabica coffee marketing liberalization under USAID's Program of Reform in the Agricultural Marketing Sector (PRAMS).

Farmers have proven themselves highly responsive to the new commodity and input price relationships they are facing.

In contrast to the opinion of many GRC officials, farmers have generally proved capable of making their own resource-allocation decisions. For example, under the old paternalistic system the government basically made decisions for coffee planters by artificially fixing prices for coffee and fertilizer. In the present liberalized environment, with prices conforming more closely to world market prices, farmers have made rational decisions--such as reducing fertilizer application on coffee as returns declined with low coffee prices, and applying it instead to higher-value food crops.

Improved resource allocations based upon clearer market signals.

Anecdotal and survey evidence suggest that farmers are much more cost conscious in the purchases of inputs, and are reallocating land and labor based upon recent changes in the relative profitability of the crops they grow. Before the liberalization of arabica coffee marketing, and prior to devaluation, when coffee prices were very low, there was a definite tendency toward diversion of fertilizer from coffee toward the more profitable food crops. Since devaluation, when arabica coffee prices sharply increased, there is evidence of a swing back toward the use of fertilizer on coffee.

The demonstration effects of successful policy reforms within the arabica coffee and fertilizer sub-sectors have had positive impacts on the prospects for progressive liberalization of other commodity chains, particularly robusta coffee and cocoa, and with regard to other input procurement and distribution systems.

The success of liberalization measures under the USAID-supported FSSRP and PRAMS programs has been in sharp contrast to the difficulties experienced by other donors in their attempts to restructure the robusta coffee and cocoa marketing chains. Representatives of both major French development assistance agencies, the *Fonds d'Aide et Coopération* (FAC) and the *Caisse Française de Développement* (CFD), have evaluated the contrasted experiences, and are reported to be interested in adopting many elements of USAID-supported reforms in the other commodity marketing systems. Similarly, the success of the reforms appeared to have spurred interest in the GRC and donor community in accelerating marketing reforms with respect to other agricultural inputs, such as seeds and agricultural chemicals.

There were also some factors which may have <u>reduced</u> the impact of economic policy reforms.

The sequencing of reform activities muted impacts in both the fertilizer and arabica coffee sub-sectors.

Since farm-level use of fertilizer in the North West and West Provinces has proven to be closely linked to the producer prices received for arabica coffee, liberalization and privatization of both sub-sectors simultaneously would have had mutually reinforcing effects on the allocation of resources in the region. Instead, fertilizer prices were raised while coffee prices were declining. Modest gains in the profitability of coffee engendered by cost reductions and better marketing of coffee at NWCA were muted by the increases in fertilizer prices. Finally, FCFA devaluation, which should have taken place before any of these reforms were attempted, came at the very end of the process.

Differential access to local bank credits between foreign and domestic firms was a major technical constraint to more Cameroonian-owned firms seizing the opportunities created by reform activities.

Fertilizer importation under the FSSRP was dominated by foreign-owned firms. One of the major reasons for this situation was the preference accorded by banks to more solidly financed foreign firms as opposed to smaller Cameroon firms. Nor has the program led to the repatriation of capital held abroad by Cameroonians and its investment in the fertilizer industry. As a result, at the importation level, Cameroonian entrepreneurs have not been the major beneficiaries of FSSRP reforms.

1.4 Sustainability

1.4.1 Sustainability of Liberalization Policies

Liberalization measures promoted by the FSSRP have taken hold firmly and the private sector is marketing fertilizer much more efficiently than the public sector managed program ever did. Under its current straitened financial condition, it seems unlikely that the government, or at least the present government, would return to the old managed fertilizer system or anything like it.

There are a few situations, however, which might induce the government to intervene in other ways:

- The predominance of foreign-owned firms in the import of fertilizer could cause the government to intervene to give preference in some way to Cameroonian firms.
- The offer of donations of fertilizer from foreign donors could, if given away without charge, interfere with the private marketing of fertilizer.
- Coffee cooperatives, which have been considerably weakened by low returns on coffee in recent years, and by competition from the private sector, could appeal to the government for support in the form of operating subsidies, also interfering with liberalization.
- Should a single importer achieve a monopoly position, the government might intervene to assure that competitive fertilizer prices prevail. This will be more likely if one firm builds a mixing and bagging plant and dominates the market by lower prices.

On the other hand, intervention appears unlikely for the following reasons:

- Conditionalities attached to the IMF stand-by arrangement, and to the World Bank Structural Adjustment Program, should effectively discourage any reversal of liberalization policies.
- The recent organization of the ACPE means that the industry now, potentially at least, can speak with one voice and defend its interests against changes in policies
- Farmer awareness of the benefits of liberalization of both fertilizer and arabica coffee marketing, as revealed by farm surveys, is such that that there would be strong opposition from the rural sector to a reversal of policies.

1.4.2 Sustainability of the Private Sector

The private sector import and distribution system created under the FSSRP has expanded each year of the program. In 1993/94 this system consisted of three commercial banks, six importing firms, at least ten distributors handling more than 100 mt plus many handling smaller amounts, and a large number of retailers. These participants continue to make investments in wholesale and retail facilities, and one importer is preparing to invest in a mixing and bagging plant.

The recent formation of the ACPE, and active interest in it by importers and distributors, is another sign of the vitality of the private sector. Above all, it is the broadening of participation at the import, wholesale and retail level--the commitment on the part of many individuals and business enterprises who have a stake in the system--which is most likely to lead to a sustainable private sector fertilizer system.

The lack of liquidity in the banking sector of Cameroon has severely limited the availability of credit and this affects private sector marketing of fertilizer at every level. However, importers are now beginning to sell fertilizer to distributors on more liberal credit terms, and in one case, setting up a joint venture which involves financing of a wholesaler's stock and sharing of operating costs. This is the beginning of the creation of a self-financing system which is much more likely to be self-sustaining than one dependent on outside financing.

The evaluation of the FSSRP carried out by AID/W in 1990 (Ref. #1), referred to the privatized sysem as a "quasi-market" and raised doubts as to whether it would ever evolve into a "true" market system. The evaluators felt that the availability of subsidies and loans at preferential rates, the management of the system by the TSC, and the intimate involvement of the AID Mission in the program, all indicated that the system was not truly a private sector one and might not be sustainable after the FSSRP terminated. Four years later, these objections seem less relevant. Subsidies in 1993/1994 were only at the 8% level (zero in 1994/95), and can no longer be seen as a key factor in sustainability of the system. Importation loans also now play a minor role in the program, as explained in preceding sections, and in fact importers now rely almost entirely on external sources to finance fertilizer imports. TSC involvement in the program is not intrusive, and indeed with so many other problems to deal with the government exhibits only minimal interest in the program.

1.4.3 Sustainability of Public Sector Capabilities

At the conclusion of the FSSRP, the government was called on to maintain two elements of the program. One is the monitoring and information service now being carried out by the Technical Support Unit (now renamed the Agricultural Inputs Development Unit), located in the Ministry of Agriculture. AID funds provided support to this unit in the past, and will continue to do so under agreements signed with the GRC on the closure of the USAID mission. The sustainability of this unit is thus assured for the next five years. Since there is no assurance that government support will be available afterwards, the AIDU should seek to recover its costs through subscriptions to its market information services.

The second area of continued involvement of the public sector is the management of the Revolving Credit Fund left behind after the withdrawal of USAID. Agreements to be signed by USAID and the GRC will provide for management of these funds by the Fiduciary Bank under the supervision of the Technical Supervisory Committee, as in the past. The agreements cover a five-year period, 1994 to 1999. Given the fact that the experience of the Fiduciary Bank will continue to be available, and that the reconstituted TSC will include private sector representatives, it seems likely that the funds will be properly managed. There can, however, be no total assurance that this or a future Cameroon government would not seize control of the funds by fiat and divert them to other uses.

1.5 **References**

1. Impact Assessment of USAID's Agribusiness Program, Olsen, Craig and Roger Poulin, Development Alternatives Inc., February 1994.

2. Economic Policy Reform Impact Assessment of USAID-Supported Reform Initiatives in Cameroon,, Eriksen, John and Peter Bloch, Associates in Rural Development Inc., March 1994.

3. Goals, Purposes, and Outputs: An Annotated Guide to the FSSRP, Troung, Tham and T. Walker, April 1989.

4. CDIE Agribusiness Assessment, Cameroon Fertilizer Sub-Sector Reform Program, (Background Paper), Abbott, Richard D., October 1993.

5. Privatization of Fertilizer Marketing in Cameroon: A Sixth-Year Assessment of the Fertilizer Sub-Sector Reform Program, Abbott, Richard D. and Edward K. Dey, The Postharvest Institute for Perishables, University of Idaho, June 1994.
(See also five previous annual assessments.)

2. FINDINGS AND RECOMMENDATIONS

2.1 Principal Findings Concerning the 1993/94 Program

2.1.1 Overall Assessment of the Program

Importation of fertilizer under the Fertilizer Sub-Sector Reform Program in 1993/94 was again affected by economic conditions in Cameroon. Imports continued to decline and were only 29% of the level in the first year of the program. Sales of fertilizer by importers to distributors dropped by 10% and the result was that importers' stocks were at very low levels--only 3,000 mt at the end of April. However, a final shipment of 9,400 mt scheduled to arrive in June will restore stocks to more normal levels.

Devaluation of the CFA franc in January 1994, coupled with an increase in world market prices for fertilizer, caused a 70% increase in retail prices of fertilizer and reduced consumption in the January to May period below what it would otherwise have been. Although prices of arabica and robusta coffee, the principal users of fertilizer, are now roughly three times what they were before devaluation, uncertainties about the future led many coffee planters to reduce purchases of fertilizer in the short term. However, benefit/cost calculations show that the use of fertilizer on arabica coffee is quite profitable and the expectation is that consumption will increase rapidly within the next year. The high fertilizer price reduced its use on food crops, since prices for these products did not increase as did those for coffee.

The bright spot in this picture is that despite poor economic conditions, participation by the private sector in the FSSRP continued to increase. Liberalization of the fertilizer market, one of the key objectives of the FSSRP, has led to the creation of a network of wholesale and retail dealers in the main fertilizer consuming areas of the West, North West and Littoral Provinces. This is a clear sign that the private sector has confidence in the long-term sustainability of the privatized fertilizer marketing system.

The 1993/94 FSSRP campaign officially closed on 30 April 1994. Importers who earmarked before that date have 90 days to clear shipments through customs in Douala in order to qualify for subsidies. After that date USAID involvement in the program ends. Discussions at the Sixth Annual FSSRP Seminar/Workshop, held in Douala in May 1994, led to the restructuring of the program. Subsidies have been eliminated, but the loan facility has been expanded to incorporate both short-term and medium-term lending, the latter intended to facilitate investments in the industry, such as fertilizer mixing and bagging at the port of Douala as a means of lowering the cost to the final user. Another change was the reconstitution of the Technical Supervisory Committee to incorporate three representatives of the private sector, along with four public sector members. The private sector people will be nominated by the newly-organized *Association Camerounaise des Professionels d'Engrais* (ACPE), whose members will consist of importers, distributors, and commercial banks (the latter as associate members). The creation of this organization is yet another indication of the interest and commitment of private sector participants in the reformed fertilizer sub-sector.

2.1.2 Imports and Sales Levels

Imports of subsidized fertilizer under the FSSRP declined again in 1993/94 relative to last year. As of the closing date of the 1993/94 program, only 8,757 mt had actually arrived in country, although another 9,400 mt was en route. The total of about 18,200 mt is below last year's figure of 22,600 mt, continuing the downward trend from 63,000 mt in the first year of the program. Sales by importers to distributors also declined, from 20,300 mt in 1992/93 to 18,400 mt this past year. This level of sales against the relatively small tonnage imported reduced importer stock levels to only about 3,000 mt and virtually exhausted stocks of urea and ammonium sulfate. The arrival of the final shipment of 9,400 mt will restore stocks to more nomal levels.

2.1.3 Participation by Banks and Importers

Three commercial banks were acredited for 1993/94 and two of them--*Crédit Agricole du Cameroon* and Amity Bank--were involved in importation, one less than in the previous year. Three firms imported fertilizer during the year. IBEX imported 8,700 mt, Groupe One imported 9,400 mt and Bakah Enterprises imported 57 mt. Two other importing firms--ADER and IBE--sold fertilizer from existing stocks, but did not import.

2.1.4 Participation at the Distribution Level

Information available from importers indicated that at least eight wholesaling firms handled amounts of fertilizer in excess of 100 mt during the year. A large but undetermined number of smaller dealers also purchased from importers and distributed at the wholesale or retail level. The number of fertilizer retailers with shops in towns and villages in the main consuming areas continues to increase, a sure indication of the success of the program in creating a private sector distribution network.

2.1.5 Fertilizer Prices

Fertilizer prices are in a transition phase. Though most fertilizer now in the distribution system was imported at pre-devaluation prices, most importers and distributors have already raised prices to a level somewhere in between the old price and what will become the new post-devaluation price. Retail prices for NPK and urea fertilizers range from FCFA 6,000 to 7,000 per sack (ex-Douala) depending on the size of the purchase and the source. Ammonium sulfate prices have increased from an average of FCFA 2,600/sack to about 4,500/sack. Recent post-devaluation CIF quotations for NPK range from FCFA 100,000 to 140,000 per mt (FCFA 5,000 to 7,000/sack), so retail prices may be expected to rise to the 7,000 to 8,000 FCFA/sack range once fertilizer now in the system is all sold.

2.1.6 Effects of FCFA Devaluation on Fertilizer Consumption

Faced with much higher fertilizer prices following devaluation in January 1994, farmers reduced their purchases. In arabica growing areas, planters are beginning to benefit from higher coffee prices, but many are taking a "wait and see" attitude before buying more fertilizer. In robusta areas, where fertilizer utilization was already low, few planters are currently purchasing fertilizer for cash, though credit sales against future deliveries of coffee continue to be made. Calculations of benefit/cost ratios confirm that fertilizer application is more profitable than before on arabica, whereas its use on robusta has not risen sufficiently to make its application worthwhile. No benefit/cost data is available for food crops, which may use as much as half of FSSRP imports, but it appears that consumption has decreased somewhat as market prices have not increased at the same pace as fertilizer prices.

2.1.7 Use of Importation Loan and Subsidy Funds

Two importation loans were processed, both for IBEX transactions through *Crédit Agricole*. Imports by Groupe One and Bakah Enterprises used supplier credits rather than letter of credit financing and so these two companies did not qualify for importation loans. As of the date of drafting of this report (May 1994), only the subsidies for the two IBEX shipments had been disbursed; Groupe One and Bakah Enterprises are also eligible for subsidies. Additional subsidies earmarked for Groupe One and Bakah Enterprises expired before they could be used.

2.2 Recommendations

2.2.1 Recommendations Related to Fertilizer Marketing

Liberalize robusta coffee marketing: It is recommended that robusta coffee marketing be liberalized, as is already the case for arabica coffee, and that robusta prices be allowed to find their own level without any interference by the government. Utilization of fertilizer on robusta coffee is currently constrained by low producer prices for this type of coffee. The official minimum price for robusta doubled after devaluation to FCFA 270/kg, though more recently the average price has moved up to around FCFA 300/kg in response to prices being paid by some coffee cooperatives. According to officials of NWCA, which markets some robusta coffee in addition to arabica and is aware of current market prices in Europe, the cooperative would pay producers FCFA 450 to 500/kg if there were no controls. If coffee buyers paid this price, the benefit/cost ratio for fertilizer use would be high enough to make it profitable, leading to increased coffee yields and higher exports.

Reconstitution of the Technical Supervisory Committee: We agree with the idea that at the conclusion of USAID participation in the FSSRP the Technical Supervisory Committee should be reconstituted to include three representatives of the private sector, along with four from government agencies. These private sector members should be nominated by the ACPE, a body which was formally established in May 1994. Membership in this organization is open to any fertilizer importer or distributor; commercial banks will be invited to join in an associate status. We recommend that the association nominate an importer, a distributor and a banker (other than someone from the Fiduciary Bank) for the three TSC positions.

Responsibilities of the new Technical Support Unit: We recommend that the scope of responsibilities of the new TSU--henceforth to be called the Agri-Inputs Development Unit--include collection of information on market prices of fertilizer in selected towns and villages in the main consuming areas of Cameroon. This information should be disseminated by the TSU on a weekly basis to the media, or by fax or courier to subscribers willing to pay for this service.

Handling of fertilizer donations: Should any foreign donor agency or government offer to contribute fertilizer to Cameroon, we strongly urge that it not be given outright to users. This would have a negative effect on the private sector fertilizer distribution network created by the FSSRP. Importers and dealers who have invested in fertilizer stocks, storage facilities, and retail stores would find their investments jeopardized by the appearance of free fertilizer in Cameroon. Furthermore, it would clearly affect the viability of any fertilizer mixing and bagging plant which might be built in Douala.

As an alternative to in-kind donations, the donor might be persuaded to make a monetary donation, which could be used to supplement the funds now planned for the Revolving Credit Fund and the Medium Term Lending Facility. Other uses would include paying the costs of training (see below), fertilizer demonstrations, soil testing, or additional market information services. If the donation can only be in kind, then we recommend that the fertilizer be auctioned off in local currency in lots small enough to attract the interest of smaller dealers, and that the proceeds be used as suggested above. We recommend that the guidelines for such an auction be worked out in cooperation with the ACPE.

If at the time the fertilizer is donated, a fertilizer mixing and bagging is operating or nearly completed, we recommend that the donated fertilizer be simple fertilizers (not NPK formulations) in bulk and that the receiving GRC agency contract with the plant operator to mix and bag fertilizer for a fee and that the mixed and bagged fertilizer be sold at auction as above.

Fertilizer marketing training: The recent two-week seminar on fertilizer offered by USAID and the International Fertilizer Development Center was considered a success by all who attended. However, a number of people in the fertilizer business did not attend and have requested that the course be repeated. Reasons cited for not participating included failure to receive information on the place and time of the seminar, and the difficulty of getting away for the full two week period. The TSC should consider organizing similar seminars in the future, but tailored to the desires of those in the fertilizer business and of not more than one week's duration.

2.2.2 Recommendations Related to the Revolving Credit Fund (RCF)

Coverage: The RCF should extend its coverage to all types of fertilizer used in Cameroon.

Risk sharing: Risk sharing with the lending banks should be maintained at the level of 30%, documented by a standby letter of credit committing to reimburse them for that portion of their losses on loans covered by the program.

Total interest cost: Overall, the RCF program should aim to bring the users' total interest cost to a target level close to the discount rate (*taux de base débiteur ordinaire*, or TBDO) of the central bank (BEAC). Provided total cost to the borrower is not brought below discount/money market rates, distortion in the financial markets would be avoided.

Direct loan option: Achieving the above goal using direct lending is difficult because of the concomitant need to husband the Fund's resources. To get near the interest cost target, the lending conditions under the direct loan option will need to be changed. The loan amount should be increased to 50% (from 30% at present) of fertilizer value. The Commercial Bank (CB) lending rate on that amount should be lowered to 50% of the TBDO, and the interest rate on the Fund's loan to the CB set at 3% below that. This would give the borrower an interest saving of 3% compared to the current RCF direct loan program.

Interest make-up option: An option using the interest make-up *(bonification)* technique should be added to the RCF. The 30% risk-sharing under the standby l/c would also apply to this option. Under this option, the RCF would advance no funds to the CB, which would have to fund the loan entirely from its own resources. Interest make-up would apply to interest on the entire amount of the CB's loan. By regulation the CB may charge a maximum interest margin on commercial lending (the *taux de banque*), currently 6.5%, and the RCF would make up that amount of interest. Compared to the direct loan option, this option would more likely enable the RCF to help drive down the fertilizer importer/distributor's total borrowing costs to the equivalent of the BEAC discount rate--a saving of 6.5% over current commercial lending rates.

It is important to note that the RCF should maintain the direct loan program option, with interest make-up available as an option to use if banking liquidity permits.

2.2.3 Recommendations Related to the Medium Term Lending Facility (MTLF)

Following the CFA franc devaluation, the investment cost of any likely project has risen substantially, because of the higher capital cost (imported machinery) and operating costs (the price of imported fertilizer has virtually doubled). Conditions for eligible projects and loans require modification to take account of this fact.

Financial ratios: Project eligibility should be redefined so that the total of all short-term debt plus senior long-term debt may not exceed 70% of the borrower's adjusted total assets at the start of the project. Unless proof of recent cash expenditure can be demonstrated, land, buildings, and intangible costs should be valued at zero in the calculation of adjusted total assets. These are more appropriate financial ratios for a capital investment project than the current requirement that investors must contribute 50% equity to the project.

Loan maturity: MTLF loans should have a maximum final maturity date six years from loan signature, rather than five as at present. This provision should apply to any loan covered by the MTLF, including those benefitting only from the interest make-up option.

Risk sharing: Risk sharing with the lending bank(s) should be established for the interest *bonification* option as well as the direct loan option, at the level of 25%, documented by a standby letter of credit. As with the RCF, there would be no fee for issuance of the standby l/c.

Maximum loan amount: The maximum total loan amounts covered by the MTLF should be increased to FCFA 1,200 million from the current FCFA 800 million. The direct loan option should continue to cover a maximum of 50% of total loan value. The existing second option combining a direct loan and standby l/c should be eliminated. The interest make-up option should cover 100% of the total loan (currently 50%).

Target interest rate: The target rate for the borrower's total loan under the MTLF should be 1.5% above the TBDO. The rate structure of the MTLF is to be flexible (although the interest rate charged on a loan extended under the program will be fixed, not floating) so as to reflect changes that the BEAC may make from time to time in the TBDO or the *taux de banque*. The pricing under both options would be structured to allow the banks to earn the full amount of the *taux de banque*.

Under the direct loan option the MTLF loan interest rate to the borrower (i.e., for 50% of total financing) would likely be set at 75% of TBDO (currently 14.0%). The loan from the Fiduciary Bank (on behalf of the Fund) to the Commercial Bank should carry an interest rate below that rate, by a margin equal to the *taux de banque*.

Under the interest *bonification* option, the MTLF would make up an amount of interest equal to the *taux de banque* less 1.5% on the entire loan from the commercial bank to the project investor.

Loan default: The GIP should include a clause specifying the most significant events of default and including a cross-default clause.

2.2.4 Administrative Recommendations

Earmarking period: The length of the earmarking period in the RCF should be shortened from 90 days (which was appropriate when the Fund's lending was linked to the Subsidy Fund) to 30 days.

Earmarking fee: To discourage "frivolous" earmarkings, a fee of FCFA 25 per mt of fertilizer should be required to initiate an earmarking under the RCF, payable in advance; it would be refunded to the extent the earmarking is used. The earmarking fee under the MTLF should be increased to ¼% p.a., also refundable if the earmarking is used (or if available funds are insufficient to meet a fully conforming request).

Claims for losses by banks: Procedures for processing claims for losses under the standby letters of credit need to be clarified, and the text of a *pro forma* standby l/c should be added to the General Information Pamphlets for the RCF and the MTLF.

Conflict of interest: The Fiduciary Bank should advise the TSC in writing of any potential conflicts of interest arising from its business outside the RCF and MTLF, with customers that participate in those programs.

External audit: The new RCF program will need provision for a periodic external review, conducted by the *Caisse Autonome d'Amortissement* (CAA).

Seminar: The TSC should host a one-day seminar to familiarize participants and prospective participants with the revised RCF and MTLF programs, emphasizing program options and operating details. The seminar would be led by the CAA and the Fiduciary Bank. A morning session could be limited to commercial banks, the afternoon session to include both importers and distributors as well as commercial banks.

2.2.5 Recommendations Related to Farmer Utilization of Fertilizer

Actions by the TSU:

(1) Develop a fertilizer weekly bulletin of no more than a page providing information on the sources and prices of various types of fertilizer on the world market and on the local markets.

(2) Multiply the sites and number of demonstration trials making sure the sites are easily accessible to farmers and other fertilizer dealers.

(3) Utilize the data from the trials proposed above to prepare technical bulletins for usage by extension agents and retailers, specifying for each region and/or soil type and each major crop the formulations of fertilizer needed, the applications rates and other precautions to take for handling.

(4) Conduct demand studies like the one realized by François Kamajou and his team in the Center, East and South provinces. These provinces are potentially important Robusta producers.

(5) Support bi-annual fertilizer use surveys to permit monitoring at farm level and to facilitate further research in this area.

(6) Carry out a national survey of fertilizer utilization practices by vegetable growers. These crops are becoming more important as cash crops for farmers, and they now utilize fertilizers formulated primarily for coffee.

Actions by the Government of Cameroon:

(1) Promote the liberalization of coffee marketing, especially in the Robusta sub-sector, by restricting the role of the ONCC to an advisory one, providing technical information on coffee processing and quality control. The newly created professional organization for cocoa and coffee (CICC) should progressively but rapidly take over quality control functions from the ONCC.

(2) FCFA devaluation has completely changed the fertilizer utilization prospects for farmers. During the current adjustment period, the government should consider measures to reduce fertilizer costs to farmers, including reduction of taxes and duties on imported fertilizer.

(3) The installation of a bulk-blending plant should be encouraged so as to reduce the cost of fertilizer to farmers, not only in Cameroon but also in the regional market.

(4) Encourage and support the formation of an association of fertilizer dealers comprising importers, distributors, retailers and, eventually, operators of mixing and blending plants.

2.3 The Sixth Annual FSSRP Seminar/Workshop

The sixth annual FSSRP seminar/workshop was held in Douala, May 4 and 5, 1994 under the chairmanship of the Secretary General of MINPAT and President of the TSC, M. Alinga Ateba Innocent. Representatives of the Fiduciary Bank, commercial banks, importers, and distributors participated, along with officials of MINPAT, MINAGRI, MINFI, MINDIC, the Prime Ministry, USAID, and other donors. Resolutions and recommendations adopted by the group are listed below.

2.3.1 Resolutions

(1) For reasons evoked in previous workshops, and with the additional consideration of the withdrawal of both USAID and FED from fertilizer programs, participants suggest that, at a minimum, interest rates practised by the two programs be harmonized.

(2) Participants expressed satisfaction at the execution of resolutions and recommendations made at the Fifth Annual Seminar Workshop. In addition, the Bamenda seminar conducted by the IFDC has led to the creation of the *Association Camerounaise des Professionels d'Engrais* (ACPE), for which participants express their congratulations to the TSC.

2.3.2 Recommendations

(1) Reorganization of the TSC:

Considering the broad scope of activities of the private sector in the development of fertilizer marketing after the withdrawal of USAID, participants accepted the recommendations of USAID consultants that the private sector take part in decision-making by the TSC. To that end, members of the TSC will henceforth be the following:

Public sector:
- MINPAT - President
- MINFI/CAA - Controller
- MINAGRI - Member/Rapporteur
- MINDIC - Member

Private sector:
- Importer - Member
- Distributor - Member
- Banker - Member

Ex-officio member:
- Fiduciary Bank

(2) Accompanying measures to attenuate the effect of FCFA devaluation and to stimulate the consumption of fertilizer:

In comparison to the previous three FSSRP campaigns and the present economic conditions in Cameroon, which FCFA devaluation has exacerbated, consumption of fertilizer will continue to decrease unless the government puts into place strong and effective accompanying measures.
In view of this situation, participants recommend:

- the establishment of free trade zones (*points francs industriels*) for producers of agricultural products (coffee, cacao, cotton, food crops), like the one for the PROLEG enterprise at Bandjoun, providing for the exoneration of customs duties on imported inputs and agricultural equipment in general, and that of fertilizer in particular,
- total liberalization of the robusta coffee and cacao sub-sectors with a view to increasing the consumption of fertilizer, and
- reduced tariffs for the transport by public conveyance of fertilizers and other agricultural products to distant or isolated regions, such as the East Province.
- a narrowing of the gap between the interest rate charged by commercial banks and the BEAC discount rate for agricultural activities,

(3) Accompanying measures to improve the marketing system for agricultural products:

Under the impulse of the New Agricultural Policy, and of studies such as that carried out by Geomar under the World Bank project for "Promotion and Diversification of Exports of the Republic of Cameroon", Cameroon farmers have been working hard. However, the collection and distribution of most of their products continues to encounter difficulties. The participants strongly recommend an intensification of the diffusion through the media (television, radio, press) of a Rapid Alert System to eliminate or reduce permanently the plague of police barricades on the highways.

(4) Utilisation of the Revolving Credit Fund (RCF) for distributors of fertilizer:

After listening to the annual FSSRP review prepared by the USAID consultant, and his accounting of actions taken in response to resolutions and recommendations made at the Fifth Annual FSSRP Seminar/Workshop, it appears that no distributor has yet benefited from the RCF.

The participants recommend that the TSU again make known to fertilizer distributors the availability of this fund, and recommend also that the conditions of access to this fund be simplified.

(5) Management of possible fertilizer donations:

Despite the implementation of privatization and liberalization policies of fertilizer marketing, it is possible that a friendly country would assist Cameroon by offering a donation of fertilizer. In that event, the participants recommend that the TSC be intimately involved in the disposition of these stocks in order to safeguard the fragile equilibrium of the market.

(6) Definition of areas of intervention of importers and distributors in the marketing of fertilizer:

Every year, distributors complain about direct selling of fertilizer on the local market by importers. The participants recommend therefore that the ACPE make a clear and precise definition of the respective areas of competence of these two groups in the regulations currently being drawn up.

(7) Maintenance and redeployment of the activities of the TSU:

The participants, after having followed with interest the review of actions taken pursuant to recommendations made at the Fifth Annual FSSRP Review in Douala, July 8 and 9, 1993, especially the one relating to intensification of agricultural extension work on the utilization of fertilizer, decided to rename the TSU the "Agricultural Input Development Unit" (AIDU), and recommended that:

- the AIDU should rapidly improve its system of diffusion of information on the internal and world markets for fertilizer, and in so doing, should be inspired by the example of the "Arabica Marketing Information System" (AMIS),

- the AIDU should intensify its work on fertilizer trials and demonstrations on crops in all parts of the country, and finally,

- the AIDU should organize as often as possible small training seminars for distributors on the utilization of fertilizer on crops in the principal ecological zones of the country.

(8) Revisions to the General Information Pamphlet on the Medium Term Lending Facility and the Revolving Credit Fund:

The need to revise the texts of these documents stems from the withdrawal of USAID from the FSSRP, the complaints received on the form of certain sections of the texts, and the need to ease conditions of access if economic conditions do not improve.

3. PERFORMANCE OF THE FSSRP THROUGH 1993/94

3.1 Imports, Sales, and Stock Situation for 1993/94 Program Year

Fertilizer imports under the FSSRP in 1993/94 were lower than the previous year. Three importers purchased from foreign suppliers a total of 18,157 mt, compared to 22,600 mt last year. Of this amount, 9,400 mt had not yet arrived in country as of the end of May 1994 but is expected during June.

Imports, sales by importers to distributors, and the stock balance for the 1993/94 year are as follows:

Exhibit 1
Imports, Sales and Stock Situation, 1993/94
(metric tons)

	NPK 20-10-10	NPK 12-06-20	Urea	Ammon Sulf	Total
Stocks 6/93	3,247	2,363	2,335	4,653	12,598
Imports to 4/94	7,700	-	1,057	-	8,757
Sales, 93/94	8,635	1,813	3,335	4,653	18,436
Stocks, 4/94	2,312	550	57	0	2,919
En route	2,500	-	6,400	500	9,400
Total imports	10,200	0	7,457	500	18,157

As of the end of the program year on 30 April 1994, importers had no stocks of ammonium sulfate, while the only stocks of urea consisted of the 57 mt which had just arrived. Uncertainties related to devaluation of the CFA franc in January 1994 led importers to delay purchase decisions as long as possible and resulted in a shortage of urea and ammonium sulfate. Total stocks in the hands of importers at the end of April amounted to only 2,919 mt, but stocks will be replenished with the arrival of another 9,400 mt sometime in June.

3.2 Historical Perspective on Imports, Sales and Stocks

To put the above situation in perspective, Exhibit 2 shows the changes in stock, sales and imports since the first year of the FSSRP. Figures are rounded to the nearest hundred mt. The same data is graphed in Exhibit 3.

Exhibit 2
Imports, Sales and Stock Summary
1988/89 to 1993/94
(metric tons)

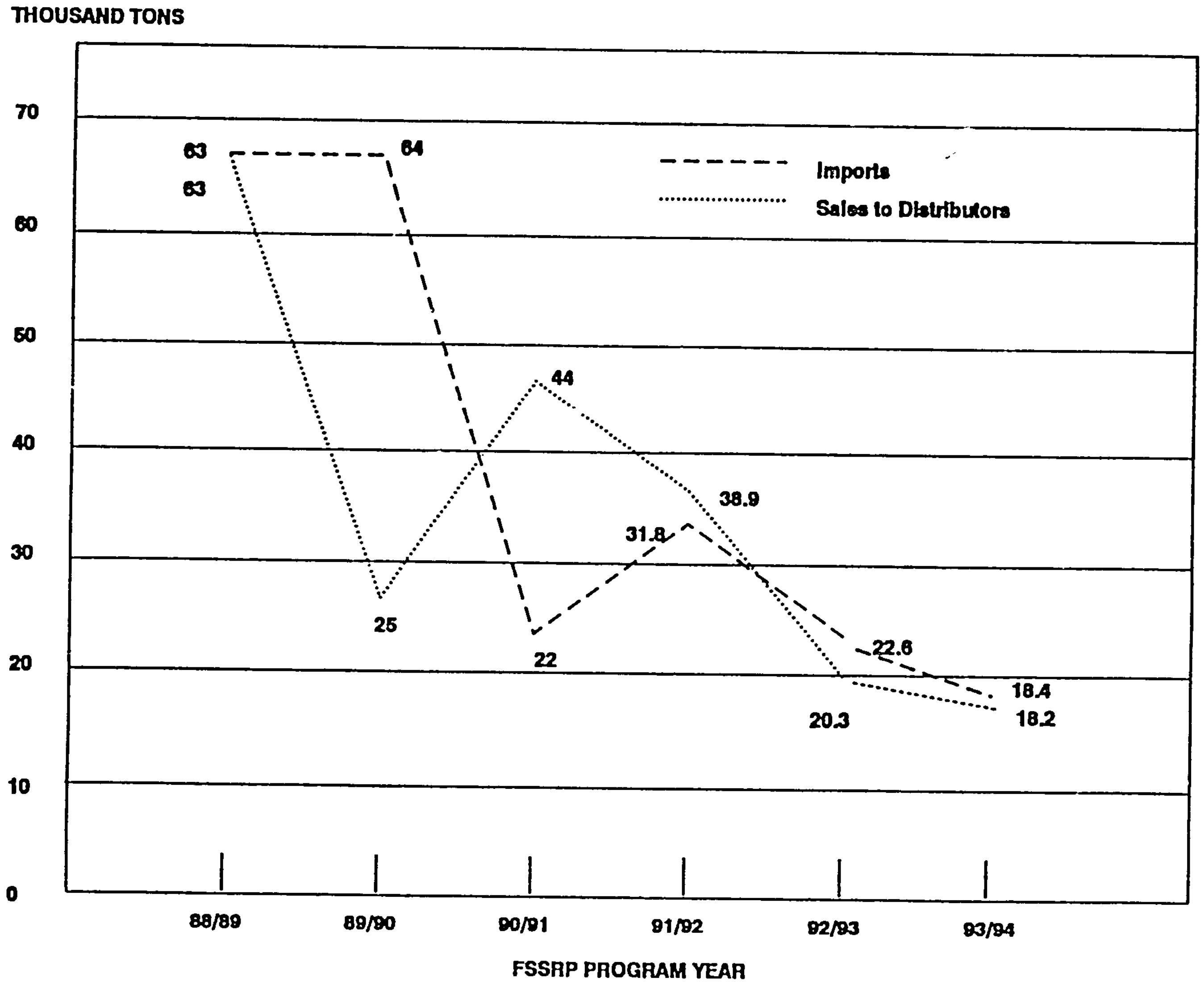
	Stocks, beginning	Imports	Sales to Distributors	Stocks, end
1988/1989	0	63,000	63,000	0
1989/1990	0	64,000	25,000	39,000
1990/1991	39,000	22,000	44,000	17,000
1991/1992	17,000	31,800	38,900	10,200
1992/1993	10,200	22,600	20,300	12,500
1993/1994	12,500	18,200	18,400	12,300

The import figures for 1993/94 include the final shipment of 9,400 mt which was en route to Cameroon in late May 1994.

Unfavorable economic conditions in Cameroon throughout the six years of the FSSRP have resulted in a general decline in import and distribution of fertilizer. This is made clear by the curves in Exhibit 3. Imports in 1993/94 will amount to only 29% of the level at the beginning of the program. At that time, coffee cooperatives were the only distributors and coffee prices had not begun their decline, with the resulting reduction in demand by coffee planters and the diminished role of the cooperatives in distribution. As noted elsewhere in this report, private distributors have picked up the slack and have created a distribution network which now parallels that of the few remaining cooperatives which purchase and distribute fertilizer.

The years 1989/90 and 1990/91 were marked by imbalances between imports and sales. The very large inventories in the hands of importers at the end of the 1989/90 season were reduced the following year when much less fertilizer was imported. Since then, imports and sales have been more or less in balance and stock levels have generally been appropriate to market conditions.

EXHIBIT 3 FERTILIZER MARKETING TRENDS 1988-1994



3.3 Private Sector Participation in the FSSRP

3.3.1 Overview

The evolution of private sector participation in the FSSRP since its inception is illustrated in Exhibit 4.

3.3.2 Participation by Banks

Three banks were accredited, but only two banks--Amity Bank and *Crédit Agricole du Cameroun* (CAC)--actually participated in the program. CAC handled the IBEX transactions for import of 8,700 mt, which involved both an importation loan and subsidy payment. Amity Bank earmarked in December 1993--on behalf of Groupe One and Bakah Enterprises--shipments totaling 35,599 mt. Both earmarkings expired before they could be used, but were replaced by earmarkings for the same two importers totaling 41,500 mt just before the program closed on 30 April 1994.

Many commercial banks continue to have liquidity and solvency problems which affect their ability or willingness to participate in the program. This situation is discussed in Section 4 of this report.

3.3.3 Participation by Importers

A total of twelve importers were active during the year, meaning that they made offers to distributors. Of this number, six sold fertilizer, and of these, three actually imported new stock during the 1993/94 program year.

IBEX continued its involvement in the FSSRP, the fifth consecutive year it has done so. The firm imported 7,700 mt of NPK 20-10-10 and 1000 mt of urea in October and December 1993. This was less than the 10,215 mt imported last year. IBEX was interested in importing additional tonnages, but ran into some problems with its bank, CAC, over FCFA devaluation. (See discussion in Section 4 of this report.)

IBE Group is the successor company to IBE Africa Cameroon, which last year imported 11,780 mt of fertilizer. Due to alleged fraud and mismanagement by local staff, IBE Africa Cameroon was dissolved in July 1993 and operations taken over by the parent company, IBE Group, of New York. As a result, IBE activities during 1993/94 were limited to disposing of existing stocks. Sales of 5,855 mt of urea and ammonium sulfate reduced stocks to zero by the end of the program year.

Groupe One acted as the principal distributor for IBE fertilizers in last year's program. The relationship with IBE has since been terminated. As of the close of this year's program, Groupe One had earmarked through Amity Bank for planned imports of 10,000 mt of NPK

Exhibit 4 Private Sector Participation in the FSSRP, 1988/89-1993/94

Economic Operator	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94
Fiduciary Bank	1	1	1	1	1	1
Accredited commercial banks	4	4	4	5	3	3
of which actually participated	2	4	1	4	3	2
Suppliers	3	3	3	4	3	4
Active Importers	14	10	10	13	12	12
of which wholesaled stocks	3	3	3	3	4	6
of which actually imported[2]	3	2	1	3	3	3
Active Distributors	6	16	18	22	many	many
of which actually distributed	4	10	17	20	"	"
of which are cooperatives	4	6	6	9	"	"
of which are "for profits"	0	4	11	11	"	"
Provinces covered (out of 7)	3	5	5	6	7	7

Note: 1993/94 data are preliminary
Source: AMIS Annual Assessments, Fiduciary Bank Records

20-10-10, 1,000 mt of NPK 12-06-20, 10,000 mt of urea and 1,000 mt of ammonium sulfate--a total of 22,000 mt. The company succeeded in importing 9,400 mt of this amount (6,400 mt of urea, 2,500 mt of 20-10-10 and 500 mt of ammonium sulfate) before the program closed. Earmarking on the balance expired.

Bakah Enterprises imported a small amount (57 tons) of urea from Nigeria just as the program closed this year. While this firm has never before imported under the FSSRP, the manager is a former principal in CAMATREX, an importer in earlier years of the program which is no longer active. Bakah earmarked through Amity Bank for 10,000 mt of 20-10-10, 7,500 mt of urea, and 2,000 mt of ammonium sulfate just before the close of the program. None of this tonnage was imported and earmarking expired.

3.3.4 Participation by Distributors and End Users

Exhibit 5 on the following page depicts the fertilizer distribution system in Cameroon as it has evolved over the six years of the FSSRP. It was included in last year's annual assessment, and is repeated here since it is still valid. The percentages shown for each of the importer sales channels have changed only slightly from last year.

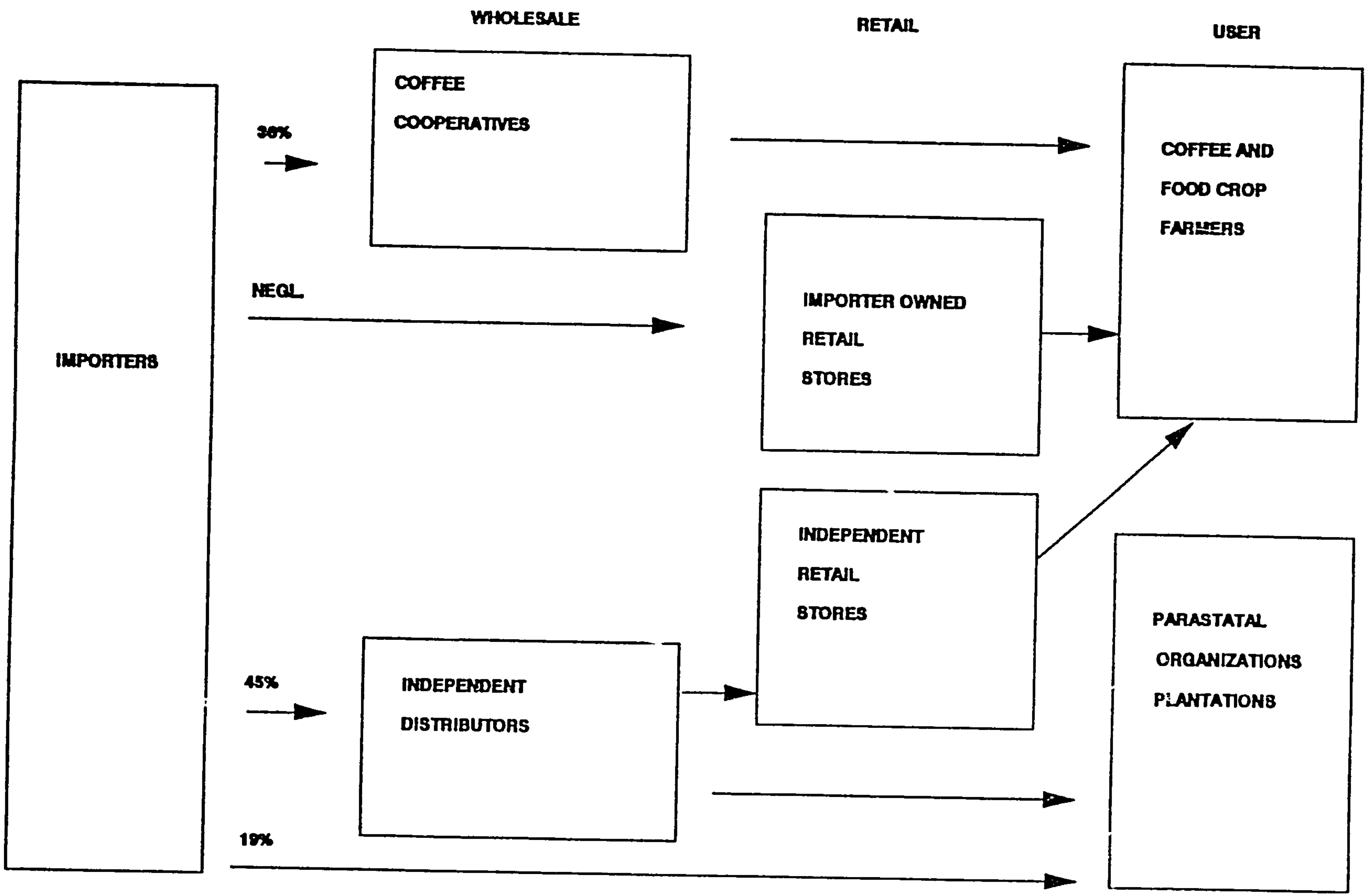
Parastatal organizations and private plantations: These organizations include CAMSUCO, CDC/Del Monte, MAISCAM, SPNP, and SBM. They purchased 3,500 mt or 19% of the total. Last year the percentage was 16%.

Coffee cooperatives: Cooperatives purchasing fertilizer during the year included CAPLAMI, CAPLAME, CAPLABAM, NWCA, and UCAL. Their purchases totaled 6,655 mt, or 36% of the total. Last year it was 37%.

Other distributors and purchasers: This category includes both independent (i.e., not cooperatives) distributors purchasing more than 100 mt, and small purchasers or users buying less than 100 mt. There were eight distributors buying more than 100 mt for a total of 2,394 mt, or 13% of the total. There was a large but undetermined number of small buyers who accounted for 5,887 mt or 32%. Together they purchased 45% of the total amount of fertilizer distributed. In last year's report the two categories were lumped together and made up 47% of the total.

Independent distributors continue to make up the most dynamic sector in the distribution network. Data on the number of such companies is not available, but we note that several new ones have appeared this year. An indication of the health of this sector is the fact that importers are increasingly willing to extend credit to distributors who have a track record and have proven themselves reliable.

EXHIBIT 5 FERTILIZER DISTRIBUTION FLOW



There has been a large increase in the number of retailers stocking fertilizer in the high consumption areas of the West, Littoral and North West provinces. This subject is treated in some detail in Section 5 of this report.

3.4 Fertilizer Prices

Fertilizer prices are in a transition phase. Fertilizer now in the system was imported before devaluation, but importers and distributors have already raised their prices. Whereas NPK fertilizers and urea were selling at an average retail price of FCFA 3,500 per sack last year before devaluation, retail prices in many areas are around 6,000 per sack--an increase of 70%. Ammonium sulfate prices have gone from about FCFA 2,600 per sack to 4,500 per sack, likewise a 70% increase.

CIF costs of fertilizer, influenced by devaluation of the FCFA and higher world market prices, will be more than double last year's costs. In May 1994, importers reported that suppliers were quoting prices for NPK fertilizers of FCFA 120,000 per mt, for urea about FCFA 110,000 per mt, and for ammonium sulfate FCFA 82,000 per mt. This compares to average 1992/93 costs paid by one importer of FCFA 52,500 per mt for NPK, 53,400/mt for urea, and 40,700/mt for ammonium sulfate.

If importer margins and distribution costs remain the same it can be expected, therefore, that retail prices of newly imported NPK and urea fertilizers will be in the FCFA 7,000 to 8,000 per sack range, while ammonium sulfate will retail for between FCFA 5,000 and 6,000/sack.

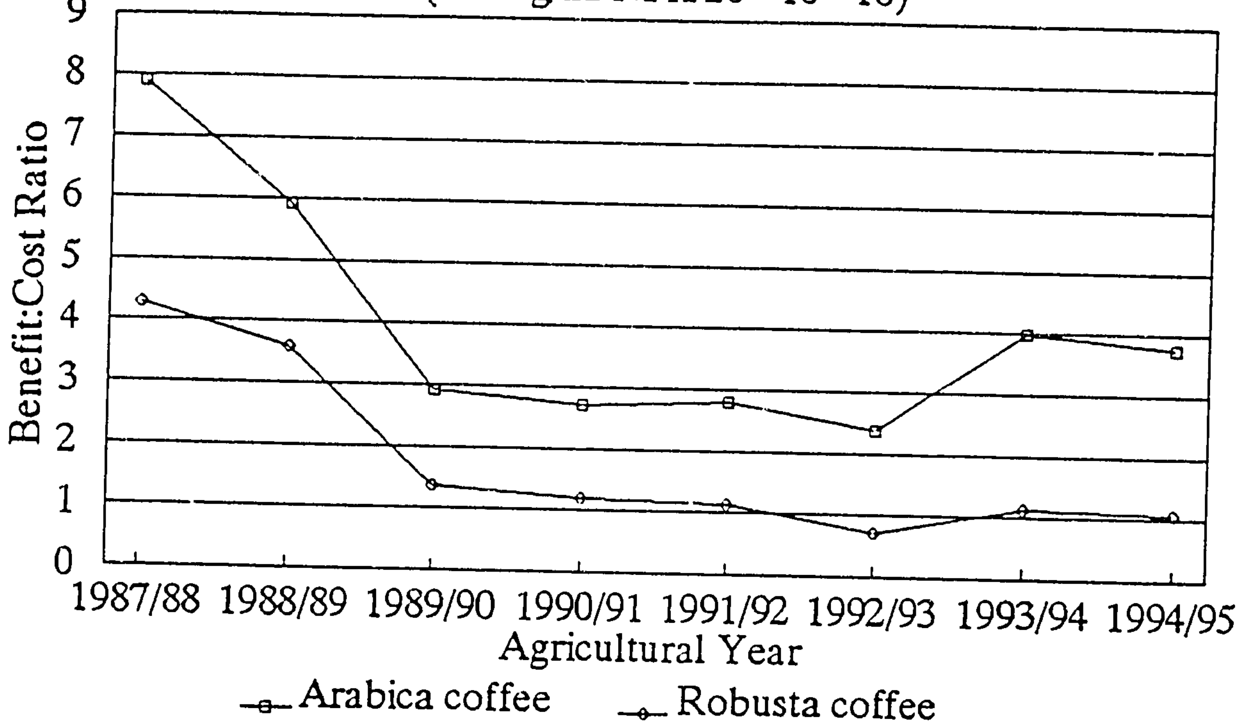
3.5 Effects of FCFA Devaluation on Benefit/Cost Ratios

As described in the preceding section, fertilizer prices to the farmer are already 70% higher than last year, and will soon increase further. How will this affect consumption? The amount of fertilizer actually purchased by farmers is the result of a determination made by each individual which takes into account the changes in price not only of fertilizer but of the crops on which fertilizer is applied. In fact, producer prices for both arabica and robusta coffee are about three times what they were in 1993. While the farmer may make this determination instinctively, it can be usefully expressed in terms of a calculated benefit/cost ratio of using fertilizer on a given crop.

Exhibit 6 tabulates this ratio for arabica and robusta coffee. The upper half of the exhibit charts the changes in price for the types of coffee since 1987/88. The figures for 1993/94 show the dramatic increase in coffee prices due to devaluation.

Exhibit 6

Economic Returns to Fertilizer Application on Coffee
(300 kg/ha NPK 20-10-10)



DATA TABLE

YEAR	ARABICA COFFEE fertilizer cost (FCFA/kg)	ARABICA COFFEE producer price (FCFA/kg)	ARABICA COFFEE benefit: cost ratio	ROBUSTA COFFEE producer price (FCFA/kg)	ROBUSTA COFFEE benefit: cost ratio
1987/88	45	520	7.90	440	4.29
1988/89	55	475	5.93	440	3.60
1989/90	58	250	2.93	175	1.37
1990/91	59	250	2.70	155	1.19
1991/92	62	250	2.79	155	1.14
1992/93	64	220	2.38	100	0.72
1993/94	128	675	3.93	300	1.13
1994/95	140	695	3.76	309	1.07

Note: Shaded area indicates post-FCFA devaluation period

In the bottom half of the table, changing fertilizer prices are listed along with coffee prices for these years and benefit/cost ratios are listed for each type of coffee. These ratios are based on the economic returns of fertilizer use, expressed in terms of the incremental production realized from the application of a given amount of fertilizer. The assumptions used in making the calculations were that for an application of 100 kg of NPK 20-10-10 (containing 20 kg of nitrogen), the marginal increase in production per hectare was 51 kg for robusta and 80 kg for arabica.

The data show that the benefit/cost ratio in 1993/94 was 3.76 for arabica and for robusta 1.13. Studies in many countries have shown that the benefit/cost ratio must exceed 2.0 before a farmer considers it worthwhile to apply fertilizer. On this basis, the figures suggest that, at current prices, farmers will use fertilizer on arabica but not on robusta. Cameroonian coffee planters have indeed come to this conclusion in practice. Distributors report that very little fertilizer is being applied to robusta, and then only when farmers are extended credit against future deliveries of coffee. Application on arabica coffee trees continues at a rate similar to last year.

During the team's field trip this year, we asked distributors how their customers were reacting to devaluation and how this had affected their sales of fertilizer. Sales were lower in every area we visited, although the effect varied according to the region and the crops cultivated.

Arabica coffee: From the foregoing data it is apparent that planters of arabica coffee will benefit the most from changes in prices following devaluation. However, few arabica planters have actually experienced this benefit, either because they delivered coffee before devaluation and were paid the old price, or because--in the case of cooperative members--they have received only partial payment for coffee delivered. For this reason, planters were taking a "wait and see" attitude. The general opinion among knowledgeable people in the arabica areas was that it would take at least a year, and perhaps for some as much as two years, before planters will have fully "digested" the new prices and increased their purchases of fertilizer.

Robusta coffee: Opinion in robusta growing areas about future demand for fertilizer was not optimistic. As long as robusta coffee prices remain around FCFA 300/kg, fertilizer application is simply not profitable. Cooperatives and other distributors told the team that the main effect of devaluation on robusta production has been to induce farmers to harvest the maximum amount without expending money on inputs. One way they do this is to clear undergrowth around coffee trees in order to be able to recover more easily coffee cherries which have fallen to the ground.

Food crops: A significant portion of fertilizer imported under the FSSRP is used on food crops. This amount--estimated by some at as much as 50% at present--has been steadily increasing over the years as the profitability of coffee growing decreased. These crops include vegetables (tomatoes, cabbage, peppers, beans, etc.) and maize, mainly marketed within Cameroon but also within the sub-region. While data is not available, the benefit/cost ratio is generally thought to have been quite high before devaluation. This ratio undoubtedly declined after devaluation since market prices for food crops have increased only slightly while fertilizer prices have almost doubled. Nevertheless, fertilizer use is likely to continue on these crops, though at a somewhat reduced level. In any case most of the crops require some fertilizer to achieve even minimal yields.

3.6 Importation Loan Facility Operations

Status of the Importation Loan Facility at the end of the 1993/94 program year is shown in Exhibit 7. These loans are for 30% of the CIF value of the shipment and are due in 180 days. For transactions not financed by a letter of credit issued by a local bank, an importation loan is no longer a requirement for imports under the FSSRP.

Only two loans were processed, both of them for the IBEX transction through *Crédit Agricole*. The first was disbursed on 11 November 1993 and became due on 11 May 1994. The second was disbursed on 6 January 1994 and is due on 6 July 1994.

The imports by Groupe One and Bakah Enterprises which took place just as the program closed did not result in importation loans as they were not financed by letter of credit.

3.7 Subsidy Fund Operations

Disbursement and earmarking of subsidies as of the end of the program year on 30 April 1994 are shown in Exhibit 8.

For the two IBEX transactions, subsidy earmarking took place on 22 October and 8 December 1993. The importer had 30 days to present evidence of shipment, and disbursements were made after the shipment cleared customs in Douala (which cannot be later than 90 days from date of earmarking). For the first shipment, disbursement took place on 11 November 1993 and for the second on 4 March 1994.

Bakah Enterprises imported 57 mt of urea at the end of April and requested a subsidy payment. Payment is expected to take place during the first week of May.

Just before the program closed at the end of April, Amity Bank requested the Fiduciary Bank to earmark on behalf of two of its clients, Bakah Enterprises and Groupe One. Groupe One has two earmarkings for a total of 22,000 mt, and Bakah earmarked for 19,500 mt. Of these amounts, a Groupe One import of 9,400 mt was underway as the program year closed, so subsidies will be payable only on that amount.

Exhibit 7
Importation Loan Status
(as of 30 April 1994)

Transaction NO.	Commercial Bank	Metric Tons	Importer	Earmark Date	Loan Distbursed FCFA 000	Date Disbursed	Date Repaid
93/94-1	CAC	15000	IBEX	22.10.93	89,250	11.11.93	Open
93/94-2	CAC	3700	IBEX	08.12.93	59,063	06.01.94	Open

Exhibit 8

Subsidy Disbursement and Earmarking

(as of 30 April 1994)

Transaction NO.	Bank	Importer	Metric Tons	Earmark Date	Subsidy Amount 000 FCFA	Disbursement Date
93/94-1	CAC	IBEX	5000	22.10.93	37,000	11.11.93
93/94-2	CAC	IBEX	3700	08.12.93	25,580	04.03.94
93/94-5&6	AMITY	Groupe One	9400	27.04.94	57,360	Not yet
93/94-7	AMITY	Bakah	57	27.04.94	340	30.04.94

4. FINANCIAL PERFORMANCE OF THE PROGRAM IN 1993/94

4.1 Financial Conditions and Banking Environment in Cameroon

The FSSRP program continues to operate in an extremely difficult economic and financial environment. Its past financial performance, and planning for future programs, must take full account of that context.

Between 1984/85 and 1992/93 Cameroon's real gross domestic product probably contracted by more than 25%. In 1992/93 gross domestic product in current prices declined about 9%, in constant prices almost 5%. The outlook for 1994 is for a further decline in real GDP of almost 6%.

Before the CFA franc devaluation on January 12, 1994, inflation had been low, and 1993 actually witnessed deflation of almost 4%. Following the devaluation, consumer prices for the full year 1994 are projected to rise 13% over 1993 levels.

Before January 1994, despite the non-inflationary/deflationary environment, interest rates were extremely high. The central bank's discount rate was 11%, and effective bank lending rates were above 20%. Real interest rates, then, were at least 25%. Such rates alone would help bring unemployment, labor unrest, devaluation, and/or declining output in any economy, and Cameroon was no exception.

Following devaluation, the authorities raised the discount rate an additional 3%, to 14%, and bank lending rates rose accordingly. This step presumably was taken both as a precautionary measure to help contain post-devaluation inflationary pressures and also in hope that flight capital would be induced to return to the country because of the high rates themselves. (The former objective has perhaps been achieved already, the second apparently has not.) Although these rates may fall somewhat later in 1994, they will no doubt remain at very high levels for the balance of 1994.

The economic and financial outlook beyond 1994 is problematic. It depends above all on the speed and effectiveness with which the Government carries out the reforms envisaged in the agreements with the IMF that accompanied the devaluation, and the way those reforms work out in practice. Among other factors that could help improve the situation, is the fact that if the Government complies successfully with the reform program, the World Bank and other external donors plan to inject substantial sums into Cameroon, targeted particularly at supporting productive activities.

Assuming successful implementation of the reforms, projections for 1994/95 show an increase in Cameroon's real GDP of well over 3%, improving further to 5% by 1996/97. Inflation for 1994/95 is projected at 19%, but would decline thereafter, to a very respectable level of 2% by 1996/97.

The evolution of interest rates is, of course, equally problematic. Two main factors that the authorities most likely will take into account in setting rate levels are domestic inflation and interest rates in France.

In the immediate aftermath of devaluation, prices of imported goods of course rose substantially, and some domestically produced goods as well. Many sellers found, however, that purchasers simply could or would not pay twice as much for the same goods. In particular, after rising some 30% in January-February, the "local market basket" consumer price index (i.e., excluding goods consumed mainly by expatriates and more highly paid urban consumers) reportedly showed an increase in March of only 1%.

This suggests that the January/February prices increases may well prove to be "one time" increases, due in large part to the accompanying measures to restrain demand on which the IMF and BEAC insisted. If this proves to be the case, the central bank would have scope for an early reduction in interest rates. Many local observers believe that the authorities may decide to reduce rates before the summer of 1994.

Long term, it would make sense for the FCFA countries to keep short term rates (i.e., the ones over which the central bank has the most direct influence) at levels a few percent above short term rates in France. If rates were brought down to (or below) French levels, the temptation for capital flight would again be strong. A margin of 3-5% over French rates would seem suitable to achieve the central bank's fundamental objectives.

Current money market rates in France are slightly below 6%, suggesting there is scope for a reduction in BEAC rates to 9-11%. Bank lending margins are likely to remain in the 5-7% range for some time to come, so borrowers are likely to be facing interest cost of 14-18% for at least the near term. Assuming inflation does fall to the projected levels mentioned earlier, this means that real interest rates in Cameroon will not go below 10% for some time. Such a level of real interest rates would be more tolerable than the 25% that obtained in 1993, but would still represent a considerable brake on economic activity.

The banking sector reflects the fundamental economic and financial problems affecting the rest of the economy. Capital flight during the last six or seven months of 1993 further harmed the banks' already weak balance sheets and liquidity position, and bad debts continued to accumulate.

The devaluation in January and its accompanying measures were a mixed blessing for the banks. On the one hand, capital flight largely ceased and a number of banks find themselves reasonably liquid today. On the other hand a number of bank customers suffered exchange losses because of the devaluation; reportedly one or two of the larger banks also got caught short themselves by the devaluation.

Taken as a whole, the banking system in Cameroon was probably technically insolvent before the devaluation, especially because of bad debts involving Government and parastatals. To this situation was added perhaps FCFA 10-20 billion (statistics are not yet readily available) more in bad debts arising from the effects of the devaluation.

Regardless of the precise amount of new bad debts, it is clear that large amounts of new capital will be needed to restore the health of the banking system. No local observer expects much new capital for the foreseeable future. A few banks may be in relatively less poor shape than others, but the system's problems have an adverse impact on them all.

In summary, the FSSRP continues to rely on a banking system that, although more liquid than last year, has even less financial strength than before.

4.2 FSSRP Financial System and the Banking Sector

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

The FSSRP has provided subsidies and low-cost loans as financial incentives to private-sector importers to import and distribute fertilizer, through a revolving credit fund (RCF). Until April 1993, importers gained access to the subsidies and loans through Cameroonian commercial banks by opening a standard bank letter of credit to import the fertilizer. Upon receipt of shipping documents (required under the letter of credit) which prove that the fertilizer has been shipped or has arrived in Cameroon, the FSSRP low cost loan and the fertilizer subsidy may be disbursed through the commercial bank to the importer.

Since April 1993 importers have also been able to gain access to the subsidies, but not to the loan program, without having to use the letter of credit procedure. This arrangement has been used when supplier credit was available. Documentary requirements, proving shipment and delivery of fertilizer, are similar to those of the l/c procedure. The documents must be processed through local banks.

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

Starting with the current year's program, an element of risk-sharing was introduced: the program will reimburse 30% of a bank's net loss on a fertilizer loan. (The maximum amount of such a reimbursement would be 30% of the CIF value of the fertilizer involved.) Technically, the program's risk sharing commitment is documented by a standby letter of credit issued to the lending bank by the Fiduciary Bank. The proportion of 30% risk sharing coverage was designed to encourage banks to be somewhat more forthcoming with credit to local borrowers, while still remaining responsible for the major consequences of their credit decisions.

Simultaneously with introduction of risk sharing, the program reduced the amount of banks' fertilizer credit that benefit from the low cost loans. Previously, the program funded 50% of the value of the fertilizer at a cost to the lending bank of 5% p.a., and the interest cost to the borrower on that portion of his fertilizer loan was 8% p.a. In the current program, those interest rates remain unchanged, but the program's loan covers only 30% of the value of the fertilizer.

The program introduced a Medium Term Lending Facility (MTLF) in October 1993, designed to support medium term lending to investment projects in the fertilizer sector. Like the RCF, the MTLF will rely on the banking sector to provide much of the funding and take most of the credit risk. (No such projects have yet been presented and approved.) As discussed in more detail below, the MTLF offers three options involving different loan amounts, risk sharing coverage, and/or interest rate support. The highest loan proportion is 50%, the highest risk sharing coverage is 25%, and the most interest rate relief available to a borrower is less than available under the short term program.

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

4.3 Commercial Bank Role in the FSSRP

Especially in the difficult banking environment outlined above, the banks remain extremely cautious in their lending decisions and take as little risk as possible in fertilizer import financing transactions.

Collateral requirements remain strict for importers that cannot obtain suppliers credit. The banks usually seek 100% security from a combination of cash (from the importers' own resources or from buyers' down payments), foreign bank guarantees or standby letters of credit, and the prospective value of the subsidy payment. The fertilizer itself continues to be regarded as having little practical value as collateral.

Further, the banks normally do not release the "loan" proceeds to the customer, as has been described in previous assessment reports.

Over-all, program participants generally agree that the direct loan feature in the FSSRP short term program does appear to have value in encouraging a bank to open an l/c for a fertilizer import. As in previous years, banks still keep the funds from the loan in a blocked account--but at least the lower rate gives them an incentive to try to help.

Similarly, the new "risk sharing" principle whereby the FSSRP would cover 30% of a bank's loss on a fertilizer loan is generally felt to be positive. This feature, like the "loan" feature, does not by itself tip the scales with a truly reluctant bank--but it nevertheless does have a favorable effect.

Involvement of the banks in handling import documents, especially where letters of credit are used, continues to benefit the program in another, vital way. It helps ensure that funds are indeed used for fertilizer and not diverted to other uses.

4.4 Fiduciary Bank Role

The change in the Fiduciary Bank in 1992 from the BCCC to SCBC improved operation of the program, by removing commercial banks' doubts about the Fiduciary Bank's own creditworthiness. For the current program year, the Fiduciary Bank again appears to have carried out its operational functions properly and efficiently. In particular, it has played a useful role in helping explain the mechanics of the program to commercial bank participants.

4.5 Summary of Current Banking Arrangements

Over-all, to date the program's funds have been used as intended. All FSSRP loans have been repaid so far, and the risk sharing feature has not yet been tested in practice. However, one currently outstanding loan involves an import that arrived soon after devaluation and some loss is possible. Payment under the standby letter of credit may be required for 30% of that loss.

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

Note: See Appendix A for detailed recommendations on the financial structure of the new FSSRP, which replaces the current USAID-supported program.

5. FARM LEVEL PERFORMANCE OF THE PROGRAM

This section of the report examines the farm level performance of the FSSRP through a review of available farm level studies, and reports on current fertilizer distribution activities at the retail level in Cameroon. It was prepared by Dr. François Kamajou of the University Center of Dschang.

5.1 Farm Level Studies

The objective of the FSSRP was to liberalize the importation and distribution of fertilizer,with its derivative goal of ensuring timely availability of fertilizers at the lowest possible cost to farmers. Under the government subsidized program, relatively few farmers had access to this important input. The small farmers especially were often marginalized in the distribution of the limited amount of inputs available. The larger farmers and other influential personalities always received the lion's share. Furthermore, the type, quality and timing of delivery were not always appropriate. Most, if not all, fertilizers ordered by the government were earmarked for export crops (coffee, cotton, bananas) and the farmers wishing to fertilize food crops had to "embezzle" some of the amounts allocated for export crops.

The program objective to facilitate the farmers' acquisition and consumption of fertilizers was therefore well targeted. A good or optimal utilization of fertilizers requires, first of all, a good knowledge of the various fertilizers. A program aimed at encouraging the use of an input by farmers should also study the socio-economic characteristics of these farmers.

The three surveys carried out at farm level in 1990 by the DEAPA unit of the Ministry of Agriculture for the seven southern provinces, by MIDENO for the North West Province, and by the University of Dschang for the West Province, did shed some light on the characteristics of farmers. Thus, relevant information on farmers' education level, age, and household size were provided, as well as other production constraints. This background is critically important in interpreting the utilization of fertilizers by producers.

These studies revealed for example that the perception of the new fertilizer distribution system varies by province, the West and North West Provinces perceiving the new system more positively than the previous one by 55.5 and 42.2% respectively, while in the other five southern provinces an average of only 17.7% thought the new system was better. The perception also varies by the average size of farm, the smaller farms having a better perception of the new system than the larger farms. They also indicated that some of the factors that one would have expected to impact on the assessment of the new system such as the level of education, the types of crops grown, the wealth of the household, etc., were not significantly associated with the perception of the new distribution system.

As to the reasons behind farmers' assessments of the new distribution system, it was found that the positive assessments were attributed among other factors to a better timing of fertilizer deliveries and to the elimination of rationing while the negative assessments were associated with the high prices of fertilizers and the absence of credit facilities.

The results of the three surveys were well summarized and analyzed by Minot in his 1991 impact study. An independent study was completed by Nanhou in 1993 on the impact of FSSRP on the Arabica growers in the village of Bamoungoum in the Western province. Though geographically restricted, the study came out with some interesting results. On the assessment of the distribution system, Nanhou found that, overall, about 49.2% of the farmers interviewed were of the opinion that the new fertilizer distribution system was at least as good as the old system, while 27.7% found the new system to be worse than the previous one. The positive aspects of the new system appear to be more timely deliveries (77% satisfaction), the availability of the various types (84%) and the absence of rationing. The negative points are the decline in the price of coffee and the increase in the price of fertilizers.

Concerning the factors which determine the use of fertilizers, it has been found that out of the twelve factors enumerated in these studies, only three were found to be consistently and significantly associated in a statistical sense with fertilizer use. They are: coffee crop, commercial maize production and distance from the closest fertilizer selling point. The rate of fertilizer consumption was shown to have declined since 1980 but much more drastically at the time of the three surveys in 1990. This rate was affected negatively and simultaneously by the removal of subsidies and the drastic reduction in coffee prices. None of the studies really attempted to determine the weight of each of these two factors though Minot (1991) indicated that the effects of the coffee price and of the late payments could be more influential than the removal of subsidies which increases the cost of fertilizers.

Nanhou (1993) indicated, for example, that the quantity of fertilizer purchased per farmer has declined from 10.2 to 4 bags between 1985/86 and 1991/92. It was also observed that 9.4% of the fertilizers used were allocated to food crops against 4% before 1988.

Another study on coffee price policy analysis and the demand for fertilizer was conducted by Kamajou in 1993. The study covered four of the southern provinces (Littoral, North West, South West and West) with a sample of 500 farmers. The major results of the study confirmed a consistent decline in coffee output and yields with the Littoral (Mungo division) topping the rate of decline, and a considerable fall in demand for fertilizers. The continuous decline in output and yield has been naturally attributed to the drastic cuts by government in farm prices of coffee and the sluggish fertilizer demand for fertilizer has been attributed to the removal of the subsidies which has increased the price of fertilizers.

All policy-makers are (or should be) concerned about the degree of producers' responsiveness to variables affected by specific policy measures. In order to assess the impact of the price policy on production, a short-run supply response multiple regression model was estimated using the price of coffee and the potential output as explanatory variables. The results of the model indicate that the estimated coefficient for price (lagged one year) was quite high. As for the elasticities, that of the potential output variable was higher than that of price. With regard to the demand for fertilizers, the results of the multiple regression model using the price of fertilizer and that of coffee among others indicate that the price of coffee was more powerful than the price of fertilizer in explaining the variation in demand for fertilizers. This last conclusion is critically important to policy-makers.

One final study reviewed is the work of Andrea Fadani on the impact of price policy on a coffee-based farming system in the West and Littoral provinces. The general tendency of the results indicate that a large number of farmers are abandoning some of their coffee farms because of the higher prices of fertilizer resulting from subsidy removal. Fertilizer is an indispensable input for the profitable production of coffee. The farmers' reaction is not to be totally attributed to the rising price of fertilizer since, as stated above, the drastic cuts in producers' price for coffee prices may be playing the major role.

The 1992 survey provides a lot of very useful information and statistics on demand, distribution and usage of chemical fertilizers and pesticides at the farm level. It addresses important issues related to the assessment of the new fertilizer distribution system by farmers and the farmers' knowledge of fertilizers and pesticides. Furthermore, a good description of farms and farmer characteristics are presented, along with production, marketing and price data.

However, a close and critical look at the document raises a number of questions and comments that should be considered and addressed for future surveys. Because of these shortcomings, the data presented in this document was not examined as part of this report.

5.2 Fertilizer Distribution at the Retail Level

The assessment of fertilizer distribution to farmers was conducted by interviewing a sample of fertilizer retailers in the major consumption areas. These interviews were limited to the West and North West provinces. The Littoral province, also an important fertilizer consumer, was not visited.

Nine retailers and other operators were visited and interviewed in the different areas, including seven individual sellers and two women who are second degree retailers or "cup retailers". In general, from the interviews, it was established that much interest exists in this sub-sector. Most of the private retailers were young and enthusiastic about their business in spite of the hesitation they expressed since devaluation.

In terms of supplies, none of them encountered serious problems in the acquisition of the inputs, except for transportation which was expensive when the products were not delivered by the distributors. These transportation problems range from high costs to quality deterioration (rain) during transport and the risks of having to carry cash as most fertilizer wholesalers will not take checks. Generally, the supplies are available in the types and amounts needed although at times transportation problems may delay the arrival.

One major effect of the program has been without any doubt the possibility of freely purchasing fertilizers for food crops. This new opportunity has boosted the production of food crops, especially potatoes, vegetables in both the North West and West provinces. The current extensive production of green beans for example, which was previously limited to cooperative farmers because of the lack of fertilizer for non cooperative members, has to be attributed to the liberalization of the fertilizer trade. This program has also created a new farmer generation composted of graduates and other young men and women who can no longer find employment in the urban areas.

Concerning the retailers' knowledge of fertilizers, most were relatively knowledgeable but none had had training in fertilizers use. Few had been involved in the sales of pesticides and others had worked with fertilizers and pesticides in the farms. They could all distinguish easily the different types of fertilizers and even advise some buyers. All expressed the need for training in the areas of fertilizer handling and usage so as to be able to advise their customers like good pharmacists should do. The retailers all expressed the need for technical bulletins as well as regular information bulletins on fertilizers. Some of them were even willing to contribute a token fee to receive these bulletins. Others expressed the wish to be associated or to be trained in setting up demonstration plots for their customers. One retailer in Foumbot had given it a trial.

The prices both for buying and selling vary little from one retailer to another since all of them are geographically very close and certainly have an informal information network. In general, retailers declared that they could make comfortable profits because the demand was relatively high. With the devaluation, future prospects look gloomy and most have not ordered in large quantities since then. All of them were enthusiastic about the idea of an association of fertilizers dealers which could help organise and discipline the profession.

Another interesting recent development is the "cup retailing" of fertilizers which was observed in Dschang, Foumbot,and Bamenda. This is a new activity, now reserved for women who sell fertilizers just like others sell groundnuts, beans or maize. This new activity is the clearest indication of the awareness of the importance of fertilizer in agriculture and has happened because of the liberalization of the sub-sector. Two such women retailers were interviewed in Foumbot. From the figures obtained from them, their margins were about 2500 to 3000 FCFA per bag of NPK 20-10-10 which they purchase from a local retailer. For all the types, the purchase price given corresponds generally to the selling price declared by the retailers.

5.3 Proposed Activities

A national-level fertilizer use survey in 1994 is a necessary activity in order to generate the data needed for further monitoring of the program. Such a survey is critically important in order to assess the post devaluation trends in fertilizers and pesticide consumption. The conception of this survey should be slightly different from the one in 1992. The questionnaire should therefore be designed to address this vital issue. If DEAPA feels the need for additional national expertise in this area, it should be allowed and prepared to utilize it. The survey can be made less cumbersome in spite of the adjustment suggested in the sample size. To this end, it needs to focus a lot more on fertilizers and other agricultural chemicals. The labor input, which was not well investigated, should receive a fair treatment since it has an impact on fertilizers and other chemical applications.

It is important to conduct a national survey of vegetable growers in the major producing areas, such as the Far North province, the Foumbot and Santa-Bamenda areas, and the neighborhood of Yaounde and Douala. Vegetable production has become a large fertilizer consumer since the liberalization of fertilizer marketing and the economic crisis. During a brief discussion with DEAPA staff, this survey came out as a priority. The statistics on vegetable crops are very rare and often when found, not really reliable.

One important activity which the FSSRP has undertaken in the area of improving the farmers' knowledge of fertilizers is demonstration trials. It is the consultant's feeling that this activity started late with regard to one of the program objectives--extension services to farmers on the use of fertilizers, which would increase its consumption and result in higher crop yields and output. Demonstrations are key instruments in agricultural extension methods, especially for farmers producing for the market. Farmers by nature are very skeptical about any new and not personally-tested innovations. They are more so when they are operating at the margins like the majority of Cameroonian farmers.

Having started late, it is important that this particular activity be given means to be implemented if the contribution of the program is to be sustainable. The few demonstration plots and sites visited in the Foumbot area were just starting and the extension personnel of MINAGRI were all excited about this activity. The University of Dschang with its agricultural faculty should constitute another center for demonstration trials and the plots could be made available for visits to farmers on field days. The personnel there is of course experienced and very interested. The consultant strongly supports funding of this activity.

The TSU has proposed creating a television or radio show on "why the FSSRP and what has been its contribution". The idea is a good one and should help the project to make its contribution known to the public. It was important to schedule such an activity at the end of the program so as to be able to have things not only to say but also to show. The program has had some achievements at the macro level (reduction in government expenditures), at the sectoral level (improvements in fertilizer distribution) and at the micro level (more efficient allocation of resources). Several important studies have been funded and realized under the program. All these activities need to be documented. The idea needs further thinking and a written draft of the proposal should help to decide on the format of the documentary.

APPENDIX A

PROPOSED FINANCIAL STRUCTURE OF NEW PROGRAM

1. General Comments

The FSSRP program in its current form will end once the outstanding RCF transactions have been settled. The program will continue in a modified form, in particular without any subsidy. The biggest single change will probably be extension of the types of fertilizer eligible for the Revolving Credit Fund (RCF), so as to cover all fertilizers used in Cameroon, as recommended in an earlier section of this report. Availability of the MTLF is likely also to be continued.

What should the financial and banking arrangements be for the new program?

In general, most of the financial structures of the current program--notably, use of commercial banks and a Fiduciary Bank to monitor and administer the RCF and MTLF--should be maintained. Most of the financial principles--direct loan, some risk sharing, interest rate relief--seem appropriate. Some technical modifications in both programs are recommended, primarily in the interest of better administration.

One major change is recommended. Following the elimination of all fertilizer subsidies, the financial features of the RCF (and to a lesser extent the MTLF) can be structured so as to help reduce final interest cost to fertilizer importers, distributors and investors more than in the past. This would probably encourage greater use of fertilizer at a time of likely rising coffee, cocoa, and other agricultural production, without undercutting the market liberalization that lies behind the program's success to date.

2. The Revolving Credit Fund (RCF)

2.1 Key Features

For reference, the discussion below assumes elimination of the Subsidy Fund, and the procedures for obtaining access to it. The participants in the program would continue to be: the Fiduciary Bank, the Commercial Banks, importers, and independent distributors. Eligibility for each category would not change from the existing definitions.

Key features of the existing program and recommended additions and changes are shown in Exhibit A-1. These and other recommendations are described in more detail below, along with the reasons behind the suggested changes.

Exhibit A-1

SUMMARY OF PROPOSED CHANGES IN FSSRP FOR 1994-1995
REVOLVING CREDIT FUND

	Old	New
Eligible fertilizers	5 types	all types
Fertilizer subsidy	@8%	none
Earmarking:		
duration	90 days	30 days
fee	none	FCFA 25/mt refundable
Risk sharing	30% of loss	30% of loss
Imports - l/c required	yes	yes
(1) Direct loan option:	yes	yes
amount of loan	30% of value	50% of value
maturity of loan	180 days	180 days
interest cost to bank	5.0% p.a.	50% BEAC rate[1] minus 3%
interest cost to borrower	8.0% p.a.	50% of BEAC rate
(2)Interest *bonification* option:	none	yes
funding from RCF direct loan	no	no
pct of CB loan covered	n.a.	100%
interest make-up	n.a.	*taux de banque* of BEAC[2]

---

[1] definition of "BEAC rate":
- until the introduction of money market rates = the *"taux de base débiteur ordinaire"* of the BEAC (as of 1 May 1994 this rate was 14% p.a.).
- after introduction of money market rates = average inter-bank money market rate published by the BEAC.

[2] as of 1 May 1994 this rate was 6.5%

Experience over the last five years has confirmed the value of the "first come, first served" approach to access to the fund. Operationally, the fund has used a system of earmarking, to reserve fund resources for a period of time during which the import (or distribution) shipment would be started and completed.

The time period for earmarking was set to correspond to the period for access to the subsidy program--90 days maximum from the date of earmarking. With the end of the subsidy system, this period should be shortened to 30 days, ample time to start a shipment and obtain shipping documents. If necessary to keep the fund's resources available to all potential users, the earmarking period for distribution loans could be set at 15 days.

Adherence to the principle of "first come, first served" in the past has occasionally led to situations where the fund's resources were temporarily unavailable to prospective fertilizer importers because of earmarkings for other transactions that did not in fact materialize. In the 1992-3 FSSRP campaign, less than 25%[3] of earmarking requests under the Revolving Credit Fund were actually used. In the current campaign, as of April 15, 1994 less than 20%[4] of earmarkings had been used.

Especially if the new program is enlarged to permit financing assistance for all types of fertilizer, not just the five types that have received subsidies in the past, use of the RCF's funds may increase considerably. It will be more important than in the past to discourage "frivolous" earmarking (whether deliberate or not) and keep the fund's resources for serious users.

Therefore it is recommended that the RCF charge applicants a fee for each earmarking. If the earmarking lapsed without use, the fee would accrue to the RCF. If the earmarking were used, then the fee would be refunded at maturity of the import/distribution loan. This approach would make the earmarking free for successful importers/distributors, as at present, but entail a cost for unsuccessful proposals.

In order to have a suitably dissuasive effect, the fee should actually be paid to the Fiduciary Bank before earmarking takes effect. Reimbursement of the fee would occur at maturity of the import/distribution loan, in the form of a credit against amounts due to the FB. For ease of comprehension and administration, such a fee should be a flat amount: FCFA 25 per mt of fertilizer to be financed seems appropriate.

[3] Earmarkings were made for 58,000 mt of fertilizer; 14,000 mt were imported.

[4] Earmarkings = 44,200 mt; imports = 8,700 mt.

2.2 Risk sharing

In order to continue encouraging competition in fertilizer importation and distribution, particularly with the end of the subsidy, it seems desirable for the new program to maintain the principle of risk sharing that was started in the current FSSRP program year. It also seems desirable to maintain the level of loss coverage at 30%. This percentage of cover seems to strike a good balance between helping encourage banks to take reasonable credit risks but still leaving them with primary responsibility for credit judgments and their consequences.

The Fiduciary Bank has maintained records of outstanding potential exposure under the standby l/cs. If usage of the fund and of potential risk sharing resources should rise significantly, it could become necessary to include the 30% potential loss in the earmarking quota system. For the present, this extra step does not seem necessary.

Two further questions arise on the general principles that the program should observe in the area of risk sharing. First, should it be automatic, applying to all fertilizer credits covered by the RCF? Second, if risk sharing is not automatic, should a fee be charged? In the interests of simplicity, and of having the RCF encourage competition in the market, risk sharing should apply to all credits covered. Correspondingly, no fee should be charged.

On a related matter it is recommended that in the case of import financing, RCF credit facilities continue to be available only where the fertilizer is being imported through a letter of credit. This precaution against use of program funds for purposes other than fertilizer imports is probably still justified.

The 30% risk sharing principle is documented under the existing program by having the Fiduciary Bank issue a standby letter of credit to the Commercial Bank.[5]

At present the standard text of the standby l/c is available only to Commercial Banks that obtain fertilizer loans.[6] In the interest of having potential users of the program, both banks and importers/distributors, understand clearly how the program works, the *pro forma* text should be included in the next version of the General Information Pamphlet.

The standby letter of credit is intended to cover 30% of the bank's "net loss" in the fertilizer credit transaction. The General Information Pamphlet (GIP) should clarify the definition of "loss". The loss covered should include loan principal and the Commercial Bank's funding

---

[5] The standby l/c is earmarked automatically, simultaneously with earmarking for the fertilizer credit; it is issued automatically, simultaneously with disbursement of the corresponding fertilizer loan.

[6] See the last page of this chapter of the report for the text used under the current FSSRP.

cost, but not its lending margin. This definition should be included in the GIP for maximum clarity for program users.

2.3 Claims Under Standby l/c

The current General Information Pamphlet requires the Commercial Bank, in order to make a claim under the standby l/c, to notify the Fiduciary Bank of a "potential loss" no later than the maturity date of the associated fertilizer loan. The tight timing in this provision serves the very useful purpose of enabling the Fiduciary Bank to keep close, timely control of amounts that have been earmarked.

However, if applied literally it does not give time either for the CB to pursue the borrower for non-payment, nor to assemble a file clearly documenting the origin and calculation of an actual loss. To allow time for the Commercial Bank to take these steps, the GIP needs some technical changes to clarify the procedure that should be followed.

To begin with, at maturity date of a loan, the CB is obliged to repay the loan in full. This provision of the existing GIP should be maintained in order to keep maximum responsibility on the Commercial Banks for policing their own credits. This should continue to be a prerequisite to any subsequent payment of the CB's claim. (Upon receipt of full payment, the FB would release 70% of the earmarking for the loan.)

As the first step in the procedure for actually submitting a claim under the standby letter of credit, the GIP should require the CB to notify the FB of a loss within 10 days after loan maturity date. Otherwise, no claims for loss could be honored. (Absent such a notification, the FB would release the remaining 30% of the earmarking.)

Second, submission of a claim itself including full justification would be allowed up to 40 days after loan maturity date. This arrangement would allow the CB 10 days to make formal claim upon a delinquent borrower and receive either (delayed) payment or refusal to pay, plus 30 days to assemble a complete file justifying the facts of non-payment and calculation of amounts due, and to submit a complete file to the FB.

Finally, as already provided in the GIP, the FB should be required to examine and verify the loss within 30 calendar days, and in case of disagreement between CB and FB, the TSC would "arbitrate" the difference.

Two final technical points relating to the standby l/c should be included in the GIP, concerning *pro rata* sharing of eventual recoveries and cooperation with the FB in taking recovery action. Suitable language for the GIP would read:

> Any recoveries made by the CB subsequent to payment by the FB to the CB under these provisions shall be shared *pro rata* with the FB.

The CB shall cooperate in providing reports to the FB of all recovery action, planned or taken.

2.4 Cost of Borrowing

The financial features of the RCF today give prospective borrowers only a modest cost saving over the extraordinarily high interest costs currently in effect in Cameroon. At present levels of interest rates, the pre-tax[7] total borrowing cost--i.e. the mix of the cost of borrowing under the program and the cost of borrowing commercially--comes to 16.75% p.a. Absent the fertilizer subsidy itself, such a high interest cost (almost 3% above money market rates) probably offers very little financial incentive to most prospective independent fertilizer importers or distributors.

In order for the program to be truly useful in helping finance fertilizer imports and distribution, it must aim to bring the users' total financial cost to a lower level. It is recommended that the program's target for the total cost of short-term import and distribution lending be set at or near the BEAC's discount rate. This rate is called the *taux de base débiteur ordinaire*, or TBDO. (When a money market has developed in Cameroon the target should probably be re-defined as the money market rate reported publicly by the central bank.)

Provided the RCF does not offer such a large financial subsidy that borrowers' total cost goes below discount/money market rates, distortion in the financial markets would be avoided. And if, thanks to the financing support of the fund, importers and distributors have a chance to finance their activities locally at such rates, it should help further develop competition in the fertilizer sector.

The main factors that determine total borrowing cost under the direct loan program are: percent of fertilizer value covered, interest rate of the RCF direct loan, interest rate of the accompanying commercial loan. Several different combinations of these factors were calculated, under different assumed interest rate environments. The objective was to seek a reasonably plausible set of assumptions under which a deliberately low rate of interest on RCF direct lending would yield a total cost to the borrower near the TBDO.

---

[7] For ease of discussion, the discussion that follows ignores taxes, which add well over 2% to total borrowing cost--but which apply to all borrowers equally.

The table below illustrates how different mixes of these factors bring very different results, in terms of total cost of borrowing. (The last column shows the difference between total cost and the assumed BEAC TBDO rates.)

% Fert fin'd	RCF rate	Comm'l rate	Total cost	>TBDO
30%	8.0%	20.5%	16.75%	+2.75%
50%	8.0%	20.5%	14.25%	+0.25%
50%	8.0%	17.5%	10.68%	+1.75%
50%	7.0%	20.5%	13.75%	-0.25%
50%	5.5%	17.5%	11.50%	+0.50%

The preferred combination of factors that emerged from these calculations are the following:

- RCF loan amount, as percentage of fertilizer value - 50%
- RCF loan interest rate to the borrower - 50% of TBDO (BEAC discount rate)
- RCF loan interest rate charge to bank - 3% less than borrower's rate

These are the recommended elements of the modified RCF direct loan package. They were used to obtain the figures shown in the last two lines of the table above. Other combinations of these factors could be used to approach the total cost target. However, the above list seemed to offer the most realistic, yet prudent, combination.

Note that it is helpful to define the interest rate on the RCF loan(s) as a percentage of the TBDO, rather than as a fixed rate or as a fixed margin below the discount rate. Otherwise, as the TBDO decreases, the total borrowing cost goes down by proportionately smaller and smaller amounts--making it increasingly difficult to achieve the target total borrowing cost.

It is important to note also that even if the program were to lend at extremely low rates, it is extremely difficult to arrive at total borrowing costs that are close to the target of the TBDO. Only if the portion of fertilizer value that is financed by the direct loan is set near or above 60% can that target be met. And setting that proportion above 50% does not seem advisable: it risks over-committing the program's resources, working against the broader goal of increasing competition in the fertilizer market.

2.5 Adequacy of the RCF

The difficulty in devising a direct loan package that achieves the target borrowing costs leads to the question: is the Revolving Credit Fund likely to be large enough? There is no sure answer, simply because it is not possible to forecast fertilizer demand or prices with certainty. One can nevertheless make a few assumptions that suggest an answer.

First, total fertilizer demand in Cameroon can safely be assumed to be roughly 100,000 mt. Second, half of that is likely to be imported and distributed by large users with access to supplier credit, who will not want to use the RCF program, leaving 50,000 mt maximum to be financed by the RCF. Third, the average fertilizer price (in Douala) today is about FCFA 110,000/mt. That would make the total value of fertilizer that might be financed by the RCF equal to (50,000 x FCFA 110,000) FCFA 5,500,000,000/year.

If all imports are ordered the same day, and if RCF direct loans finance 50% of import value, then the size of the RCF would need to be (50% of FCFA 5,500,000,000) FCFA 2,750,000,000. If the imports were ordered at an even rate throughout the entire year and if all loans were outstanding for the full 180 days, that amount would be reduced by half, to FCFA 1,325,000.

Experience suggests that imports are ordered throughout the year, but somewhat bunched in certain seasons, and that import loans are sometimes repaid well before 180 days. That in turn suggests that the fund would need resources between the two extremes mentioned above, probably no more than FCFA 2,000,000,000, to handle import loans at present levels of demand in Cameroon. Eventual distribution loan activity would add somewhat to that figure, but not by more than 25%.

A reasonably prudent calculation, then, suggests that even if the RCF is used more than in the past, an amount of FCFA 2.5 billion would suffice - provided that "frivolous" earmarkings do not tie up program resources to any significant extent and also provided that losses funded under the 30% risk sharing provision are negligible.

In any event, the FCFA 2.5 billion represents more resources than the FSSRP has required in the recent past. Absent any certainty on demand, prices, earmarkings, distribution loans, or losses, it seems a reasonably adequate amount for the coming year.

2.6 Interest Make-up *(bonification)*

Using the interest make-up *(bonification)* technique to lower fertilizer financing costs under the RCF could help reduce the risk that the RCF's resources could become inadequate at times. This technique allows the same resources to help finance considerably greater amounts of fertilizer. And, compared to the direct loan technique, it enables the fund easily to increase the interest rate subsidy to the desired level.

Therefore, adding that option to the RCF (it is already an option under the MTLF) is recommended. When requesting earmarking, the CB would specify whether the borrower chooses the direct loan or the interest make-up option. The RCF would advance no funds to the CB, which would have to fund the loan entirely from its own resources, including obtaining funds from the central bank or the interbank market. As under the direct loan option, risk-sharing under a standby l/c would cover 30% of the CB's loan principal and interest cost. The earmarking fee would be the same as under the direct loan option (but the FB would earmark only the amount of interest to be made up plus the amount of the standby l/c).

Interest make-up would apply to interest on the entire amount of the CB's loan. The RCF would make up an amount of interest equal to the maximum interest margin (i.e., over TBDO) that commercial banks are permitted to charge. This margin, called the *taux de banque*, is regulated by the central bank, and is changed from time to time in accordance with monetary policy. It is currently set at 6.5%.

Use of the interest *bonification* technique would allow the fertilizer importer/distributor to pay total borrowing costs at the TBDO--a saving of 6.5% over commercial lending rates. The bank's loan margin would presumably be 6.5% on the entire credit, instead of 5% under the existing direct loan option.

In conclusion, it should be recalled that use of interest make-up requires the banks to find funding sources outside the program for 100% of their loans. There may now be ample liquidity in the banking system at this moment to permit that. However, there is no assurance that adequate funding will be always be available. Therefore, it is important to keep the direct loan program in place, having interest make-up available as option to use if banking liquidity permits.

3. The Medium Term Lending Facility (MTLF)

3.1 Key Features

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

Since the last assessment a GIP for the MTLF has been issued, using the Fiduciary Bank - Commercial Bank loan structure and incorporating most of the suggestions in the assessment. On behalf of the TSC, the *Caisse Autonome d'Amortissement* (CAA) interviewed five banks for the role of Fiduciary Bank. The TSC selected Standard Chartered Bank (SCBC) to be the Fiduciary Bank for the MTLF.

No projects and loan proposals have been presented yet to the FB for consideration under the MTLF. Following the devaluation of the CFA franc, the total investment cost of any likely project has risen substantially. Since much of the machinery and equipment would no doubt be imported, capital cost is much higher. And likely operating costs have also risen sharply because of virtually doubled costs of imported fertilizer. The financial risk of such a project is no doubt correspondingly higher as well (although devaluation risk is now minimal).

Exhibit A-2 lists key features of the existing program and recommended additions and changes.

3.2 Eligible Projects

The criteria for eligibility in the GIP (section V) seem appropriate, with one exception: the requirement that investors must contribute 50% equity to the project. Even taking account of the possibility of uncertain or inflated valuation of assets such as land and buildings, this requirement seems unrealistically high.

For an investment project, it would be more appropriate to require that the total of all short-term debt plus senior long-term debt not exceed 70% of the borrower's adjusted total assets at the start of the project. Unless proof of recent cash expenditure can be demonstrated, land, buildings, and intangible costs should be valued at zero in the calculation of adjusted total assets. Verification of this point by the CB and the FB would unfortunately require some delay, but it is hard to see another way to satisfy the requirement for a meaningful equity participation by the project investor.

3.3 Eligible Loan Tenor

The GIP provides for maximum total loan tenor of five years under the two direct loan options. However, no maximum is stated for the interest rate make-up (*bonification*) option.

Five years from loan signature to final repayment could be too restrictive for an otherwise sound investment project, which would normally require most of the first year to become operational. Instead, it would be more appropriate to allow five years after project start-up for loan repayment. That would entail a six year maximum final maturity for the loan.

Principal loan repayments should be due in nineteen equal quarterly installments starting 18 months after the date of the loan agreement or six months after the Project's operational commissioning whichever is earlier.

Those provisions regarding repayment should apply to any loan covered by the MTLF, including those benefitting only from the interest make-up option.

3.4 Loan Amount

Ideally, to cope with the increased project cost arising from devaluation, the maximum total loan amounts covered by the MTLF should be increased. An increase of 50%, to FCFA 1,200 million, seems justifiable, and still within the funding capacity of the program. A larger increase simply does not seem prudent.

3.5 Risk Sharing & Standby Letter of Credit

It would be logical to provide a risk-sharing feature under the MTLF to the interest *bonification* option as well as the direct loan option. The existing proportion of risk-sharing coverage of 25% should be maintained, without an additional fee, using the standby letter of credit technique. Consequently, the number of options offered under the MTLF would be reduced to two: direct loan and interest *bonification*.

The discussion on technical aspects of the standby l/c used for the RCF--definition of loss, claims, *pro rata* sharing and recoveries, and inclusion of the standard text in the GIP--are all relevant to the standby l/c to be used under the second option of the MTLF. Please see the discussion in sections 2.2 and 2.3 above.

3.6 Direct Loan Option

In line with the discussion above on pricing for the direct loan option under the RCF, the target rate for the borrower's total loan probably should be set in relation to the BEAC's discount rate, the TBDO. Reflecting the riskier nature of the credit, the target borrowing cost should be above the TBDO. An appropriate margin, taking into account that (as recommended above) the fund covers 25% of the credit risk, would be 1.5%.

Several different combinations of the relevant factors were calculated, under different assumed interest rate environments, with that objective in mind. All the calculations assumed a loan amount from the MTLF at 50% of the total CB loan, as discussed in the preceding section. The table below shows some of the results, in terms of total cost of borrowing. (The last column shows the difference between total cost and the target rate of TBDO + 1.5%.)

BEAC rate	MTLF rate	Commercial rate	Total cost	>target (TBDO + 1.5%)
14.0%	9.50%	20.5%	15.00%	-0.50%
14.0%	7.00%	20.5%	13.75%	-1.75%
14.0%	10.50%	20.5%	15.50%	+.00%
11.0%	8.25%	17.5%	12.88%	+.38%
9.0%	6.75%	15.5%	11.13%	+.63%

Exhibit A-2

SUMMARY OF PROPOSED CHANGES IN FSSRP FOR 1994-1999

MEDIUM TERM LENDING FACILITY

	Old	New
Project/borrower eligibility:		
equity in project	50%	"debt" <70% of tangible assets
max. loan tenor	5 years	6 years
max. total loan amounts	FCFA 800 mln	FCFA 1,200 mln
Earmarking fee - 6 mos. max.	FCFA 100,000 flat	1/4% p.a.
Risk sharing	25% of loss[8]	25% of loss
	option #2	all options
1. Direct loan option:	yes	yes
max. amount of loan	FCFA 400 mln	FCFA 600 mln
	50%	50%
interest cost to bank	3.0% p.a.	75% of BEAC rate[9] - *taux de banque*[10]
interest cost to borrower	cof+7.5% max	75% of BEAC rate
2. Direct loan + standby l/c option:	yes	none
max. amount of loan & of l/c	@ FCFA 200 mln @25%	n. a.
3. Interest *bonification* option:	yes	yes
pct of CB loan covered	50%	100%
interest make-up	10%	*taux de banque* less 1.5%
interest cost to borrower	n.a.	[BEAC rate* + 1.5%]

---

[8] loss of principal and funding cost, net of recoveries.

[9] definition of "BEAC rate":
- until the introduction of money market rates = the *taux de base débiteur ordinaire* of the BEAC [as of 1 May 1994 this rate was 14% p.a.].
- after introduction of money market rates = average inter-bank money market rate as published by the BEAC.

[10] as of 1 May 1994, this rate was 6.5%

The preferred combination of factors that emerged from these calculations are the following:

- MTLF loan interest rate to the borrower (assumed) - 75% of BEAC discount rate

- MTLF loan interest rate charge to bank - 6.5% less than borrower's rate

These are the recommended elements of the modified MTLF direct loan package. They were used to obtain the figures shown in the last three lines of the table above. They result in a more consistently priced loan package at different levels of interest rates - higher than the existing program's rates under current conditions, lower if rates should fall (as they seem likely to within only a few months). In most of the likely interest rate scenarios, they yield a total loan cost structure reasonably close to the target of TBDO + 1.5%.

3.7 Interest Make-up (*bonification*) Option

In line with the discussion above on pricing for the interest rate make-up option under the RCF, the target rate for the borrower's total loan should be set in relation to the TBDO, but somewhat above it reflecting increased risk. An appropriate margin would be 1.5%.

The simplest way to compute the make-up needed to reach that target would be to apply the make-up percentage to all the interest paid on the bank's loan (rather than the 50% figure in the current GIP), and make up an amount of interest equal to the bank's margin over the TBDO less the 1.5% mentioned above.

3.8 Earmarking Commission

In its current form, the MTLF includes an earmarking fee, applicable to the three existing options[11] of the MTLF. It is payable in advance by the CB, and is non-refundable; cost is FCFA 50,000 (i.e., flat) per quarter.[12] An increase in the fee for the MTLF is recommended. Otherwise, a firm could deliberately request a "frivolous" earmarking, tie up program funds for up to 6 months, and thus effectively delay a competitor's project at relatively low cost.

Along the lines of the changes in earmarking commission recommended for the RCF, the cost of the (increased) earmarking fee should be refundable if the earmarking is used (or if available funds are insufficient to meet a fully conforming request). The fee could be calculated as a percentage of the amount of the fund being earmarked, and set at ¼% (i.e., 0.0025) p.a., payable quarterly in advance.

[11] i.e., direct loan, direct loan plus standby l/c, interest *bonification*.

[12] Since earmarkings last for a maximum of six months, the earmarking fee would be payable for a maximum of two quarters - i.e., FCFA 100,000.

For comparison, given below are the costs of use and non-use of the existing earmarking commission, and the proposed change; in the case of non-use, the earmarking is assumed to lapse after six months. Calculations are shown for two hypothetical MTLF project proposals under the direct loan option, one using FCFA 200 million of the fund's resources, the other using the full FCFA 400 million (in FCFA 000s):

	Use	Non-use
FCFA 200 mln		
present fee	100,000	100,000
proposed fee	0	250,000
FCFA 400 mln		
present fee	100,000	100,000
proposed fee	0	500,000

The ¼% rate suggested is considered a minimum. A higher rate, such as 1% p.a., would be more dissuasive, but essentially without cost for a sound investment project that is approved, and should be considered by the TSC.

3.9 Events of Default

The GIP is silent on events of default, including those that might trigger accelerated loan reimbursement. It would be normal for the GIP to include a clause specifying the most significant events of default (or requiring that the CB's loan agreement contain a clause to that effect which is satisfactory to the FB) and what the CB's obligations are to the FB if such events occur.

For example, if the borrower defaults on payment of the MTLF loan or on significant debt obligations to other lenders, the commercial bank loan would normally be accelerated. In such cases, the GIP should require parallel acceleration of the CB's remaining obligations to the FB.

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

4. Administrative Issues and Recommendations

4.1 Composition of the TSC.

It is recommended that the composition of the TSC be modified to include three representatives of the fertilizer sector: one fertilizer importer, one fertilizer distributor, and one from a bank (other than the Fiduciary Bank) that has participated in the program. This would coincide with the departure from the committee of the representative of USAID/Cameroon.The revised TSC would then look like this:

PUBLIC SECTOR
* MINPAT - President
* MINFI/CAA - Controller
* MINAGRI
* MINDIC

PRIVATE SECTOR
* Importer
* Distributor
* Banker

4.2 Claims Against the Fiduciary Bank

Last year's program review pointed out the need for the TSC to pursue claims for amounts of some FCFA 3.6 million in interest due from the former Fiduciary Bank on account of interest underpayments. Demand for payment has been made to the SRC, which is responsible for the debts of the former Fiduciary Bank. Payment has not been received, and a follow-up demand for payment should be presented.

4.3 Potential Conflicts of Interest for the Fiduciary Bank.

The General Information Pamphlet for the RCF (and for the MTLF) prohibits the FB from participating directly in the credit program. This prohibition is intended to avoid any conflicts of interest that might arise if the FB in effect had to police itself.

There remains another possible source of conflict of interest that is not addressed by the GIP, which deserves attention as the new RCF (and MTLF) is put in place. That is, the FB could extend credit outside the RCF or MTLF to a company that also is or becomes a borrower under the program. The FB's desire to favor its business with that customer could tempt it to apply lax standards to the customer's credit(s) under the program.

It is not feasible to imagine, and judge in advance, the many different situations of this type that might arise, or the types of customer relationships that should be prohibited. A very modest deposit relationship with a customer would probably pose little cause for concern, while a more significant credit relationship conceivably should be prohibited. Short of prohibiting any such business relationships at all, judgment would be needed in the particular case.

The wise course would appear to be to require the FB to advise the TSC in writing of any deposit, credit, or other relationship with a prospective user of the program at the time an earmarking request is presented (or when a customer relationship outside the program is started). Details of the relationship would be given in the FB's written notification to the

TSC. The TSC would be required to comment in writing to the FB within, say, 15 days on whether or not the FB should take any additional steps.

Finally, the new RCF program will need provision for a periodic review by external auditors. A full audit would no doubt be too expensive. An annual management review of the accounts would be the desirable alternative. The review should, *inter alia*, be required to comment on any communications presented in the framework of the recommendation above on conflict of interest. The CAA would appear to be well suited to perform such periodic review, no doubt at a considerable cost saving compared to rates charged by a member or correspondent of a major international accounting firm. The conflict of interest question, albeit without an easy answer, is potentially more acute for the MTLF than the RCF, and definitely should be addressed by the FB and the TSC.

4.4 Seminar on New RCF and MTLF

Once the TSC has decided on the details of the new RCF and MTLF funds, new General Information Pamphlets will be issued. That would be a good time to organize a seminar on the new programs for all participants and prospective participants.

The primary goal of such a seminar would be to ensure smooth operation of enlarged RCF and MTLF. A secondary goal would be to encourage wide participation in the programs by disseminating full understanding of what the programs can do and cannot do, and how they work and do not work. It would thus have a narrower scope than the annual workshops held under the old FSSRP.

In order to attract the fullest participation, the seminar could be sponsored by the TSC (i.e., not by the Fiduciary Bank). Its content would be educational, mainly emphasizing operating procedures. Key input would come from the Fiduciary Bank, with significant assistance from the *Caisse Autonome d'Amortissement*. Organization of the seminar would include two sessions, over a full day. The morning session could be limited to participating and prospective participating Commercial Banks. The afternoon session could include past and prospective importers and distributors as well as the Commercial Banks.

PRO FORMA
TEXT OF FIDUCIARY BANK'S STANDBY LETTER OF CREDIT

(date)

IRREVOCABLE LETTER OF CREDIT

As stipulated under Fertilizer Subsector Reform Program (FSSRP) General Information Pamphlet dated 4th October 1993 for revolving credit fund, we hereby open in your favour our clean irrevocable Letter of Credit N° _____ for the aggregate amount of FCFA __________ under our earmarking N° _______ dated ________ in favor of (importer/distributor, address, city) vide our telex dated ________.

This Letter of Credit covers 30% of the Net Loss after taking into account all Provisions, Recoveries and Costs related to the importation of _____ mt of (type of fertilizer) and _____ mt of (type of fertilizer) under your Letter of Credit.

Our above Letter of Credit is restricted to a maximum amount of FCFA __________ (full amount in words) only and expires on (date) after which no claim will be honoured. All terms and conditions stipulated under the GENERAL INFORMATION PAMPHLET REVOLVING CREDIT FUND dated 4/10/93 form integral part of this Letter of Credit.

This credit is subject to Uniform Customs and Practice for Documentary Credits (1993 Revision) INTERNATIONAL CHAMBER OF COMMERCE PUBLICATION NO 500.

APPENDIX B

FIDUCIARY BANK ACTIVITIES

Standard Chartered Bank Cameroun S.A. (SCBC)

Interviewed: Aleem Rauf Khan, Manager Corporate and Institutional Banking
Location/Date: Yaoundé, 18 April 1994

1. Special Local Currency Account

Exhibit B-1 shows the status of the Special Local Currency Account (SLCA) as of 30 April 1994. The fund was replenished on 25 August 1993 with a FCFA 8 million contribution from the USAID trust fund. Shown are transfers to replenish the Subsidy Fund on 2 November 1993, to establish the Medium Term Lending Facility on 4 February 1994, and to provide operating funds for the Technical Support Unit. The cost of the IFDC Workshop in Bamenda was also covered out of this fund.

2. Status of the Subsidy Fund

The status of the Subsidy Fund as of 30 April 1994 appears in Exhibit B-2. A deposit of FCFA 200,000,000 from the SCLA on 2 November 1993, brought the balance to FCFA 448,595,394. Of this amount, FCFA 62,881,110 was disbursed (to IBEX) and FCFA 57,360,000 (to Groupe One), which when interest earned is added left a balance of FCFA 355,696,417.

3. Loan and Subsidy Status

The status of loan and subsidy operations as of 30 April 1994 is show in Exhibit B-3. As of that date, only three loan and subsidy disbursements had taken place, all of them to IBEX (Transactions No. 93/94-1 and 93/94-2). The first loan was repaid by the due date of 27 April 1994, while the other two were not due until 3 July 1994.

Transactions No. 93/94-3 and 93/94-4 never took place because the importer did not ship the fertilizer within the thirty day subsidy earmarking period validity period.

Transactions No. 93/94 -5, 6, and 7 were earmarkings for Groupe One and Bakah Enterprises which occurred during the last week of April, just before the program year closed. The importers have 30 days to submit proof that the fertilizer was loaded, and an additional 60 days to receive the shipment and clear it through customs in order to receive subsidies. In the event, only a 9,400 ton import by Groupe One did take place in May and a subsidy of FCFA 57,360,000 was paid.

Exhibit B-1

Status of the FSSRP Special Local Currency Account
(as of 30 April 1994)

Calendar Year 1994	FCFA
Balance available on 30.06.93	1,041,490,378
Interest for June wrongly credited instead of Revolving Credit Fund	(17,726,263)
USAID Trust Fund contribution	25.08.93
(Foreign draft for FF 8,000,000)	(402,116,216)
Transfer to Subsidy Fund 02.11.93	(200,000,000)
Transfer to Medium Term Loan Fund 04.02.94	(400,000,000)
Transfer to Technical Support Unit 24.03.94	(28,500,000)
IFDC Marketing Workshop	(10,404,476)
Interest earned (ending April 1994)	38,137,818
Balance ending April 1994	20,881,241

Exhibit B-2

Status of the FSSRP Subsidy Fund
(as of 30 April 1994)

1993/94 Campaign	FCFA
Balance available, 30 June 1993	248,595,394
Deposit from SCLA 02.11.93	200,000,000
Disbursement 10.11.93 (IBEX)	37,001,110
Disbursement 04.03.94 (IBEX)	25,880,000
Disbursement (Groupe One)	57,360,000
Total Subsidy Disbursed	120,244,110
Interest (through 30.03.94)	27,342,133
Balance available on 30.04.94	355,696,417

Exhibit B-3

Fertilizer Subsector Reform Program Loan and Subsidy Status
(as of 30 April 1994)

Transaction NO	BANK	IMPORTER	TYPE	QUANTITY TONS	EARMARK DATE	LOAN: LOAN TYPE	LOAN: LOAN VALUE	LOAN: DISBURSE. DATE	LOAN: REPAY. DATE	LOAN: INTEREST EARNED	LOAN: LOAN COMM.	SUBSIDY: SUBSIDY AMOUNT	SUBSIDY: DISBURSE DATE	STATUS
93/94-1	CAC	IBEX	NPK201010	5 000	22/10/93	IMP	89 250 000	11/11/93	27.04.94	-	80 000	37000000	11/11/93	Open.
93/94-2	CAC	IBEX	NPK201010	2 700	08/12/93	IMP	45 562 500	06/01/94	03.07.94	-	80 000	19980000	04/03/94	Open.
			UREA 46 %	1 000	08/12/93	IMP	13 500 000	06/01/94	03.07.94	-	-	5900000	04/03/94	Open.
93/94-3	AMITY	GROUPE ONE	NPK201010	10 000	10/12/93	No loan	N/A	N/A	N/A	N/A	N/A	74000000	N/A	Expired.*
			NPK120620	1 000	-"-	-"-	-"-	-"-	-"-	-"-	-"-	7600000	N/A	Expired.
			UREA 46%N	5 000	-"-	-"-	-"-	-"-	-"-	-"-	-"-	29500000	N/A	Expired.
93/94-4	AMITY	BAKAH ENT.	NPK201010	10 000	07.02.94	-"-	N/A	N/A	N/A	N/A	N/A	74000000	N/A	Expired.
			NPK120620	2 500	07.02.94	-"-	N/A	N/A	N/A	N/A	N/A	19000000	N/A	Expired.
			UREA 46 %	5 000	07.02.94	-"-	N/A	N/A	N/A	N/A	N/A	29500000	N/A	Expired.
			AM. SULF.	2 000	07.02.94	-"-	N/A	N/A	N/A	N/A	N/A	4400000	N/A	Expired.
93/94-5	AMITY	GROUPE ONE	NPK201010	10 000	22.04.94	-"-	N/A	N/A	N/A	N/A	N/A	74000000	N/A	Opened.
			NPK120620	1 000	22.04.94	-"-	N/A	N/A	N/A	N/A	N/A	7600000	N/A	Open.
			UREA 46%	5 000	22.04.94	-"-	N/A	N/A	N/A	N/A	N/A	29500000	N/A	Open.
93/94-6	AMITY	GROUPE ONE	UREA	5 000	27.04.94	-"-	N/A	N/A	N/A	N/A	N/A	29500000	N/A	Open.
			AM. SULF.	1 000	27.04.94	-"-	N/A	N/A	N/A	N/A	N/A	29500000	N/A	Open.
93/94-7	AMITY	BAKAH ENT.	NPK201010	10 000	27.04.94	-"-	N/A	N/A	N/A	N/A	N/A	2200000	N/A	Open.
			UREA 46	7 500	27.04.94	-"-	N/A	N/A	N/A	N/A	N/A	74000000	N/A	Open.
			AM. SULF.	2 000	27.04.94	-"-	N/A	N/A	N/A	N/A	N/A	44250000	N/A	Open.
TOTAL :				85 700								4400000	N/A	Open.

* Proof of shipment not provided within 30 days as stipulated in the General Information pamphelt.

4. Current Operations and Suggested Improvements

4.1 TSC Operations - Role of the *Caisse Autonome d'Amortissement*

Since last year's FSSRP seminar, Mr. Khan, Manager, Corporate and Institutional Banking, has noticed what seems to be somewhat more active participation by the *Caisse Autonome d'Amortissement* (CAA) in the daily workings of the financial and banking aspects of the TSC. This participation has of course reflected the financial experience and professionalism of the CAA. In Mr. Khan's judgment it has definitely been beneficial to the workings of the program.

4.2 Excessive Earmarking

In the 1992/93 FSSRP campaign, less than 25%[1] of earmarking requests under the Revolving Credit Fund were actually used. In the current campaign, less than 20%[2] of earmarkings were used[3]. Whether intended or not, this low level of earmarking usage amounts to "frivolous" earmarking. Frivolous or not, the non-realization of IBE's earmarking late in last year's campaign for some 10,000 mt of fertilizer clearly had a negative impact on the market. One result is that stocks of fertilizer, particularly urea, are very low at this time.

In the future, even without the "bait" of subsidies, excessive earmarking under the "new" RCF could again produce negative results for the fertilizer sector. Under the MTLF, a firm could deliberately request a "frivolous" earmarking, tie up program funds for 1-6 months, and thus effectively delay a competitor's project at relatively low cost.

How could the program be modified so as to discourage frivolous earmarking in a way that would not also discourage normal efforts to obtain fund support for fertilizer import and distribution, as well as for sound investment projects?

RCF earmarking fee: For the RCF, we felt that the above objective probably could be achieved by charging a fee for each earmarking, refundable at maturity of the import/distribution loan.

This approach would make the earmarking free for successful importers/distributors, as at present, but entail a cost for unsuccessful proposals.

In order to have a suitably dissuasive effect, the fee should actually be paid to the Fiduciary Bank before earmarking takes effect. Reimbursement of the fee would occur at maturity of

---

[1] Earmarkings were made for 58,000 mt of fertilizer; 14,000 mt were imported.

[2] Earmarkings = 44,000 mt; imports = 8,7000 mt.

[3] No earmarkings have been requested under the MTLF.

the import/distribution loan, in the form of a credit against amounts due to the FB. For ease of comprehension and administration, such a fee should be a flat amount: FCFA 200,000 seems appropriate for import loans. We did not discuss distribution loans (which, typically, would involve smaller tonnages of fertilizer than import loans).

MTLF earmarking fee: The current version of the MTLF includes an earmarking fee, applicable to the three options[4] of the MTLF. It is payable in advance by the CB, and is non-refundable; cost is FCFA 50,000 (i.e., flat) per quarter.[5] Should this fee also be modified?

Our tentative conclusion today was that consideration should be given to raising the cost of the earmarking fee but making it refundable if used. The fee could be calculated as a percentage of the amount of the fund being earmarked, and set at ¼% (i.e., 0.0025) p.a.

For comparison, given below are the costs of use and non-use of the existing earmarking commission, and the proposed change; in the case of non-use, the earmarking is assumed to lapse after six months. Calculations are shown for two hypothetical MTLF project proposals, one using FCFA 200 million of the fund's resources, the other using the full FCFA 400 million (in FCFA 000s):

	Use	Non-use
FCFA 200 million		
present fee	100,000	100,000
proposed fee	0	250,000
FCFA 400 million		
present fee	100,000	100,000
proposed fee	0	500,000

Other combinations of fee rates, amounts due in case of use and non-use, etc., can no doubt be devised to yield the appropriate combination of dissuasion, encouragement, and cost under the various likely scenarios.

[4] i.e., direct loan, direct loan plus standby l/c, interest *bonification.*

[5] Since earmarkings last for a maximum of six months, the earmarking fee would be payable for a maximum of two quarters - i.e., FCFA 100,000.

4.3 Risk sharing

The experience of the Fiduciary Bank since the risk sharing concept had been added to the RCF (section VI of the General Information Pamphlet) following last year's FSSRP seminar is that to date there have been no claims under this section.

4.4 Effectiveness of FSSRP Banks

Neither of the two banks that requested earmarkings under the RCF this year, *Crédit Agricole* (CAC) and Amity, seem yet to understand fully how the program's banking arrangements are supposed to work. Part of this is no doubt due to staff turnover within the banks. Nevertheless there is still a tendency just to ask the Fiduciary Bank what to do, as if reading the five-page General Information Pamphlet were too difficult an exercise.

None of the banks has taken up SCBC's offer at last year's FSSRP workshop in Douala to offer a workshop/seminar to commercial bank personnel. Mr. Khan still feels such a seminar would be useful for both the commercial banks and their customers. He suggested that a seminar might have more success if sponsored by the TSC (rather than "proposed" by SCBC). Another way to heighten its impact could be to have two distinct sessions, the first limited to Commercial Banks, the second to include customers and potential customers along with their banks. The first session could be scheduled for a morning, the second for afternoon of the same day.

Standard Chartered Bank, Douala

Interviewed: Roger Urion, Managing Director, SCBC
Location/Date: Douala, April 22, 1994

Earlier in the week it had come to light that through an oversight the Fiduciary Bank had omitted to provide CAC with a standby letter of credit for fertilizer import loans extended several months ago. (The provision of the standby l/c is new this year.) In previous conversations we had encouraged prompt issuance of the l/c . Today Mr. Urion informed us that FB's Yaoundé office had faxed the l/c to CAC yesterday, and gave us a copy of the text.

APPENDIX C

COMMERCIAL BANK ACTIVITIES

1. *Crédit Agricole du Cameroun* S.A. (CAC)

Interviewed: Thomas Helfferich, *Membre du Comité de Direction*
Polycarpe Awono, *Sous-Directeur des Opérations Bancaires*
Ndi Ngono, *Département des Opérations Bancaires*
Location/Date: Yaoundé, April 19, 1994

1.1 FSSRP Operations

Disbursements of subsidies and loans to IBEX, the sole importer this year as of the date of this report, are as reported by the FB.

Importation loans: FCFA 89,250,000 disbursed on 10 Nov. 93
FCFA 59,062,000 disbursed on 6 Jan. 94

Subsidies: FCFA 37,000,000 disbursed on 10 Nov. 93
FCFA 25,880,000 disbursed on 4 March 94

1.2 Financial Condition

Despite the difficult economic and financial environment in Cameroon, CAC apparently continues to make satisfactory progress. Total assets have now reached FCFA 45 billion, up 40% from last year. Loans outstanding total FCFA 23 billion, deposits are at FCFA 33 billion (up 50%). CAC has six branches at present and will open three more in the Western provinces before year-end.

As for the bank's own financial position, Helfferich said CAC had maintained a position of considerable liquidity in the wake of the devaluation; other banks had not.

1.3 FCFA Franc Devaluation, Financial Environment

In the very short run, the devaluation may have made a deteriorating economic situation somewhat worse. To illustrate, Helfferich said CAC has 12,000 individual customers, the great majority being upper income bracket civil servants. A significant part of CAC's loan portfolio involves term loans (over 1 year final maturity) to such civil servants for furniture and appliance financing backed by the Government.

In the last several months, those civil servants have seen their salaries cut by two-thirds. In many cases, the monthly payments on their personal loans exceeds their monthly salaries.

The bank has been obliged to work out significantly extended terms of repayment to avoid hardship (and massively higher bad loan problems).

Likewise, in the corporate sector, companies generally are in a more difficult position than pre-devaluation--especially importers. Helfferich pointed to a key, if informal, indicator of the bite the devaluation has made into living standards: champagne consumption has dropped dramatically.

No significant return of flight capital has occurred since devaluation. The monetary authorities had hoped to attract funds back from abroad by raising rates 3%, but this has not brought such a result.

More fundamentally, it will take time to reap the prospective benefits of the devaluation. For instance, coffee export tonnage will not increase quickly: planting of new, more productive trees has been neglected for at least the last 5 years. As for cocoa, the rural roads have been neglected for so long that increased production would have difficulty reaching the market and the port.

Helfferich's personal guess for the next twelve months is for a worsening of the economic crisis as capital flight does not reverse, and the administration is slow in implementing appropriate new measures efficiently. It will take time for post-devaluation inflation, which he guesses may average out to 30%, to subside.

The real key to restoring business and consumer confidence will be, in general, adherence to the conditions recently laid down by the IMF and, in particular, reimbursement of arrears in the State's domestic debt--which is generally estimated at FCFA 1 billion. If the State does at last pay up on some of its past due debts to contractors, ordinary citizens, and the like, the word will spread quickly enough and a beginning could be made on restoring confidence.

As a sidelight, Helfferich noted that if the IMF's periodic reviews of Cameroon's performance report that Cameroon is on track is respect of the IMF conditions, it could have a direct beneficial effect for CAC. Certain external loans to CAC have been authorized by the lenders, but not disbursed because of the country's non-compliance with World Bank and IMF conditions. If compliance were documented, the bank would be able to draw down these funds.

1.4 Operations of the Credit Fund and Subsidy Fund

The usual detailed table on fertilizer import operations, required for the annual review, is not quite ready. Reason: the formal request, including the relevant form in which information is requested, had been received from the TSC only yesterday and the attachments were not attached. Summary information, in the bank's own format, was however provided.

The final outcome of fertilizer import operation started under last year's program was satisfactory; repayments were received on a timely basis. Neither of the two operations started under the current program has reached maturity date yet. As for relations with the Fiduciary Bank, CAC has experienced no problems in obtaining funds promptly from the FB, in accordance with FSSRP procedures.

1.5 IBEX Fertilizer Import Transaction

The security and guarantee package that CAC used to support the import loans for IBEX this year is somewhat less restrictive on the importer than last year. The bank required only the purchase contracts between IBEX and its major customer for these imports, the banana grower SPNP.

Unfortunately, those contracts do not include any provision for revaluation--which has become an issue in the wake of the FCFA franc devaluation. The contracts were signed well before devaluation; delivery of fertilizer occurred afterwards. Helfferich said IBEX is trying to get SPNP to pay a price (in FCFA) that is approximately double that in the contract; the customer is refusing.

Consequently, some FCFA 500 million of fertilizer is still in the warehouse in Douala, IBEX's overdraft with CAC is "huge." IBEX has succeeded in selling some of the fertilizer to CAFLAMI (presumably at new, higher prices) but the problem is far from resolved.

CAC has now sought a formal charge (*nantissement*) over the fertilizer stocks in the warehouse, but as of the date of our meeting the bank did not yet have confirmation that the necessary legal steps had been completed. And even if CAC is successful in seizing the fertilizer, it would have difficulty rapidly selling the fertilizer at a price double that of last year.

In this connection, Helfferich informed us that the FB has not issued the standby letter of credit stipulated by the General Information Pamphlet for the 1993/4 FSSRP under new risk sharing provisions. The Fiduciary Bank apparently is still looking for the suitable drafting formula.

Helfferich is to send a formal written reminder to the FB immediately after our meeting and deliver a copy to USAID/Cameroon shortly thereafter for our background information. These steps might facilitate prompt issuance of the l/c. Helfferich and his staff wondered whether the language of the l/c would permit recovery of the guaranteed amount on first demand, or on some other basis.

1.6 SOMENAC Medium Term Lending Proposal

The loan proposal document from SOMENAC had reached Helfferich only yesterday and his team have not yet studied it in detail. Their main concern today was of course satisfactory resolution of the IBEX import transaction; the way that is handled will of course have a major impact on their willingness to consider any credit to the sister company, SOMENAC.

Awono's first question concerned the proposed financing from FSSRP sources. Is the proposal referring to MTLF funding, RCF funding, or both, and in what amounts? This is not clear from the text of the feasibility study.

Helfferich commented on the distance from quayside to the SOMENAC premises, and the necessity to transport bulk fertilizer from a vessel to the plant by truck. He apparently feels this is a negative factor. He noted that the FERIDA proposal that was discussed last year (IFC credit support had been denied, and the project is apparently dormant today) had a much better location.

1.7 Future RCF and MTLF Issues

CAC would favor an enlargement of the coverage of the RCF to all fertilizers and, ideally, related inputs such as pesticides as well.

Maintenance of risk sharing is a good idea; the 30% proportion seems appropriate.

The interest rate subsidy could usefully be raised, especially following the increase in the central bank's discount rate in the wake of the FCFA franc devaluation. The larger share of the benefit of such a change should go to fertilizer importers, the smaller share to banks.

In this connection, the issue that will likely need resolution concerns possible participation--for virtually the first time--by larger users that could deal directly with exporters, such as SODECOTON. If the new program brings sufficiently low financing costs, such large firms could be attracted to it, with two harmful side effects. First, that could work to crowd out smaller participants that the program has historically tried to encourage. Secondly, and perhaps even more harmful, that could work to reduce the role of independent importers and distributors, lessening competition.

CAC did not favor possible expansion of the TSC, following USAID/Cameroon's departure, to include a representative of the Cameroon bankers' association, APECCAM. In CAC's view experience to date has shown this association to be inconsistent, and not particularly effective, in defending banks' interests. It might be preferable to have a seat on the committee for a bank, but have it rotated (annually, for example) among banks that had participated in the fertilizer program. Other possible ways to have banks' interests and experience represented on the committee did not yield a proposal of definite appeal to CAC.

Location/Date: Yaoundé, April 27, 1994

1.8 IBEX Fertilizer Import Transaction (continued)

Helfferich and his colleagues now have assurances that most of this fertilizer is still in the warehouse in Douala. They have initiated steps to take a *nantissement* over these goods and expect the formal steps to be completed in a week or two. Although still far from optimistic that the fertilizer can be sold--whether by IBEX or by CAC--at double the FCFA price originally contracted, they seem to have more confidence than last week in the strength of their legal position.

They have not yet seen the standby letter(s) of credit that the Fiduciary Bank should have issued when the transactions started last year. They have an incomplete report from their Douala office that a letter from SCBC was delivered to that office last week, but it is not clear who in their Douala office actually has the document. They thus were quite interested to see the text of the l/c that had been given to us in Douala last week by the SCBC head office.

It appears that one or two details in the l/c do not correspond closely to details of the transaction, but overall they appeared to believe it is satisfactory. We reviewed closely when they should present a "claim" to the FB, and also how some of the relevant provisions of the General Information Pamphlet should be amended for greater clarity and ease of application in similar cases.

Awono said it is clear that they will have to meet with IBEX in Douala to review their respective positions carefully, if any satisfactory solution is to be worked out. We encouraged them to hold such a meeting well before May 10, when their loans come due; it is in the interest of all parties to find a mutually agreeable settlement rather than litigate.

Helfferich gave a bit more of the background to the incident today. He said that payment to the foreign supplier, under a sight letter of credit, had been made on January 3 (before the devaluation) but that IBEX had not paid until February. That is apparently the basis of their claim on IBEX.

1.9 Stabex Agricultural Loan Proposals

Mr Awono had met yesterday with the consultant for the EC's Stabex fund who is preparing a major new agricultural loan program. This proposal includes three distinct loan funds, two of which also are to benefit from a guarantee fund which will share some lending risk with the banks. CAC will probably bid for the equivalent of the fiduciary bank role in one of the guarantee funds.

The lending terms being proposed for the Stabex proposal would give a much lower all-in rate of interest to the borrowers than the FSSRP proposals. We discussed the desirability of seeking to modify the new FSSRP program along similar lines. Helfferich and Awono feel that if importers and producers can borrow at all-in cost of 11% or 12% for fertilizers, agricultural chemicals, and pre-export production, it would be a real encouragement to the entire sector. Since the subsidy is to be eliminated from the new RCF, it may well be appropriate to lower the financing cost significantly in the next stage of the program.

2. *Banque Meridien* BIAO

Interviewed:	Sheenah J. Macdonald, *Directeur des Grandes Entreprises*
	Godfroy Mballa, Corporate Department
Location/Date:	Douala, April 21, 1994

2.1 Bank's Position

The bank continues to adjust its activities to the aftermath of the merger with BIAO. They still have a serious holdover of bad debts, largely on Government entities: some FCFA 50 billion. However, the bank is somewhat more liquid than last year. The number of branches has stabilized at 19, down from the original number of 28. Two banks (unnamed) are still in default from time to time in the daily clearing. They are more active in the West now, and are doing well with savings products in that area. In corporate credit, they are seeking ways to go beyond traditional general credit services and develop a degree of specialization in agricultural financing.

2.2 Financial Environment

A number of positive, albeit quite tentative, signs can be detected in the wake of the devaluation. Large importers are looking at alternative sources of supply that might offer lower cost for the product in question, no longer just France. Import and export opportunities with South Africa, for instance, are being explored. Packaging of consumer goods has been adapted to fit the market better, in particular smaller quantities that correspond to what the consumer actually wants, and what he can now afford. Fraudulent imports from Nigeria have fallen off dramatically. The market in the other UDEAC countries is now more open for Cameroon's exports--including agricultural products that are users of fertilizer.

However, little flight capital has returned to the country. There may be a slight improvement in firms' working capital position, nevertheless. The key deterrent to capital repatriation remains general uncertainty about economic and political conditions. Fantastic as it might seem, some people believe rumors that a second devaluation is around the corner.

2.3 Fertilizer Importers

Again this year, the bank did not participate in the FSSRP program. It did finance some 4,000 mt of fertilizer imports outside the program: ADER - 2,000 mt; SODECOTON - 1,400 mt; and SAFACAM - 600 mt.

The bank continues to have a problem with IBEX, in connection with a small overdraft arising from an import transaction two years ago. IBEX has never contested the debt, have recently made some payments, but continue to find ways to procrastinate in cleaning up the matter. And the CAMATREX matter is still in the courts.

2.4 FSSRP Program

Although the bank has not participated recently in the program, they are reasonably familiar with its main features and offered comments for the future program. In the RCF, the proportion of risk covered by the program--30%--seems large enough to be a useful incentive to banks to extend credit but low enough to discourage irresponsible lending; in other words, about right.

The discussion of the RCF also reminded them that one of their agribusiness customers, PROLEG (a bean producer), might be eligible and interested. They will mention the program to PROLEG.

In the MTLF, the *bonification* option would be of interest only to banks that rediscount at the BEAC--and paradoxically, this does not include one or two of the better quality banks. (Note: It is not clear that this comment is totally accurate as it applies to medium term rediscounting; BEAC may be less restrictive on rediscounting to healthy banks than it is for short term rediscounting, focussing mainly on the credit quality of the underlying credit proposal.) This bank's own medium term portfolio includes only FCFA 2.5 billion that has been rediscounted.

As for eventual enlargement of the TSC, they were not enthusiastic about having the bankers' association be allotted a "banking" seat. In their view it would be preferable just to have a bank involved in the fertilizer sector, perhaps on a rotating basis. Having a representative of a fertilizer industry association on the TSC struck them as particularly useful.

3. Amity Bank Cameroon S.A.

Interviewed:	J. J. Quan, Finance & Administrative Director
	Thomas T. Amibang, Assistant Manager, Operations & Treasurer
Location/Date:	Douala, April 21, 1994

3.1 Bank Operations

The bank is doing well, and has reported three consecutive quarterly profits. It has three branches. It remains a net placer of funds. Their strong funding position enables them to bid somewhat less aggressively for funds than some of their competition; Quan said the highest rate they would offer a large placer of funds would be about 9¼% p.a. (Rates as high as 12% have been mentioned elsewhere.)

They are booking increasing amounts of business from the coffee sector.

3.2 FCFA Devaluation Aftermath

Like other banks, Amity has seen little evidence of flight capital returning to the country since the January devaluation. Quan understands that other countries in the franc area have seen funds returning since January - for instance, as much as FCFA 8 billion has flowed back to Gabon.

3.3 Fertilizer Transactions

In the current FSSRP, Amity has initiated earmarking for two fertilizer import transactions, both quite sizeable, but the earmarkings expired unused.

Bakah Enterprises had hoped to import urea from Nigeria, and negotiated with a London firm, Guardship Ltd, for the other products - the total quantity of the earmarking amounting to 19,500 mt of fertilizer. These imports would have been financed by suppliers credit, and the l/c procedure would not have been used. Bakah planned to sell to CAPLABAM, Del Monte, and FME. It was not entirely clear why the transaction, for which earmarking had occurred in early February 1994 (i.e., after the FCFA devaluation), had not materialized.

Groupe One was the prospective importer for the other earmarking, which involved 16,000 mt of fertilizer. The supplier is a Dutch firm, Kencica, and the transaction had been structured without an l/c on the basis of suppliers credit. Earmarking had occurred in December and the transaction reportedly foundered in the uncertainties surrounding the devaluation the following month.

This transaction is still alive, for the same tonnages. In fact, Kencica representatives were meeting with other Amity officials during our discussion. The parties hope to reach agreement on financing structure and terms so as to earmark no later than April 30, the end of the current program, in time to qualify for the subsidy. Groupe One, of course, has very little capital so the parties are seeking a financing package that reduces the supplier's risk on Groupe One; without elaboration, our hosts said it appeared Amity might participate in the risk package in some way.

They also mentioned an earmarking request they had apparently made on behalf of **IBE** in early December. This import was to have involved 24,000 mt of urea and NPK 20-10-10. The transaction was to be inter-Group and there ware no sales contracts with buyers. The Fiduciary Bank rejected the application for earmarking that Amity had transmitted, apparently on those grounds. (Neither the FB nor IBE had mentioned this proposed transaction in meetings earlier this week.)

3.4 FSSRP Credit Facilities

Quan and Amibang raised several queries and suggestions on the program. In the **RCF**, they had two points specifically on the risk sharing standby letter of credit introduced in the current program. First, they apparently feel the Commercial Bank claiming loss should not be obliged first to repay the entire loan from the Fiduciary Bank before being reimbursed for 30% of the loss, but their remarks on this point were not entirely clear. Second, they feel the drafting of the standby l/c (they have not seen one because their earmarking requests expired unused) should be agreed on with the Commercial Banks.

For the **MTLF** they had numerous questions, but no specific suggested changes at this time (perhaps in the Douala seminar early next month). They wondered what the composition of the TSC would be after USAID departs, but had no particular suggestions for change at this time.

4. Standard Chartered Bank Cameroon S.A.

Interviewed: Aleem Rauf Khan, Manager Corporate and Institutional Banking
Location/Date: Yaoundé, 18 April 1994

4.1 FCFA Devaluation Aftermath

Mr. Khan has seen little reverse capital flight since the devaluation in January 1994. Most Cameroonians who moved resources offshore in anticipation of a devaluation probably are still waiting to bring the funds back to Cameroon, no doubt out of general caution as much as anything else. Certainly the general interest rate increases of 3% have not been a magnet for such reflows.

Contrary to the general mood of caution, Khan has seen some signs of money returning to the country for investment in sawmills. He offered no explanation for this observation.

Personally, he is guessing it will take at least until later this year for local businessmen to regain significantly more confidence in the overall economic outlook, confidence that would attract funds parked overseas back into Cameroon.

Interviewed: John Taylor, Administration and Finance Manager (Douala head office)
Location/Date: Douala, April 21, 1994

Although rumors about an impending devaluation had been circulating for over a year, it was not until quite late in 1993 that the financial community became convinced that one actually would occur shortly. Even so, there was no clear sign until the central bank suspended permission to make foreign transfers very early (i.e., before the banks opened for business) on Friday morning January 7, 1994. The devaluation itself took place as of Wednesday, January 12, 1994.

Bankers feel the announcement of the devaluation, accompanying price and interest rate control measures, etc., could have been explained more clearly and on a more timely basis. Nevertheless, a surprising number of measures are now in effect and they are having much of the intended effect--customs collections have apparently improved, a new VAT has been put in place.

One clear outcome of the devaluation has been a dramatic drop in smuggling with Nigeria, for cash. Now, the smuggling that does occur apparently is for barter, including timber and wood products, which of course is more cumbersome than cash transactions.

A peculiar aftermath of the devaluation is that a rumor continues to circulate intermittently that a second devaluation is on the way. To Taylor and his colleagues, this simply makes no sense. It does unfortunately seem to have some credence among small businessmen, postponing just that much longer a restoration of business confidence.

As other bankers have said, repatriation of flight capital to Cameroon since the devaluation is negligible, mostly unwinding of positions on trade payments that businesses and banks may have taken as a precaution late in 1993.

4.2 Banking System

Last year Taylor and other bankers warned of an impending liquidity crisis in the banking system, reflected *inter alia*, in repeated non-settlement incidents in the daily check clearings. Taylor said today that this situation, which had become aggravated starting in May 1993, continued practically unabated through year-end. Capital flight was palpable through this period.

Since the devaluation, bank liquidity has improved noticeably. The worst offenders in the clearings now meet their obligations most of the time, for instance. The authorities have recently introduced a second, mini clearing late in the afternoon. This step is a positive one, bankers feel, as it enables them to estimate more clearly their likely net position in the main clearing the next morning and take steps beforehand to arrange additional cover if needed. In this connection BEAC's office in Douala has been strengthened.

Devaluation, however, reportedly caught at least two of the larger banks with sizeable foreign currency exposure, and they have probably suffered major losses. (The banking system reports from which the losses could be deduced are not yet available.) Thus, paradoxically, it is likely that the solvency and capital adequacy of the banking system as a whole is at least as bad and perhaps worse than last year.

Of interest, a formal money market is supposed to start as of July 1. (This step is included in the IMF package.) No hints have been given yet as to how the market is supposed to function, and several bankers expect considerable confusion at the outset. Taylor has heard that training courses are to be organized for bank personnel in Yaoundé, and the objective is to permit local inter-bank trading, including negotiable instruments in due course. Regardless of hiccoughs that may occur in implementation, this should be a positive development.

4.3 Outlook

Since the devaluation, the general business attitude continues to be wait-and-see. That said, talk of new projects in a number of fields can now be heard for the first time in several years--for instance, in palm oil, a creamery, assembly of white goods. Timber business is already booming, Del Monte and CDC seem to be doing better, news is positive in pineapples, rubber and perhaps tea as well.

Government salaries are now paid more or less on time, but at greatly reduced levels. Civil servants are anxious that an actual cut in the number of government employees is imminent.

Despite distinct improvements in some areas, over-all Taylor is not optimistic for the short run. The key to lasting improvement probably is whether the Government is able and willing to control the size of the public payroll (not easy for government in any country). Restoration of general business and public confidence in the economic outlook is likely to need at least one or two more years, and until confidence is restored economic progress will be halting.

Interviewed: Roger Urion, Managing Director (Douala head office)
Location/Date: Yaoundé, April 26, 1994

4.4 General Financial Conditions

Apparently inflation has completely stabilized after the initial post-devaluation shock, which in turn could work to bring down interest rates sooner rather than later. The local IMF office has of course been following inflation statistics closely in the wake of the devaluation, in particular the "local marketbasket" series that are relevant to non-urban consumers.

The January/February statistics showed price increases on the order of 30% or more, as merchants and others first tried to raise prices drastically and then adjusted them somewhat down to levels that would clear the market. IMF officials have just seen the March statistics, which show a monthly rise in the local marketbasket prices of 1%. The statistics apparently are of reasonably convincing quality, so this is an early indicator that the accompanying measures have produced the desired effect.

If this trend is confirmed, that would allow the IMF to go along with a move by the central bank to adjust interest rates downwards in another month or two.

The second news of interest also relates to the aftermath of the devaluation. A commercial customer who got caught short in the devaluation has brought suit in court against his bank.

The bankers' suspicion is that the customer is just grasping at a straw to shift blame for his own mistake--if he can persuade the judge of his position. Urion is concerned that if such suits snowball before the authorities take preventive measures, the banking system as a whole could suffer a renewed loss of confidence. His fears, even if exaggerted, point out the pervasive influence of the devaluation throughout the financial system.

APPENDIX D

IMPORTER ACTIVITIES

1. The IBE Group Inc. - Africa Headquarters

Interviewed:	Laura C. Stotz, Managing Director, Africa
Location/Date:	Douala, April 20, 1994

1.1 Background

Ms. Stotz confirmed that the office she heads is a 100%-owned branch of the parent firm in New York. In July 1993, the IBE Group took the necessary steps to have its former subsidiary in Cameroon, IBE Africa-Cameroon, closed. So her office is the only entity in Cameroon that has any affiliation with the IBE Group.

The two key principals in the former IBE Africa-Cameroon, Peter Louma and Dele Olanubi, were discharged and no longer have any connection with IBE. They are still in hiding as far as Ms. Stotz knows. Threats and harassment of her and other company staff that in her opinion were fomented by Louma and Olanubi have now ceased. The former close connection between IBE Africa Cameroon and Groupe One through Olanubi and Louma has also been broken.

Ms. Stotz remarked that the main, in fact the overwhelming, focus of the activities of IBE Group involves transactions with the former Soviet Union. For instance, IBE Group President Sheldon Silverston is currently absorbed with a $300 million pipeline construction project in the ex-USSR. In fact, two of the vice presidents of IBE are Russians.

The IBE Group's style derives from Mr. Silverston's orientation as a trader and deal-maker. Even when an industrial project is involved, the group avoids taking on any on-going operating management role, leaving that to others.

Ms. Stotz currently has a total staff in Cameroon of nine persons, mostly non-professional level. The entire focus of her activities is settlement of some fifteen lawsuits and counter-suits, many currently outstanding, between IBE Group and parties associated with IBE Africa-Cameroon, including Groupe One and Complexe JBN, as well as collecting money still owed by fertilizer buyers. Ms. Stotz is becoming cautiously optimistic that the suits will be settled in IBE's favor in a few more months, too slow for her company's taste but encouraging nonetheless. The amount she is hoping to recover totals about $500,000.

1.2 Fertilizer Transactions

IBE has not imported any fertilizer under the 1993/94 FSSRP program year, and has been engaged in disposing of stocks remaining from its imports under the 1992/93 program, which consisted of 7,263 mt of urea and 4,624 mt of ammonium sulfate. According to Ms. Stotz, this fertilizer was purchased through an internal company contract, and was supplied through a barter arrangement in Ukraine. The shipment arrived in mid-April 1993.

The cost of the goods in FCFA per metric ton, as reported by Ms. Stotz, was as follows:

Urea (bulk, FOB)	23,785
Ammonium Sulfate (bulk, FOB)	11,225
Freight and Demurrage	11,803
Customs	2,453
Discharge and Warehouse	11,134
Bagging	5,669

On this basis, the urea cost for the bagged product was FCFA 54,844 per mt and that for ammonium sulfate was FCFA 42,284 per mt.

Sales of the product, and prevailing list prices at various times, are as follows:

Urea: Sales of urea by IBE Africa Cameroon until its dissolution in July 1993 amounted to 5,904 mt. The balance, 1,359 mt, was sold by the present company between July and December 1993. The list price was FCFA 51,000 per mt until 21 September, when it was raised to 55,000 per mt. If the above per-mt cost is correct, then IBE was losing money on each ton sold at the FCFA 51,000 price and barely breaking even at the FCFA 55,000 per mt price.

Ammonium Sulfate: IBE Africa Cameroon sold 1,155 mt of ammonium sulfate through 30 July 1993. IBE Group Inc. sold another 1,115 mt between 1 August 1993 and 31 December 1993, and the remaining 1,195 mt was sold between 1 January 1994 and approximately 15 April 1994. The list price for this product was FCFA 38,000 per mt until 20 September 1993, when it was raised to 44,000 per mt. Following devaluation in January 1994, the list price was raised to FCFA 88,000 per mt. Here again, IBE must have been losing money on each ton of ammonium sulfate sold until the price was raised to FCFA 44,000 per mt.

The IBE Group, since taking over the operation, has been flexible as to pricing and has in some cases extended credit to buyers for a limited time.

The disposition of IBE's stock of fertilizer, by product and customer, is reported in Exhibit D-1 below.

IBE had substantial sales to other importer/distributors because after dissolution of IBE Africa Cameroon, IBE was the only importer to have stocks available of these types of fertilizer and prices were favorable.

Forty-two percent of sales went to distributors, mostly the coffee cooperatives (first three listed). In addition sales by Complexe JBN were to NWCA and Groupe One also had sales to cooperatives. Other distributors purchased 22% of the total. Among them were four handling tonnages in excess of 100 mt, and a large number of those who took less than that amount. Some of these "distributors" were in fact acting as agents for IBE since they did not take title to the fertilizer.

Exhibit D-1
IBE Sales by Product and Customer
21 April 1993 to 15 April 1994
(metric tons)

Customer	Urea	Ammon Sulf	Total	
Industrial Users:				
CAMSUCO		1,500	1,500	
CDC/Del Monte	210	1,060	1,270	
MAISCAM	100	0	100	
Subtotal	1,810	1,060	2,870	(25%)
Importer/Distributors:				
ADER	350	200	550	
IBEX	515	0	515	
Pelenget	115	52	167	
Sub-total	980	252	1,232	(11%)
Distributors:				
CAPLABAM	590	214	804	
CAPLAME	1,494	400	1,894	
NWCA	0	247	247	
Complexe JBN	1,251	234	1,485	
Group One	313	75	388	
Sub-total	3,648	1,170	4,818	(42%)
Other Distributors:				
All other distrib.	825	1,783	2,608	(22%)
Grand total	7,263	4,265	11,528	

1.3 Problems with Past Transactions

As an example of the complexity of the situation she is now trying to unravel expeditiously, Ms. Stotz mentioned a transaction involving Groupe One and Complexe JBN. As far as we could follow the story today, IBE says that Complexe JBN took delivery of fertilizer (i.e., originating from IBE) and gave a check in payment to Groupe One. The check was written on insufficient funds. To settle, Complexe JBN then delivered coffee to Groupe One. After closing IBE Africa-Cameroon, IBE thus found itself in possession of that coffee. To obtain cash, IBE then sold the coffee. Following the CFA franc devaluation, JBN is now suing IBE for not having paid them enough for the coffee.

According to Ms. Stotz, even the bills of lading that were used last year to document the fertilizer imports from IBE were forged. The forgery, she feels, was committed in the first instance by Groupe One, most likely under the influence of Messrs. Louma and Olanubi.

For the record, these imports were handled <u>outside</u> the FSSRP's letter of credit procedures. They are the only FSSRP imports that did not involve l/cs--and the only imports in the five-year history of the FSSRP that have apparently involved significant irregularities.

Ms. Stotz also claims that the receipt for payment of customs duty on last year's fertilizer imports also were forged (allegedly by Groupe One). Otherwise, we did not go into the issue that surfaced in last year's meetings with IBE Africa-Cameroon about apparent underpayment of customs duties. For the record, information that has come to light over the last few months suggests that the underpayment is perhaps even larger than had it seemed last year.

Of interest, Ms.Stotz now suspects that, even apart from fraud and irregularities associated with last year's imports, IBE New York probably mis-priced the fertilizer delivered to Cameroon. The situation is too complicated ever to be sure, but in looking through the books after their arrival in Cameroon last year, she and ex-Congressman Bill Grant, now an employee of IBE Group, came to that conclusion. That is, even if Messrs. Louma and Olanubi had conducted the company's affairs as scrupulously and efficiently as possible, the price of the fertilizer delivered in Cameroon probably would have been too low for the company to have made a profit on the sales.

Among the large firms that still owe IBE money is CAMSUCO, although Ms. Stotz stated that this organization had agreed to pay the outstanding balance.

1.4 Credit and Banking Aspects of Current Transactions

Until she gets closer to her goal of settling the lawsuits and recovering most of the $500,000 she feels is owed to IBE, Ms. Stotz does not plan any new fertilizer import activity. For collections on current outstanding accounts, she is careful to demand payment by bank certified check. These checks are deposited in the company's account at Amity Bank, a relationship Ms. Stotz has maintained from the IBE Africa-Cameroon days.

In order to move fertilizer stocks quickly, Ms. Stotz occasionally takes what she feels is a calculated risk on the credit-worthiness of certain customers, primarily the larger cooperatives. So far, she has experienced what she feels is a satisfactory rate of repayment under the circumstances. Outstanding credit today totals about FCFA 20 million. Although Ms. Stotz feels she will not collect on all this debt, she believes the losses will be limited to FCFA 1 or 2 million.

2. IBEX

Interviewed: Betru Gebregziabher, Director General
Location/Date: Douala, 20 April and 21 April 1994

2.1 Import and Stock Situation

IBEX fertilizer imports during 1993/94 are shown in Exhibit D-2. The two shipments totaling 8,700 mt constituted the only fertilizer imported during the program year as of late April 1994.

IBEX had considered requesting earmarking before the end of the program year an additional 1,500 mt of urea and 2,000 mt of NPK 20-10-10, but this did not take place. IBEX reported that CAPLAMI was in the market for 500 mt of urea and 1,000 mt of NPK 20-10-10, and CAPLAME could take the same amount.

IBEX's stock situation for the 1993/94 program year is as follows:

	NPK 20-10-10	NPK 12-06-20	Urea	AmSulf	Total
Stocks, 6/93	3,247	2,363	208	925	6,743
Imports	7,700	0	1,000	0	8,700
Distributed	8,635	1,813	1,208	925	12,581
Stocks, 4/94	2,312	550	0	0	2,862

IBEX's stock carry-over from last year, plus imports, came to roughly 15,400 mt. At the end of the year, stocks were reduced to only 2,800 mt, almost all 20-10-10. IBEX had no stocks of urea and ammonium sulfate.

2.2 1993/94 Sales

IBEX sales of subsidized fertilizer by type of customer are shown in Exhibit D-3. Sales to distributors includes several who purchased more than 50 mt and a large number of small merchants (and some end users), together accounting for 45% of sales. Coffee cooperatives

Exhibit D-2
IBEX Fertilizer Imports, 1993/94 Program

Shipmt No.	Supplier	Type	Metric tons	CIF/mt	Total cost, FCFA 000s	Ship	Arrival Date	Customs Clearance
1	Interore	20-10-10	5,000	59,500	297,500	Orient	19 Oct 93	15 Nov. 93
2	Ergic	Urea	1,000	45,000	45,000	Volta	3 Feb. 94	3 Mar. 94
"	"	20-10-10	2,700	56,250	151,875	"	"	"

Exhibit D-3
IBEX Distribution by Type of Customer, 1993/94
(metric tons)

	NPK 20-10-10	NPK 12-06-20	Urea	AmSulf	Total
Plantations:					
SPNP	-	150	-	450	600
SBM	-	-	570	450	1,020
Del Monte	-	-	220	-	220
Sub-total	-	150	790	900	1,840
					(15%)
Cooperatives:					
UCAL	80	-	30	-	110
CAPLAME	1,000	-	-	-	1,000
CAPLAMI	3,000	1,000	-	-	4,000
Sub-total	4,080	1,000	30	-	5,110
					(40%)
Other Distributors:					
Ets. Mbohou	311	91	185	3	590
Akwar Nat'l/Int'l	53	95	-	-	148
Ets. Kamga	400	-	-	-	400
Tchinda	317	-	3	-	320
Other	3,474	477	200	22	4,173
Sub-total	4,555	663	388	25	5,631
					(45%)
Totals	8,635	1,813	1,208	925	12,581

bought 40% of the total, and plantations accounted for 15%. These proportions are roughly the same as last year (though the total tonnage was smaller this year) and confirms the recent shift away from coffee cooperatives as the principal distributors of fertilizer and toward independent distributors, both large and small.

IBEX has made arrangements with two distributors to extend credit. The arrangement reported in last year's assessment with El Hadj Mamouda of Ets. Mbohou, who sells mainly in the Noun Department of the West Province, appears to be working satisfactorily. While most of Mr. Mamouda's sales are for cash and he pays IBEX cash, in cases where he is obliged to extend credit (for a limited time) in order to make a sale to selected customers, IBEX allows him to delay payment until he is paid. IBEX has recently made a similar arrangement with John Akwar of Akwar National and International in Bamenda.

The Director General, Mr. Gebregziabher, states that contrary to expectations his customers are not reducing purchases following devaluation and a near doubling of fertilizer prices. Furthermore, they have been willing to offer guarantees (in the form of *traites*) which IBEX can use at *Crédit Agricole* to back up letters of credit issued to suppliers.

2.2 Banking Relationships

IBEX has encountered problems in its two main banking relationships, in large part as fallout from the mid-January devaluation of the CFA franc.

BICIC: Mr. Gebregziabher said that for several years IBEX has had a standby l/c arrangement in place with BICIC that permits the bank to assist rapidly when needed with the company's fertilizer imports. The standby l/c is issued by a (unnamed) foreign bank in BICIC's favor, secured by fertilizer stocks under warehouse receipt. The warehouse receipts are issued by IBEX's various transit agents, particularly SOAEM.[1] These agents in turn are members of large, well capitalized international firms that enjoy good reputations with international banks.

The standby l/cs are issued to cover a portion of a particular fertilizer import. Frequently, as the imports are cleared and paid for, the l/c is rolled over and extended to cover a subsequent fertilizer shipment. Until a recent episode, this system has worked to the mutual satisfaction of all concerned, Gebregziabher said. Recently, however, it ran afoul of the devaluation, and the situation has soured the relationship between IBEX and BICIC.

The l/c in question originally involved a pledge of 1,000 mt of 20-10-10 fertilizer, which is part of an import totalling 5,000 mt arranged (through *Crédit Agricole*) under the FSSRP. Contrary to all past experience, BICIC called the standby l/c before its expiry date, without

---

[1] Other transit agents that provide satisfactory bonded warehouse service are CAMATRANS and SOCOPAO.

prior warning to IBEX (Gebregziabher was in the US on business at the time) presumably because it feared the risk created by the mid-January FCFA devaluation.

IBEX did succeed in getting almost half the fertilizer successfully released from customs and sold at the pre-devaluation (contractual) price. Now, since local market prices for fertilizer have risen sharply, the company is trying to negotiate higher sales prices for the balance. However, because the standby l/c was cancelled, the rest of the fertilizer is tied up in the bonded warehouse, not readily available to IBEX for delivery to customers.

Crédit Agricole (CAC): IBEX's problem with CAC has arisen in connection with the company's second import under the current FSSRP, for 3,700 mt of NPK 20-10-10 and urea. This is the problem situation that CAC officials in Yaoundé had described to us earlier in the week. Mr. Gebregziabher's version of the story involved several elements that CAC had not mentioned (and omitted several elements that CAC had mentioned).

We asked Gebregziabher what collateral and guarantee arrangements had been required his bank. Interestingly, he said he had first approached BICIC for the import transaction, but they apparently were over their credit limit with BNP in France and could not open the l/c quickly enough for IBEX. CAC was able to move quickly and the transaction was booked through that bank. For a contract worth FCFA 120 million, Gebregziabher said IBEX put up FCFA 59 million cash and pledged FCFA 160 million of drafts involving the main customer for the transaction, SPNP.

Payment for the shipment was due to the supplier in French francs. It originated with a Belgian supplier and reached Douala in late January--i.e., after the CFA franc devaluation. IBEX was debited by CAC in late February--at the new, higher exchange rate. IBEX felt the timing was extremely curious, obviously unfavorable, and tried to investigate.

IBEX learned that the supplier had received payment in early January (presumably upon presentation of a bill of lading in accordance with the l/c). IBEX asked CAC for copies of payment advices and was refused, and then obtained copies from the supplier. According to Gebregziabher, the advices show the supplier was paid Monday, January 3 and that corresponding debit entries had been made for value Friday, December 31. For reference, the Central African central bank (BEAC) prohibited foreign currency purchase before opening of business Friday, January 7 and the currency was devalued Wednesday, January 12, 1994.

Gebregziabher said he has been unsuccessful to date in obtaining satisfaction from CAC Douala, which is tightly controlled by CAC's head office in Yaoundé. In an effort to get a full hearing, he met with the CAC General Manager, Bernt Stiehl, on April 21. The purpose of the meeting was for the two parties to review face-to-face their differences on the amount IBEX "really" owes CAC after the FSSRP import transaction earlier this year. Gebregziabher said that they had not reached any agreement, but that the meeting had been quite useful nonetheless.

2.3 Credit from Customers

Pending a satisfactory resolution of this problem with CAC, IBEX has had to obtain credit support from its customers to get the fertilizer released by the bank, the reason being that CAC requires IBEX to pay 100% cash before it will release the fertilizer. Since urea in particular is in short supply, IBEX has been able to obtain help from some customers who want the fertilizer. For example, CAPLAME arranged guarantees on IBEX's behalf in favor of CAC through their banks, *Crédit Lyonnais* and Meridien. Gebregziabher did not mention what, if any, financial compensation IBEX gave CAPALAME in return.

2.4 Credit to customers

Last year IBEX informed us of plans to go into a type of joint venture with El-Hadj Mamouda, involving a warehouse in Foumbot. IBEX was starting to extend limited credit to Mr. Mamouda, based mainly on experience and confidence in his ability and integrity. There also were plans to open a special-purpose IBEX account with *Crédit Agricole* in Bafoussam, into which Mr. Mamouda was to make deposits from sales proceeds of IBEX fertilizer.

During our meeting, Mr. Gebregziabher said IBEX continues to deal quite satisfactorily with Mamouda (whose full name is El-Hadj Mamouda Mbohou and who trades under the name Ets. Mbohou), but that the warehouse project is going slowly and hence the "cash management" arrangement envisaged last year is still some time off. Meanwhile, Mr. Mamouda simply pays IBEX in person in Douala for the fertilizer he takes from them--some 500 mt to date. The relationship with Mr. Mamouda is good enough that IBEX paid him a commission for a large order that he arranged but did not have enough cash to handle directly.

Of interest, Ets. Mbohou may make an application to CAC Bafoussam for a distribution loan under the FSSRP, backed by IBEX.

IBEX has begun cautiously extending credit to another distributor in the Bamenda area, Mr. John Akwar. They know Mr. Akwar less well, have less experience with him, and are dealing with him more cautiously than with Mr. Mamouda.

3. Groupe One

Interviewed:	Emmanuel Okomono, Director General
	Jean Paul Essam Enga'a, *DG Adjoint*
Location/Date:	Youndé, 2 May 1994

Groupe One made two earmarkings through Amity Bank in late April just before the season closed, one for 16,000 mt and the other for 6,000 mt. As of the expiration of these earmarkings at the end of May, the importer had actually shipped 9,4000 mt and thus qualified for subsidy payment on this amount. Earmarkings expired on the remaining amounts. Fertilizer types imported and their costs were as follows:

Type	Metric Tons	Cost, FCFA/mt
Urea	6,400	109,000
NPK 20-10-10	2,500	120,000
Ammonium Sulfate	500	82,00

The supplier was a Dutch firm, KENCICA, and the port of shipment was Constanza, Romania. The supplier extended credit to Groupe One for this shipment, so that no letter of credit was necessary.

Mr. Okomono states that Groupe One has been purchasing non-subsidized fertilizer from KENCICA for some time, and that shipments have been arriving at the rate of two a month.

Asked if he thought that there was a market for the 22,000 mt of fertilizer under current conditions in Cameroon, Mr. Okomono said he was confident that there was a large unsatisfied demand. He said that Kencica's credit terms were flexible and that they could be adjusted to fit the customer's payment schedule.

Note: It is apparent that Groupe One is acting more as a commission agent and importer of record for Kencica fertilizer than as a buyer. This is similar to the arrangement they had with IBE. (Okomono says with IBE they split profits 50-50.)

Groupe One/Kencica B.V.

Interviewed:	J. Keijsper, export department, Kencica B.A.
	J. A. Hesselmans, *Directeur*, Kencica B.V.
Location/Date:	Douala, April 22, 1994

As background, in mid-October 1993 Groupe One requested and obtained an earmarking for a significant amount of imports under the FSSRP program: 10,000 mt on 20-10-10, 1,000 mt of 12-6-20, and 5,000 mt of urea The earmarking was requested through Amity Bank, shipment never occurred, and the earmarking expired unused.

The team learned from Amity Bank on 21 April 1994 that Groupe One was in active discussion with the exporter to resurrect this transaction in time to qualify under the current FSSRP program before its termination date of April 30, 1994 so as to obtain the subsidy. The exporter was identified as Kencica, a Dutch firm. The meeting for the team with Kencica was set up by Amity Bank at the request of Kencica. A representative of Groupe One was present during the meeting.

Mr. Hesselmans said he is quite confident that his company will arrange terms with Groupe One for a shipment under the current FSSRP program, despite certain negotiating difficulties. Kencica would like, of course, to go through with the full 16,000 mt that has been under discussion since last year. As of today, Hesselmans' best guess is that something will be worked out before April 30 but for a lesser amount, probably on the order of 8,000 mt.

The underlying problem is Group One's small size, small capitalization, and lack of credit-worthiness for a large fertilizer import transaction. Kencica made it clear they do not want to extend a large amount of suppliers credit to Groupe One and it seems that Amity Bank will not open a letter of credit without more collateral and guarantees than Groupe One is able to muster. It should be noted that Kencica and Groupe One did conclude an import transaction in 1993 for the account of SOCAPALM.

Hesselmans quizzed us closely on ways in which the FSSRP rules might be interpreted or modified so as to compensate for this basic risk problem and allow the transaction to go forward on a basis satisfactory to his company. We tried to communicate to him the fact that although the FSSRP program tries to alleviate some aspects of risk, it is not designed to guarantee totally painless or riskless transactions.

Based on the company position he described today, it is hard to see a basis for concluding the transaction quickly. Of note, Hesselmans made no allusion to any financial or risk participation in the transaction on the part of Amity Bank. (Amity Bank staff had previously mentioned this to the team.)

4. Bakah Enterprises

The team was unable to meet with a representative of this company, which is directed by a former principal of CAMATREX. Bakah succeeded in importing 57 mt of Urea from Nigeria just prior to the close of the program year, and qualified for payment of subsidies on this amount.

APPENDIX E

DISTRIBUTOR ACTIVITIES

1. CAPLAMI

Interviewed:	Samuel Mbou, Director General
Location/Date:	Bafoussam, 26 April 94

CAPLAMI purchases exclusively from IBEX, and the Director General states that he is entirely satisfied with the service he gets from them. The cooperative's policy is to order quantities of several thousand mt at a time for immediate delivery, rather than place large orders for later delivery. IBEX has been able to supply the cooperative's needs from stock, but it has requested -- and received -- bank guarantees from CAPLAMI which allows it to ship fertilizer still under the control of BICIC. (See report on IBEX for explanation of this arrangement.)

Fertilizer purchases, sales, and changes in stock since last year's report are as follows:

	NPK 20-10-10	NPK 12-06-20	Urea	Total
Stocks, 6/93	1,400	1,000	500	2,900
Purch. to 4/94	2,000	1,000	-	3,000
Total available	3,400	2,000	500	5,900
Sales	3,400	1,500	500	5,400
Stocks, 4/94	0	500	0	500
Deliv. in prog.	1,000	-	-	1,000

An additional 500 mt of urea was ordered from IBEX but cannot be delivered if IBEX does not import more Nigerian fertilizer this year.

For all purchases from IBEX during the year, including the deliveries in progress, CAPLAMI paid pre-devaluation prices: FCFA 65,000 per mt for 20-10-10 and FCFA 58,000 per mt for 12-06-20. This is somewhat higher than prices reported by CAPLAMI last year for purchases from IBEX ex-Douala of FCFA 53,000 for 20-10-10 and FCFA 54,500 for 12-06-20.

CAPLAMI has followed a policy of selling fertilizer to any buyer at approximately what it cost to get it to Bafoussam, which last year amounted to FCFA 3,000 for 20-10-10 and urea and FCFA 3,500 for 12-06-20. This year, after devaluation, transport costs are up to FCFA 5,800 mt.

Mr. Mbou acknowledges that the cooperative will have to raise its prices following the next purchase of fertilizer at post-devaluation costs. Currently, fertilizer prices ex-Douala are averaging FCFA 120,000 per mt, and transport to Bafoussam adds another 10,000 per mt, for a total cost price of FCFA 13,000 per mt, or 6,500 per sack.

At present, CAPLAMI has in stock only 500 mt of 12-06-20, which is sufficient for the immediate needs of coffee planters. The cooperative plans to order additional 20-10-10 and urea from IBEX for use in May and June on food crops. (Note: According to IBEX, the firm has no urea on hand now. It would have to come from amounts IBEX hopes to earmark by April 30.)

Demand has been high for fertilizei recently. CAPLAMI does not have data on how much of this fertilizer is used on coffee vs. food crops. Mr. Mbou claims that CAPLAMI's price for coffee--FCFA 475 per kg. plus a possible *ristourne* of another FCFA 40/kg--is one of the highest in the arabica growing area, and that this policy has kept coffee production from dropping as much as it has in other areas.

Mr. Mbou stated that he was not satisfied with UCCAO's performance on coffee exporting and was considering exporting directly next year.

2. CAPLAME

Interviewed: Zambou Tapondjou Samuel
Chief, Purchasing, Transport and Supply
Location/Date: Dschang, 26 April 1994

The cooperative's record of purchases and sales and its stock situation since last year's review is shown below in metric mt.

	NPK 20-10-10	NPK 12-06-20	Urea	AmSulfTotal
Stock, 6/93	644	4	612	2531513
Purchases	561	0	330	6941585
Sales	446	4	810	2401500
Stock, 4/94	759	0	132	7071598

CAPLAME pu.chased 1,000 mt of 20-10-10 from IBEX at a pre-devaluation price of FCFA 65,000 per mt. Only 561 mt (570 mt according to IBEX) of this amount has been delivered. IBEX is requesting that CAPLAME pay a higher price for the balance, because IBEX's import got caught by the devaluation and the company had to pay post-devaluation prices for the fertilizer (double the expected amount). Mr. Zambou said that he expected the matter to be settled soon, and that delivery of the balance of the order could then begin.

CAPLAME ordered 500 mt of ammonium sulfate from IBE at a post-devaluation price of FCFA 88,000 per mt (IBE records show 400 mt). Mr. Zambou states the cooperative will have a claim against IBE for this shipment as some 200 sacks out of a total 9,760 contained less than 50 kg. The amount actually received was 488 mt.

The 330 mt of urea were purchased from IBE at a post-devaluation price of FCFA 86,000 per ton. This was in addition to the 1000 mt purchase at FCFA 55,000 per mt from IBE -- through Groupe One--during the 1992/93 campaign but delivered only in June and July 1993.

CAPLAME has maintained its pre-devaluation (subsidized) price of FCFA 2,500 per sack until now, but plans to raise prices the week following our visit. With urea now selling at about FCFA 120,000 mt in Douala, and adding transport costs to Dschang of FCFA 9,000 per mt, future purchases of urea will cost the cooperative roughly FCFA 6,500 per sack. We were not told what the new prices will be, only that CAPLAME will continue to subsidize the price. The policy will be to sell only to members and only as a function of coffee delivered. This will assure that the subsidized fertilizer actually contributes to increased yields of coffee rather than being used on food crops. However, to assist members who grow food crops, Mr. Zambou said that the cooperative plans to get into marketing of maize and vegetables. This would increase returns to farmers by shipping in volume and also by storing such crops as maize and selling when prices were high.

Arabica coffee prices paid by the cooperative are now FCFA 475 per kg, plus an expected *ristourne* to be decided after sales contracts are realized. This compares to last year, when CAPLAME paid FCFA 250/kg (FCFA 50 above the minimum buying price), plus a 75 FCFA *ristourne*, making a total return to the planter of FCFA 325/kg.

3. UCAL

Interviewed: Lazare Sema Djoumbi
Director General
Location/Date: Nkongsamba, 25 April 94

UCAL bought only 150 mt of urea and 150 mt of 20-10-10 this year. IBEX was the seller.

Demand for fertilizer for use on Robusta coffee in the Littoral Province is very low, according to Mr. Sema. Although coffee prices have doubled, planters are unwilling to buy fertilizer at approximately double last year's price. They are very short of cash, since most sold their coffee at last year's pre-devaluation price.

The response of planters to higher coffee prices has been to harvest the maximum amount of coffee at minimum cost. One way they do this is to cut down undergrowth around the trees so cherries which have fallen to the ground can be recovered. The result is poor quality coffee, which nevertheless is bought by coffee buyers. Mr. Sema says that the coffee grading system in Cameroon does not reward quality. The system simply counts the number of defects in a sample of a given size; size of the coffee bean is not considered. Application of fertilizer produces larger size coffee beans, but this does not bring a higher price.

Mr. Sema believes that fertilizer prices would have to be on the order of FCFA 5,000 per sack before planters would find it worthwhile to purchase it. He is attempting to achieve that price through a grant from the *Fond Spécial de Développement* in France. His application requests a grant equal to FCFA 2000 per sack sold. Since fertilizer delivered to Nkongsamba now costs about about FCFA 7,000 per sack (FCFA 140,000 per mt), the FCFA 2000 subsidy would allow him to sell at or close to FCFA 5,000 per sack. If he receives the grant, his intention is to order 1,500 mt of urea and 1,000 mt of 20-10-10. This amount would call for a total subsidy of FCFA 100 million, although he stated his intention to request a total amount of FCFA 200 million.

Sema gave us his views on the FSSRP at some length. His main point was that liberalizing the marketing of agricultural inputs without doing the same for crop marketing was a mistake. Coffee planters could not benefit from the free market in fertilizer since the government-controlled marketing system for Robusta kept coffee prices low--and even delayed payment to farmers for coffee already delivered. The removal of subsidies was particularly unfair to the coffee planter, since the old FONADER system was supposed to make up for low coffee prices by providing cheap subsidized fertilizer. What happened was that the subsidy was lost and coffee prices stayed low--in fact they went even lower. Sema would have preferred that the FSSRP provide cooperatives like UCAL with a grant for working capital so that he had the resources to purchase fertilizer.

4. North West Cooperative Association

Interviewed:	Ghogomu Tapisi, General Manager Munang Samuel Mufua, Head, Materials and Supplies
Location/Date:	Bamenda, 28 April 94

Since our last visit on 1 July 93, NWCA has purchased only 247 mt of ammonium sulfate. IBE was the seller at FCFA 84,000 per mt.

The sales and stock situation (in metric tons) since July 1993 is as follows:

	NPK 20-10-10	Urea	AmSulf	Total
Stock, 7/93	425	202	483	1118
Purchases	0	0	247	247
Sales	130	45	567	742
Stock, 4/94	295	157	163	615

Sales of 742 mt were well below last year's level of 2,975. However, this is not indicative of total NWCA demand since the period of heavy usage had not yet arrived. Furthermore, the figures for sales represent transfers from NWCA at the apex level to member unions only during the period 1 July 1993 to 28 April 1994. It does not give a good picture of annual consumption of fertilizer by NWCA member unions. The data below show deliveries in metric tons to the eleven unions during the period January 1993 to April 1994.

Union	NPK 20-10-10	Urea	AmSulf	Total
Kom	150	0	0	150
Nso	590	178	50	818
Oku-Noni	63	0	0	63
Nkambe	270	0	0	270
Pinyin	109	13	0	122
Santa	230	48	44	322
Moghamo	25	0	0	25
Bali	103	0	0	103
Central	326	50	247	623
Mbengwi	40	0	0	40
Ndop	302	25	25	352
Total	2212	313	415	2940

Since stocks at the union level are said to be nil, the figures suggest that consumption levels for 1993/94 were between 2000 and 2500 mt for NWCA as a whole.

Current selling prices by NWCA to the unions are set at FCFA 3,500 per sack for NPK 20-10-10 and urea and 4,785 per sack for ammonium sulfate (FCFA 4,900 per sack to non-members picking up at the Bamenda warehouse). Because 20-10-10 and urea prices have been kept at pre-devaluation prices, sales are only to members. This compares with last year's prices of FCFA 3,200 for 20-10-10 and 2,850 for ammonium sulfate. The much higher price for ammonium sulfate this year reflects the fact that it was purchased at post-devaluation prices.

The General Manager said that NWCA's needs for the coming year are 2,000 mt of 20-10-10 and 1000 mt of urea. He has received quotes of FCFA 126,000 per mt for 20-10-10 and 120,000 per mt for urea, loaded on his trucks at Douala. He had also just received a quote from Kencica at FCFA 140,000 for 20-10-10 and 130,000 for urea, delivered Douala.

Despite the above purchase forecasts, Mr. Ghogomu said that farmers were still "not interested" in buying fertilizer and that they find it "unaffordable". He says that the unions have to sensitize farmers to the new coffee and fertilizer prices since devaluation. Immediately after devaluation, NWCA doubled coffee prices to FCFA 490 to 530 per kg, depending on the area. Then, following cost accounting exercises currently being performed, prices should be raised to as high as FCFA 690/kg. After the coffee is sold, there may be an additional bonus due farmers which would bring the total price to over FCFA 700 per kg.

For coffee sold since devaluation, farmers received cash payment for half the amount delivered at the FCFA 490 to 530 per kg price. The balance due is written in the farmers' payment books, but Mr. Ghogomu said that they are still wary and won't believe the new coffee prices until they receive full payment for the coffee delivered. Even then, Mr. Ghogomu thinks that it will be two or three years before farmers are fully accustomed to the new prices.

Approximately 3,000 mt of coffee was collected from NWCA member unions this past year, of which 70% has already been sold to European buyers as of the end of April. Purchases were financed by credits from local banks. Amity Bank, *Crédit Agricole* and the local credit union CamCCul provided credit. The commercial banks required warehouse receipts for stored coffee or sales contracts signed over to the bank as collateral. Mr. Ghogomu said that he could have purchased as much as 4000 mt if he had been able to get additional credits.

NWCA also collects and markets robusta coffee, though only 600 to 700 mt annually. The General Manager is advocating liberalization of robusta coffee marketing. He stated that based on the current European market prices he could pay farmers FCFA 450 to 500 per kg. for robusta, much higher than the current minimum price of FCFA 270/kg., which has tended in practice to become the producer price. He recently suggested to the Ministry of Commerce and Industry to allow interested parties not to participate in the stabilization fund and to take full responsibility for gains or losses.

5. IDS Cameroon

Interviewed: François Nguimkeng, Director
Location/Date: Yaoundé, 14 April 94

IDS purchases and sales since June 1993 are shown below. Sales are lower than those reported in last year's assessment, when he sold 277 mt in the March to June 1993 period. This compares to 173 mt sold between June 1993 and April 1994. In Mr. Ngiumkeng's opinion, farmers have not reduced purchases because of much higher prices following FCFA devaluation, but are simply waiting for cash payment for coffee to be able to buy.

Mr. Nguimkeng reports that NPK 20-10-10 and urea are in short supply at present. However he states that farmers will accept NPK 12-06-20 in place of NPK 20-10-10 and his stocks of the latter are adequate. His recent purchase of ammonium sulfate will compensate for the lack of urea.

	NPK 20-10-10	NPK 12-06-20	Urea	Ammon Sulf	Total
Stocks, 6/93	170.8	9.9	15.4	0	196.1
Purchases, 6/93 to 10/93	21.2	162.2	26.9	45.0	255.30
Total Available Stock	191.80	172.20	42.30	45.00	451.30
Sales, 6/93 to 4/94	137.7	6.7	29.1	0	173.5
Stock, 4/94	54.20	165.50	13.10	45.00	277.80

IDS policy is to maintain a single price for all types of fertilizer and for all purchasers. Prices went from FCFA 3,350 per sack to FCFA 4,500 per sack immediately after devaluation, then was recently raised to FCFA 6,000. IDS will sell a single bag of fertilizer to a farmer or a large quantity to a wholesaler or retailer at this price. Mr. Ngiumkeng "recommends" that retailers sell at no more than FCFA 6,500 per sack, which assuming a transport cost of FCFA 200 per sack from his Bafoussam warehouse to the distribution point, would leave a margin of FCFA 300 per sack. His principal clients are in the Dschang, Foumbot, and Mbouda areas.

The NPK 12-06-20 was purchased from Africa Import for FCFA 105,000 per mt, delivered Douala. The ammonium sulfate was purchased from IBE for FCFA 88,000 per mt at Douala. The small amount of 20-10-10 he acquired was supplied by IBEX.

Mr. Nguimkeng's missionary zeal has not flagged since our meeting last year. He sees his task as educating young people who are leaving the city in search of employment into the ways of farming. He believes that these young people are the key to increased agricultural productivity in the future in Cameroon.

6. COOPAMOR

Interviewed: Andre Nintidem, Director General
Claude Ndonkam, employee
Dr. Maurice Doube, University Center of Dschang
Location/Date: Dschang, 26 April 94

This cooperative claims 3000 members who grow food crops and raise animals in the Menoua Department. They hope to deal also in medicinal plants. They have purchased a total of 80 mt of fertilizer since 1989 from various sources, but have none in stock at present. Mr. Nintidem finds fertilizer very expensive at present. He said that CAPALAMI's price for 20-10-10 had risen from FCFA 3,300 last year to 5,500 this year.

Dr. Doube, a soil scientist at UCD, serves as consultant to COOPAMOR. He told us that he had recommended to the cooperative that they institute a program of soil testing to determine proper application rates and type of fertilizer in different areas. He declared that a simple testing program, which could be paid for by groups of farmers with similar soils, would typically cost only FCFA 20,000. It would take two weeks to process the necessary samples from an area of 200 ha. This would be well worthwhile, he said, because it would save the farmer money in the long run by using only the fertilizer that the soil needs. An example, is a common deficiency of phosphate in the soils in this area which prevents the plants from taking up other nutrients in fertilizer (nitrogen and potassium).

It was apparent that the cooperative had not been active for some time but following promulgation of the new cooperative law it was trying to restart. The Director General stated that he hoped that the cooperative would be able to help its members by joint marketing of vegetables, as well as by supplying them with inputs.

7. Pelenget

Interviewed: Peter Njontor Ngufor, Director
Location/Date: Bamenda, 27 April 94

Mr. Ngufor reports that since our visit in June 1993, he has purchased 110 mt of 20-10-10 from a distributor in Bafoussam who had bought it from IBEX. Mr. Ngufor did not reveal the name of the distributor, but he said that the price was FCFA 95,000 per mt. There was also a small purchase of 20 mt of ammonium sulfate.

Pelenget sales during this period amounted to 350 mt of 20-10-10, 119 mt of urea and 15 mt of ammonium sulfate, for a total of 484 mt. This is more than three times the 150 mt of urea and 15 mt of ammonium sulfate sold last year. Remaining stocks consist of 60 mt of 20-10-10 and 15 mt of ammonium sulfate as of the end of April 1994.

Pelenget sells fertilizer along with agricultural chemicals and seeds from the company's retail outlet in Bamenda, "The Farmer's House". Current fertilizer prices are FCFA 6,000 per sack for 20-10-10 and urea, and FCFA 4,000 per sack for ammonium sulfate.

Mr. Ngufor is considering importing fertilizer directly this year. This could amount to 1000 mt each of 20-10-10 and urea. Ammonium sulfate is not in big demand--he said that he would not buy more than 50 mt. We informed him that if he wished to import subsidized fertilizer under the FSSRP he would have to earmark within the next two days.

Pelenget has received quotes from Kencica for FCFA 140,000 per mt for 20-10-10 loaded on trucks at Douala. He thinks he can get the same product CIF Douala from an unnamed source for FCFA 105,000 per mt. Unloading, transit and truck loading would add another FCFA 15,000 per mt, for a total of FCFA 120,000 per mt. Transport costs to Bamenda were a maximum of FCFA 7,500 per mt last year, but he expects to pay more this year.

8. FME

Interviewed: F. Youmsi Mogtomo, Director General
Location/Date: Douala, 6 May 1994

FME distributed 400 mt of 20-10-10 and urea this past year. One hundred mt were sold to CDC, but through another intermediary. Three hundred mt were sold to coffee and cocoa dealers in the Nkongsamba area. Some of this fertilizer was bought from IBEX; the other source was CAPLAMI in Bafoussam. Mr. Youmsi said that CAPLAMI's price for NPK had recently increased from FCFA 5,000 per sack to 5,800 per sack.

IBEX prices for NPK and urea are currently FCFA 100,000/mt delivered Douala, according to Mr. Youmsi. Adding transport and handling, he claims that his cost in Nkongsamba is about FCFA 130,000 per mt (6,500/sack). In order to make a profit, he has to retail at between FCFA 7,000 and 7,500 per sack.

We asked about the market for fertilizer in the robusta growing areas. Mr. Youmsi's experience is that robusta farmers are buying fertilizer through coffee buyers who extend credit to them against future deliveries of coffee.

9. ADER

Interviewed:	Paul Sasportes, SCPA, Paris Bruno Couturier
Location/Date:	Douala, 22 April 1994

Mr. Sasportes is from the parent company, *Potasses d'Alsace*, and was in Douala for an ADER board meeting. Mr. Couturier is on a temporary assignment to ADER for the company, though he says he hopes it will become permanent. They referred all questions about current operations to Mr. LeBlanc, the General Manager, who was ill and unavailable except by telephone at home.

The two gentlemen were not informed on the FSSRP, so we explained the operations of the Revolving Credit Fund and the MTLF. They were interested to learn that it was still possible to earmark for subsidies before April 30, and also that commercial bank loans at 8% could be available for an l/c transaction.

Interviewed:	Jean Ngatcha Manager, Yaoundé Branch, ADER
Location/Date:	Yaoundé, 18 April 1994

Mr. Ngatcha reported sales (in mt) from 1 July 93 to the present at ADER's Yaoundé distribution point as follows:

NPK 20-10-10	628
NPK 12-06-20	6.25
Ammon Sulf	15.0
DAP	260
Urea	390.6
TSP	23
Total	1322.85

Most of the 20-10-10 was purchased by SODECAO, the cacao parastatal, and most of the urea by a privately-owned robusta coffee plantation in the East Province, CFSO. The latter enterprise had effectively been out of operation for the past year, so their fertilizer purchase is an indication of renewed activity in the eastern part of Cameroon.

Mr. Ngatcha stated that the only fertilizer which was currently in short supply was urea.

Prices have increased sharply since devaluation, though somewhat less than twice the previous price. In the case of urea, for example, the price went from FCFA 5,500 per sack in December 1993 (for small tonnage purchases) to FCFA 10,000 after devaluation in January. (For large purchases the current price is FCFA 7,000 per sack.)

It is also reported that the number of small retail shops selling fertilizer has increased. There are now three in Yaoundé, one of which (EPROCHEM) is owned by Mr. Ngatcha.

Asked about the effect of devaluation on fertilizer sales, Mr. Ngatcha said it would be the end of May before he could evaluate it, given the fact that seasonal purchases are usually high in the month of May.

Interviewed: Mr. Bankoue, Director, ADER/Nkongsamba
Location/Date: Nkonsamba, 25 April 94

The ADER depot at Nkongsamba has only a few tons of subsidized fertilizer, mostly NPK 20-10-10 and ammonium sulfate. Prices are FCFA 8,000 per sack for 20-10-10 and 7,700 for ammonium sulfate. The urea price is FCFA 10,000 per sack, but there is very little in stock as it is in short supply. During the past 12 months, he estimates that he has sold about 50 mt of fertilizer from the Nkongsamba depot, and about 200 mt from the Bafoussam depot.

Mr. Bankoue said that farmers don't have the money to buy fertilizer now. He added that they find it "too risky" to purchase agricultural inputs at present since they can't be sure that the returns from coffee will justify the expenditure.

It was interesting to note that through the government's market information service, which appears weekly on television, Bankoue was aware that the current Robusta price in New York was FCFA 891 per kg. He finds it grossly unfair that the Cameroon planter receives only about 30% of that (FCFA 270/kg).

10. <u>COOPLAM</u>

Interviewed: Bernard Taffou
Director General
Location/Date: Nkongsamba, 25 April 94

Mr. Taffou said that COOPLAM had about 50 mt of fertilizer as of last September, most of which was bought by women for use on food crops. He says there is virtually no demand for fertilizer for use on coffee, and the cooperative has no plans to buy any this year.

The latest quotes COOPLAM has received for fertilizer was FCFA 135,000 per mt delivered Douala, or FCFA 140,000 delivered Nkongsamba. A price of FCFA 7,000 per sack was too high for planters; the price would have to be under 5,000 per sack before they would buy, Mr. Taffou believes. Alternatively, the coffee price would have to be at least FCFA 500 per kg. before fertilizer use would be justified.

Mr. Taffou says that the only response by planters to the new coffee price has been some minimal clearing of brush around coffee trees. They are unwilling to expend more of their limited cash income on coffee at this time.

APPENDIX F

RETAILER ACTIVITIES

The following reports were prepared by Dr. François Kamajou as part of his consulting assignment on the annual FSSRP review.

1. *Etablissement Fotso Michel*

Foumbot, April 20, 1994

Mr. Fotso, the owner of the establishment, was absent at the time of the first interview and the consultant interviewed his wife who was the seller. The second part of the interview took place the next day when he came back. Mr. Fotso started this business in 1988 when he bought the business from an expatriate who was selling pesticides. He became interested in the sales of fertilizers in 1991 when he heard that the subsector was being privatized and that fertilizers were becoming more and more expensive.

Mr. Fotso's two major suppliers are IBE and IBEX (through CAPLAMI in Bafoussam). He buys directly in Douala (IBE) and Bafoussam (CAPLAMI) and is responsible for transport. The transport fees used to average FCFA 6000 per mt before the devaluation. Now, these fees are anywhere between FCFA 7000 and 8000 per mt depending on the transporter.

The different types and prices of acquisition of fertilizers in FCFA per sack sold by Mr. Fotso before and after devaluation are summarized in the table below:

Fertilizer Types	Buying Prices		Selling Price		% share
	Before Deval.	After Deval.	Before Deval.	After Deval.	
Ammonium Sulf.	2500	4500	5000	NA	20
20-10-10	3500	3000	6000	NA	30
Urea	3500	4500	6500	NA	40
12-06-20	3500	3500	-	-	10

The prices given above are all indicative since Mr. Fotso did not want to make his documents such as vouchers available. He was not quite explicit about his selling prices after devaluation and insisted that he was trying to keep the same margins as before.

The order size varies between 200 and 300 bags of the various types. Mr. Fotso seems to know fertilizers relatively well as he demonstrated while he was being interviewed. Most farmers purchasing fertilizers are food crop producers and more precisely vegetable growers (tomatoes, cabbage, peppers and green beans). The customers are both men and women. The large majority of farmers know the types of fertilizer they want to buy and feel sometimes annoyed when you try question them on their knowledge of fertilizer use.

Constraints: The major constraints facing Mr. Fotso are the high cost of fertilizer, the transport cost and the absence of technical information on the proper use of fertilizers.

Suggestions: Mr. Fotso is very enthusiastic about the creation of an association of fertilizer dealers because it can help to organise the distribution network so as to allow each intermediary to realize positive margins. He ranks training of distributors as priority number one so they can become advisers to fertilizer users. He suggests government tax rebates for fertilizer dealers in order to help the farmers. He was disappointed at not having been invited to the marketing seminar in Bamenda.

2. *Quincaillerie Moderne du Noun*

Foumbot, April 20, 1994

Owner: Kene René; Seller: Saha Martin

Mr. Kene René has owned his hardware store since about 1981. He started selling fertilizers in 1991 and recruited Mr. Saha as seller. The interview took place with Mr. Saha.

His major supplier is IBE and he travels to Douala with his personal trucks for transportation. The fertilizers he buys are the same four types indicated in the preceding report. The last order (before devaluation) was 5000 bags and was distributed among the four types in the following proportions: ammonium sulfate, 40%; 20-10-10, 15%; urea, 40%; 12-6-20, 5%. The purchase prices were FCFA 2300, 3500, 3100 and 3500 per sack respectively. He intended to order 3000 bags at the beginning of this rainy season but postponed the purchase after the announcement of the devaluation.

His clients are in the large majority food crop growers. He also sells to cooperative farmers, who reportedly do not find what they need at the cooperative. Mr. Saha has relatively weak knowledge of fertilizer types and uses. He was however capable of advising the type needed by a farmer who just gave him the name of the crop he was growing.

Since devaluation all customers have drastically reduced their purchases. The buyers usually know the type of fertilizer they want but complain about the high prices.

Mr. Saha insisted on the necessity of having some technical information on fertilizer use in order to advise his clients. He learned about the Bamenda seminar on TV and believes that the selection of the participants was based on favoritism. He supports the idea of a dealers association.

3. *La Maison des Engrais*

Foumbot, April 20, 1994

This establishment belongs to Mr. Fotso and is operated by his junior brother, Mr. Djoko Sylvestre. Mr. Fotso owns a second fertilizer establishment in Foumbot. That second establishment was not visited.

Mr. Djoko is a young man who seems very interested in his job. The establishment he runs started inside the market in 1991 and moved to its present location in 1992. In addition to fertilizer, he sells seeds and pesticides. He went into this activity with no training and no experience, but with his eagerness to learn, Mr. Djoko demonstrates a fair knowledge of fertilizer and pesticides. He has gathered a lot of information from the local agricultural services. His suppliers are IBEX, Groupe One, CAPLAMI, UCCAO and COOPROVINOUN.

The store's selling prices in FCFA per sack before and after devaluation are as follows:

Fertilizer Type	Selling Price Before Deval.	Selling Price After Deval.	Relative Share %
Ammonium Sulf.	2500	4500	30
20-10-10	3500	6000	37
Urea	3500	6500	25
12-06-20	3500	6500	8

Mr. Djoko has not purchased any fertilizer since October 1992, so his current stock was acquired at pre-devaluation prices. He has marked up the stock to prevailing post-devaluation prices.

The customers are equally distributed among men and women. He is the main supplier of the "cup retailers". The large majority of farmers purchase fertilizers for food crops. From Mr. Djoko's declarations and from observing five buyers who came in during the interview, farmers seem to know what they want and are not willing to listen to suggestions by anyone. One farmer in particular explained to me the difference between urea as a "starter" fertilizer while the NPK 20-10-10 is applied later on, about five weeks after replanting. Their true level of knowledge still has to be tested.

Problems: The business operates on a cash basis. Most if not all purchases are paid in cash; no checks are accepted nor credit given. This necessitates carrying a large amount of cash with high risk of theft and the purchase from suppliers of limited amounts at any one time. The lack of capital to improve the storage facilities also limits quantities which can be kept in stock.

Suggestions: Mr. Djoko insists on training the retailers so they can be trusted by the buyers. He welcomes the creation of the association of dealers which could organize the distribution network by, for example, introducing quality control. The need for technical bulletins was also expressed.

4. *La Maison du Planteur*

Foumbot, April 21, 1994

Owner: Kamdem Charles; Operator: Kamdem Georges

The operator is the son of the proprietor who is based in Bafoussam. The establishment was created in November 1992. Mr. Kamdem, the operator, has no previous experience except that he worked on his father's coffee farms. His only supplier is IBEX. The volume of the first purchase was 50 mt. Since devaluation he has made one purchase of 10 mt. Mr. Kamdem had a mini demonstration trial of very few plants in front of his establishment.

Fertilizer Type	Selling Prices Before Devaluation	Selling Prices After Devaluation	Relative Share %
Ammonium Sulf.	2800	4500	28
20-10-10	3800	6000	32
Urea	3800	6500	25
12-06-20	3800	6000	15

Buying prices were not given. Mr. Kamdem was quite skeptical about our intentions in spite of all the explanations we gave.

5. PROPHYCAM

Foumbot, April 21, 1994

Seller: Voufo Thomas.

Mr. Voufo did not want to disclose the name of the proprietor. He was formerly employed by *Jardins de Foumbot* but was laid off. He was recruited by the owner to run this business in 1993, when the establishment opened, on the basis of his experience with the *Jardins de Foumbot.*

His supplier is CAPLAMI/IBEX. He pays for his transport from Bafoussam at the rate of FCFA 1000 per bag. CAPLAMI has delivered the first purchase of 10 mt. He did not want to disclose his purchasing prices but was selling basically at the same price as the other retailers in town. He carried all types of fertilizers and declared the type he was selling the most was urea but could not provide any explanation for this.

Most clients were food crop producers, both men and women. Mr. Voufo was very keen about training and technical bulletins but did not seem to like his job. He insisted that since devaluation they were no longer selling and they may have to close down.

Note: The following contacts were made by the FSSRP assessment team during the annual field trip.

6. Foumbot Retailer

Foumbot, 27 April 94

This retail shop in Foumbot sells all types of subsidized fertilizer. The store contained sacks with labels from IBE/Groupe One, IBEX, Pelenget, and even CAMATREX. Current stocks consisted of four mt (80 sacks) of NPK 20-10-10, six mt of NPK 12-06-20, one and a half mt of ammonium sulfate, and one half mt of urea. Prices were FCFA 6,000 per sack for all types except ammonium sulfate, which was priced at FCFA 5,500 per sack.

The proprietor stated that since prices were raised after devaluation, consumption was only 20% of last year's level. He said he had sold five mt in a period of three months, whereas he had sold 15 mt in one month last year. Asked about food crop prices, he said they were only slightly higher than last year. This would suggest that the benefit/cost ratio for raising vegetables had dropped since last year, discouraging the use of fertilizer.

7. SOCARA

Dschang, 26 April 94

The team visited a fertilizer retail store with the name "SOCARA" in Dschang. The salesperson said it was owned by a Madame Foning and had opened just three months ago. The store had about 25 mt of ammonium sulfate in stock, which was being sold at FCFA 4,500 per sack, or FCFA 100 for a one kg sachet.

APPENDIX G

OTHER FINANCIAL AND DONOR ORGANIZATIONS

1. American Embassy Yaoundé

Interviewed: Richard Patard, Economic & Commercial Officer
Location/Date: Yaoundé, 18 April 1994

1.1 Banking Climate

Mr. Patard understands the banking sector continues to have significant balance sheet problems, although last year's liquidity squeeze may have eased slightly in recent months. For example, January's CFA franc devaluation probably caught several firms and their banks with foreign currency exposure that add to the banks' real and potential bad debt problems. And at least a few of the biggest banks are probably still undercapitalized.

In a word, FSSRP still must be concerned with risk arising from the banking system as a whole.

1.2 RCF and MTLF Program Issues

Patard agreed it would be worthwhile evaluating whether the FSSRP financial programs (RCF and MTLF) should expand their coverage to support the private sector in additional agricultural products and/or industries. An example might be wood processing, perhaps with an import substitution aspect (e.g., newsprint).

2. Ministry of Finance

Interviewed: Georges Astruc, *Conseiller Technique*
Location/Date: Yaoundé, April 26, 1994

Mr. Astruc advises the Minister on the banking sector and rehabilitation of public enterprises. A senior inspector of the Banque de France assigned to Cameroon about 1-½ years ago, he has participated in several bank and industrial restructurings.

2.1 Banking Sector

Despite major problems in the economy, which he does not minimize, Astruc says progress is being made in several areas. At the individual bank level, although their balance sheets are weak some of the largest banks have regained a positive liquidity position. BICIC, the largest bank, still has major balance sheet problems but at least has some liquidity. At the macro-economic level the authorities have succeeded in restraining growth of bank notes in circulation and the money supply: a reduction of FCFA 30 billion in the last 18 months.

Astruc is not keen on certain aspects of the IMF program, which he feels do not reflect adequate awareness of local conditions--specifically including measures stipulated for the banking sector. In particular, he seems to feel the 3% increase in interest rates after devaluation was an example of good theory, but irrelevant practice. Progress mentioned above in controlling monetary supply should make it possible, he hopes, to justify a reduction in interest rates within two months.

M. Astruc mentioned that the weakness of the judiciary system in Cameroon has a specific adverse effect on banks. Few judges, in his opinion, understand banking techniques and practice well enough. In his experience where a court case involves a bank, the judge too frequently decides against the bank even where its actions have been in accordance with the law.

2.2 FSSRP Structure and Activities

We had time today only to summarize key features of the RCF and MTLF structure, but not to review them in any detail. The EC's STABEX fund is trying to establish structures for financing coffee and cocoa producers at lower interest rates, and Astruc wants us to meet local Stabex officials to compare notes. We are to meet with him again to continue today's discussion.

In passing, he commented it might well make sense to have fertilizer industry representatives join the TSC.

Location/Date: Yaoundé, April 29, 1994

2.3 Stabex Financing

M. Astruc was unable to clarify the exact status of the proposed agricultural funds that had been explained earlier in the week by the EC consultant, M. de Compreignac. It was quite clear, nonetheless, that the Finance Ministry will push hard within the administration to get negotiations with the EC concluded promptly and have the funds in place quickly.

Astruc was less sanguine than de Compreignac had been about the attitude of the IMF (and World Bank) toward the low interest rates planned for the Stabex-sponsored funds. One part of the IMF's resistance may arise simply from the cosmetic appearance--a bad appearance, in the eyes of the IMF--of having the central bank lend funds to commercial banks at a 0% rate of interest. According to M. Astruc, if this becomes a real problem the Ministry would probably just arrange to have a commercial bank be the "lender" (a kind of Fiduciary Bank arrangement) of what after all is EC money (and not central bank funds).

2.4 FSSRP Financing

In this context, we said we would be looking for ways to reduce the all-in interest cost to RCF and MTLF borrowers, perhaps seeking to have RCF rates near BEAC discount or money market rates and MTLF rates somewhat higher. Mr. Astruc seemed to think that would be positive.

3. *Caisse Française de Développement*

Interviewed: M. Francis Frey
Location/Date: Yaoundé, April 26, 1994

3.1 French Assistance to the Banking Sector

The CFD official who is directly responsible for aid to the banking sector was unavailable today. Frey was able to say that the last French loans to the Government for bank recapitalization occurred last year. He believes the total amount was about FCFA 5 billion (and the funds probably were directed to BICIC and SGBC).

No new assistance will be contemplated until a French consulting firm (SIBI) hired by CFD completes a thorough audit of the banking system. This study is underway but Frey did not speculate today on its likely completion date or recommendations.

One of the important conditionalities mentioned to us in last year's meeting with the CFD was passage of legislation giving the SRC the so-called *privilège du trésor*. This measure would enable the SRC to pursue delinquent debtors and seize property through the court system with an exemption from counter suits. Frey said the *privilège du trésor* legislation did indeed pass but he has the impression that it has not been of much benefit to the SRC's efforts to recover past-due debts.

3.2 FSSRP and Stabex Programs

Frey was particularly keen for us to meet with a (French) agricultural credit consultant who is designing a low-cost loan program for the EC aid program, through Stabex. These proposals would cover coffee and cocoa pre-export financing, and other inputs except fertilizer. The consultant, Frey feels, needs to know more about the FSSRP programs and he made several unsuccessful telephone calls to try to get word to the consultant to set up an appointment before his departure.

Frey took careful notes on the main features of the RCF program, which has a number of similarities to the Stabex proposal, and we had lengthy discussion of its results to date.

Details on the Stabex proposal, on which a meeting was held several hours after the meeting with CFD, are given in a subsequent section of this report.

4. European Communities' STABEX Fund

Interviewed: Pierre de Compreignac, Agricultural Credit Consultant
Location/Date: Yaoundé, April 26, 1994

4.1 Background

M. de Compreignac, a Frenchman, is putting together a large, ambitious agricultural loan project for the EC's Stabex fund. His professional background includes training in agronomy, agricultural lending in France and Gabon, and consulting in several African countries. The structures he has developed for the Stabex project resemble those of the FSSRP funds in some respects, differ in others.

In summary, this project will use three separate loan funds, two of which will benefit from credit guarantees. Stabex's contribution involves a budget of almost FCFA 14 billion, intended to help extend a total of over FCFA 22 billion in agricultural credit of different types.

4.2 Pre-export Financing.

The largest line of credit will support commercial bank loans to coffee and cocoa producers. The loans are intended to cover over half the production cycle, up to delivery to the port in Douala for export. This FCFA 10 billion line will finance 50% of participating bank loans of different types, including "clean advances" to producers and warehouse before harvesting as well as warehouse storage loans at the end of the production cycle.

Stabex funds will be advanced to the banks at an interest rate of 0% (zero percent), banks will fund the other half from normal soures, and the all-in cost to borrowers will work out to an estimated 11-12% p.a. pre-tax.

The proposed approval and disbursement procedure has interesting differences from the FSSRP's RCF. The commercial presents a credit request to the Stabex office here (part of the EC delegation). The request is to be accompanied by a draft for the principal and interest of the loan at maturity date. After giving credit approval, the Stabex office delivers the file including the draft to the central bank, which credits the bank's account for the loan. At maturity BEAC processes the draft for payment, debiting the bank's account automatically.

M. de Compreignac estimates the credit requirement for clean advances to coffee producers at FCFA 6 billion for one season, a similar amount for cocoa producers. Since the two seasons do not overlap, the funds will be used virtually year round at the FCFA 6 billion level. He estimates 75% of the tonnage will come from the large producers, 25% from small planters.

Attached to this part of the credit line will be a guarantee fund. Banks will be guaranteed for 60% of their loans, keeping 40% risk for their own account. The cost of the guarantee is 1% (flat) of the amount of the credit, to be charged to borrower. The guarantee fee is not refundable. De Compreignac believes the large producers will find this too expensive and persuade their banks to extend (subsidized) credit without it, so it will benefit primarily the small growers who otherwise would not be considered credit-worthy for clean advances.

It would appear that the portion of this line used for warehouse loans, where a bank can readily realize its security on a marketable commodity, will not benfit from a guarantee feature. The point was not covered specifically in today's meeting.

Likewise, de Compreignac did not mention how the lines of credit would be allocated among prospective borrowers (an earmarking procedure) in case demand exceeded funds available.

4.3 *Entrant* Financing

The second line of credit, totalling FCFA 2 billion, is to cover bank loans for all *entrants* or inputs to agricultural production except fertilizer. Fertilizer is excluded so as to avoid duplication with the FSSRP program. Any other type of herbicide, pesticides, etc., will be eligible for financing. M. de Compreignac says that in recent years use of agricultural chemicals in Cameroon has fallen to extremely low levels.

The line can be used to finance import and distribution of these products. Loan term will be 8-9 months maximum. Stabex will advance funds to lenders at an interest rate of 7% p.a., and their lending margin will be limited to 5%. This brings the all-in cost to borrowers to 12% p.a.

Loan structure and administration are to be similar to the arrangements for the pre-export financing line, except that the "cashier" function may be placed with a commercial bank, perhaps *Crédit Lyonnais*, rather than BEAC.

This line will enjoy no risk guarantee cover, all credit risk to be for the account of the lending banks, and credit approval will be automatic since it rests with the banks. There is a limited number of importers of such products in the country, about six, and they have affiliations with relatively strong foreign suppliers/parents, so de Compreignac feels credit support is not necessary.

4.4 Diversification and Commercialization Fund

The third line of credit in the proposal is much smaller, about FCFA 500-800 million. It has fewer parallels with the FSSRP purpose and structure, and de Compreignac did not go into many details on the types of loan that it would cover. He did say the individual loans to be made would be small, the all-in rate to the borrower would be 12% p.a.

These loans apparently are likely to be riskier than under the other facilities, and will be (partially) covered by a separate guarantee fund. Believe the Stabex office will also participate in credit approvals, as for the pre-export financing line.

The "cashier" function will probably be handled by a bank, rather than BEAC. *Crédit Agricole* is quite interested, he did not mention another candidate.

Comment:
By comparison with the FSSRP loan funds, the key financial feature of this proposal is the aggressively low all-in interest rate that borrowers will pay, under all three lines of credit. The proportion of Stabex/commercial bank rates is to be deliberately weighted to produce all-in rates of about 11% p.a. plus taxes. This is about half of current commercial lending rates, and below the current BEAC discount rate (the closest thing to a money market rate in the current Cameroonian financial system).

We asked de Compreignac whether such low rates would not attract the displeasure of the IMF and World Bank. He replied that he had briefed both organizations carefully on the proposals, they had not objected, so he is assuming they will not raise objections with the Govenment.

The other main structural difference from the FSSRP structures is the insertion of the Stabex office in the credit approval process in the two lines where the guarantee feature is present. Although commercial banks will take much of the credit risk (40% for the first line, an unknown portion for the third), this aspect introduces a second credit judgment that may make credit approval slower and perhaps less predictable for users of the program.

5. BEAC - *Commission Bancaire de l'Afrique Centrale* (COBAC)

Interviewed:	Michel Dabadie, *Conseiller, Secrétariat Général*
	Hervé Le Clerc, *Conseiller*
Location/Date:	Yaoundé, April 27, 1994

5.1 Background

M. Dabadie was seconded to the regional BEAC five years ago from the *Banque de France.* He has been instrumental in establishing the COBAC, which gives the BEAC an independent banking supervision, examination, and control capability along the lines of countries like France and the United States. Mr. Le Clerc, also an officer of the Banque de France, has just arrived in his post, which is similar to that of Dabadie.

Purpose of today's meeting was to obtain their comments on the structure of the RCF and the MLTF, whose success depend heavily on the strength of commercial banks.

5.2 Banking Conditions

As bankers have repeatedly claimed, since devaluation the banking system's liquidity position has improved markedly. However, the banks' balance sheets have not improved, in fact devaluation created further losses. The banking system had negative net worth before devaluation (in other meetings, knowledgeable specialists put the pre-devaluation figure at negative FCFA 48 billion). The banking system's negative net worth figure is larger now, Dabadie did not mention a figure (others have estimated at least negative FCFA 60 billion).

In other words, the banking system in Cameroon is more insolvent now than it was six months ago.

As for the individual banks, Dabadie and Le Clerc were quite discreet in their specific comments and limited their remarks to generalities. Virtually every bank pretends publicly it is the only one that is in good shape and did not get caught in the devaluation. In fact, while some of the banks are in less bad shape than others, none are really healthy by external standards.

In this environment banks continue to be extremely cautious about new credit, and are likely to remain so for some time.

5.3 Inflation and Interest Rate Outlook

Dabadie confirmed that very recent figures on the "local consumer market basket" show that prices did not rise significantly over their February levels. In other words, there already are signs that the price increases following devaluation in January may well prove to be "one time," due in large part to the accompanying measures on which the IMF and BEAC insisted.

If so, the central bank would indeed have scope for an early reduction in interest rates - to the great benefit of businesses and consumers alike.

Without pretending to be privy to the Governor's thinking or intentions on the subject, they gave their theory on how interest rate targets might be set in the future. Simply, the FCFA countries will probably want to keep short term rates (i.e., the ones over which the central bank has the most direct influence) at levels a few percent above those of rates in France. A margin in the range of 3-5% would seem suitable.

Thus, once the authorities have confidence that inflation in the BEAC countries is again under control, they could move toward target rates of 9-11%, French short term rates currently being around 6%.

5.4 Creation of a Money Market

In this connection, they summarized how the BEAC authorities intend to structure a local money market, one of the items on the list of IMF approved measures accompanying resumption of IMF support to Cameroon. In summary, the new money market will contain several elements of the system used in France.

First, the central bank will periodically ask the banks to "bid" for short term funds from the central bank - the *appels d'offre.* The central bank then selects from among the banks' bids the quantities and rates it feels is appropriate. This will become the main procedure for influencing short term rates - replacing a host of directly administered rates.

Accompanying the establishment of the *appels d'offre* procedure will be establishment of a second facility for banks to borrow from the central bank - the *prise en pension.* Borrowings under this facility will carry a higher rate than the *appels d'offre* - probably about 2% higher - and will in effect represent a last resort source of funds for banks that find no other funding sources.

Third, rates in the inter-bank money market will inevitably settle somewhere between these two rates. Banks will inform the central bank of the rates at which they deal in the money market, and BEAC will publish these rates periodically.

5.5 FSSRP Loan Funds and Interest Rate Levels

The above discussion led to certain conclusions about structure of the RCF and MTLF. It was emphasized that the current levels of interest rates penalized borrowers excessively, both for short term imports and eventual medium term investment projects. They were sympathetic to the objective of setting rates in the FSSRP funds, once fertilizer subsidies end, low enough so that importers, distributors, and investors get an all-in borrowing cost (i.e., from all funding sources) that is reasonable.

Dabadie had an interesting comment on the relative important of low interest rates vs. risk sharing in the FSSRP fund structure. He cited the experience of another loan fund financed by foreign aid. This fund, set up by the French aid agency, was aimed at encouraging banks to lend to small and medium sized enterprises. As an inducement to the banks to lend to this "risky" sector, the French plan offered risk sharing coverage at the level of 50%.

However, no loans were ever made, he said, because the plan did not attack the interest rate problem aggressively enough. Prospective borrowers, and their banks, were only too aware of the severe penalty imposed on project and company profitability by the excessively high interest rates prevalent in Cameroon.

For the FSSRP's short term fund, they suggested an appropriate target all-in rate might be the money market rates that will emerge from the reforms described above, which are scheduled to take effect July 1. An all-in borrowing cost below money market should be discouraged as it would merely repeats past follies of excessively subsidized credit. In the other direction, a high all-in cost to the borrower - e.g., only 2 or 3 percent below commercial rates - will probably not suffice to encourage increased fertilizer import and distribution activity.

For the MTLF, the target all-in rate should of course not be below money market, and banking and financial orthodoxy argue for a rate that is 1-3 percent above the rate for the short term fund.

They pointed out that the banking system's recent improvement in liquidity might have an effect on the FSSRP funds' interest *bonification* option. That is, last year when that option was introduced into the MTLF structure, it was assumed that the only feasible source of funding for the "bonified" loans would be (medium term) rediscounting at the central bank. Under today's conditions, especially once the money market gets underway, commercial bank funding might prove feasible, especially for relatively modest amounts.

6. European Communities Delegation

Interviewed: Philippe Descamps, *Conseiller*
Location/Date: Yaoundé, April 28, 1994

6.1 Stabex Agricultural Loan Project

Purpose of the meeting was to review the Stabex project proposal for loan funds to the agricultural sector, as described in other reports. The EC delegation official who knows these proposals intimately, Mr. Baldwin, is ill this week (malaria). M. Descamps graciously agreed to the meeting in his place but has little knowledge of the project, partly because it is still in the proposal stage. He was able to confirm that there is room in the delegation's budget for the FCFA 12-13 billion that is being considered.

If the proposal, once the details are worked out, is acceptable to the EC and the Government of Cameroon, formal agreements could be signed before the summer.

6.2 PSIE Fertilizer Program

This program handled 24,000 mt of fertilizer this year.

Descamps did not seem to think any kind of merger of the PSIE and FSSRP programs was under serious discussion, and he refrained from expressing any personal opinion that it might be a good idea.

APPENDIX H

PROPOSED INVESTMENT ACTIVITIES UNDER THE MTLF

1. The SOMENAC Proposal

Interviewed: Betru Gebregziabher, *Directeur Général* of IBEX
Location/Date: Douala, April 20 and 21, 1994

SOMANAC is a new company whose shares are owned by Ms. Rose Mbonde, IBEX and other investors. It would be the owner and operator of a proposed fertilizer mixing and bagging plant to be located in the Bonaberi section of Douala. The team conducted a brief review of the feasibility study of this project carried out by the Africa Project Development Fund. We discussed the project with Mr. Betru Gebregziabher of IBEX and visited the site where the plant would be located. Rehabilitation of the building has already begun.

1.1 Factors Affecting Feasibility

The project as presented in the study appears sound, although there are a number of uncontrollable variables which could affect its viability.

Competition from another similar plant:
It is doubtful that the market could support two mixing and bagging plants. Hydrochem (affiliated with Norsk Hydro) informed USAID in January 1994 that the company plans to install a "local factory" (a mixing and bagging plant) and they say that they are currently making an engineering study of the facility. Hydrochem currently operates a bulk blending and bagging facility in the Ivory Coast. As a major world fertilizer supplier, Norsk Hydro could decide on a policy of undercutting SOMANAC prices from its own mixing and bagging plant, or even with fertilizer imported in sacks, for as long as it takes to drive any competitor out of business. A Dutch supplier, Kencica, is currently active in Cameroon, seeking to get orders directly from users for bagged fertilizer. They can also be expected to compete actively with a local firm mixing and bagging imported bulk fertilizer. If the price advantage of locally mixed and bagged fertilizer over imported bagged fertilizer is only 5 to 10%, as estimated by SOMANAC and others, it would be possible for a determined and well-financed competitor to sell below SOMANAC prices for an extended period.

Effect of a possible fertilizer donation:
Donations of fertilizer to Cameroon by the government of Japan were under consideration in May 1994. Should sizeable amounts of fertilizer arrive in country and be given out free of charge to users, it would have an obvious detrimental effect on the market and affect every business with an investment in fertilizer distribution. It is argued elsewhere in this report that if only in-kind rather than monetary donations can be considered, then the fertilizer should be auctioned off to any company which has imported or distributed in the past. However,

we have also argued that to protect the proposed mixing and bagging plant, donations should be in bulk, bagging to take place at the new plant, possibly for a fixed fee per bag under a contract with the government agency responsible. The bagged fertilizer would then be sold at auction.

Uncertainties caused by devaluation:
At the present time, consumption of subsidized fertilizer by small coffee and vegetable farmers is down considerably compared to last year. Most observers expect that it will take another year before coffee farmers fully accustom themselves to higher coffee and fertilizer prices. Consumption may have recovered by the time the plant is operational, but that is by no means certain.

Failure to meet sales projections:
The feasiblity of the project is based on achieving breakeven with sales levels of 33,500 mt in the first year of operation. The competitive factors discussed above could profoundly affect the viability of the enterprise if sales are much lower than targeted levels. Delays could also be encountered in getting the plant into full production. Although the promoters of the project stress the simplicity of the planned operation, the kinds of problems which inevitably crop up could prevent the project from meeting its targets, at least in the first year. Delays could stem from inability to receive necessary government authorizations in a timely fashion, late deliveries of equipment by ship from the U.S., theft in the port, delays in customs, or problems in obtaining sacks.

Cost of sacks:
We inquired about how sacks would be procured, given the fact that local industry is required to use sacks made in Cameroon, which are more expensive than imported sacks. The promoters state that they hope to strike a deal with the authorities which would allow them to use half imported and half local bags, since even supplying even half SOMANAC's needs would benefit the local plant, which is operating well below capacity.

1.2 Possible Export-Import Bank Financing

Mr. Gebregziabher is concerned that local banks will not be able and/or willing rapidly to put together a large enough lending syndicate to handle the local financing needed. This despite the attractive rate subsidy and liquidity offered by the MTLF. To ensure that such problems do not compromise the project, during a recent visit to the United States he has approached Eximbank about financing the Sackett machinery planned for the SOMENAC facility.

Initial response from Eximbank has been favorable. In typical Eximbank structure, down payment in cash of 15% is required, Eximbank would guarantee a US lending bank for political and economic risk on the balance. Gebregziabher did not mention interest rates or finance cost for this approach, nor how firm Eximbank's initial reaction had been. He says SOMENAC can, if necessary, arrange to put up the 15% down payment. He seems optimistic that this "fail-safe" financing route will prove feasible in case of need.

1.3 Capital Structure

Bank Shareholders: The prospective local bank shareholder is *Crédit Agricole* (CAC). Mr. Gebregziabher did not comment on CAC's likely appetite for such an investment. He said a German bank (unnamed) might be interested in an equity position, perhaps for as much as 25%, rather than the 15.6% shown in the study. That would of course reduce the need for local bank equity position to only FCFA 2.5 billion.

Subordinated loan: The subordinated loan of FCFA 450 million is critical to the financial structure of the entire proposal. The subordinated nature of the debt enables the promoters to show equity plus quasi-equity at about 30% of the pro forma balance sheet in the most sensitive early years of the project. Gebregziabher clarified that this loan is to be sought from World Bank's private sector investment affiliate, the International Finance Corporation (IFC). The loan would involve no repayment at all of loan principal during the first five years of the project. The full amount would then be due on the fifth anniversary of the subordinated loan. (Gebregziabher did not comment whether this loan might be convertible to equity under certain circumstances.)

From a risk evaluation viewpoint, a positive feature of the proposed structure of the subordinated loan is a low basic interest rate. This rate would be tied to tonnage of the company's sales, limited to 8% p.a. if sales in a given year were below 27,000 mt of fertilizer. This basic rate works out to FCFA 36 million annually at current exchange rates. If tonnages sold exceed projections, additional interest would be payable. For instance, even as early as year two of the project, "subordinated" interest is projected at FCFA 43 million. This is based on fertilizer sales of 48,000 mt. According to Gebregziabher, this "subordinated" interest is calculated only one year at a time, and is not based on cumulative sales tonnages.

The subordinated loan involves a significant risk, however: it is to be denominated in foreign currency, probably either US dollars or French francs. Since all receipts are expected to be in CFA francs, this gives the company major foreign exchange exposure.

Foreign term lending: The feasibility study shows a large long term lending in DM, for a FCFA equivalent of 1,020 million. Terms are to call for repayment in eight years with a grace period of 18 months. Installments of principal are probably semi-annual or annual, and are for equal amounts. The interest rate shown in the study is 11% p.a. Gebregziabher said the company will be seeking to negotiate this down to 9.5% p.a. (That could save FCFA 15 million the first year.) Here again, of course, the company would be running a major foreign exchange exposure risk.

Local currency term lending: This loan would amount to FCFA 1,087 million. Gebregziabher confirmed that this refers to a loan to be sought from a local banking syndicate to be organized by *Crédit Agricole*. The study projects a loan repayable in equal installments (semi-annual or annual?) over six years starting after a 12 month grace period.

The feasibility study assumes that it will benefit from the interest subsidy option (*bonification*) of the FSSRP's medium term lending facility, with a net total interest cost of 17.5% p.a.

Comment: It is not clear that current MTLF rules allow for coverage of a loan with a final maturity as long as six years. The MTLF current requirements on acceptable debt:equity ratios, unless modified, also would make this project ineligible. Further, the amount of interest saving (compared to commercial rates) that is implicit in the feasibility study's calculations appears much larger than the current MTLF facility would provide because of the total loan is so large. This point was not discussed with Mr. Gebregziabher.

Short-term credit: Of considerable importance, Gebregziabher confirmed that the feasibility study projections assume that all working capital is financed by long-term loans; they assume no short-term financing. In fact, the company could seek short-term credit facilities covering import and/or distribution activities from the Revolving Credit Fund of the FSSRP. Interest rates under the RCF would be significantly lower than the rates under the term lending facilities discussed above.

Gebregziabher has made no projections of such loan usage. The company apparently does not have simulations of alternate financing scenarios, and he does not know whether they exist or could be prepared from the work done by the APDF consultant. An expert in the workings of the FSSRP short term facilities, Mr. Gebregziabher does not need projections or simulations to know that it will be in SOMENAC's interest to maximize use of such facilities.

Comment: In this connection, it would be important for the company to have at least part of one of the long-term credits structured as a revolving commitment so that usage of the loan could be flexible. That would make is easier for the company to finance part of its working capital requirements--e.g., for imports--under the less expensive RCF facilities, and cut its interest costs under the long-term facilities. At first glance, this would appear to represent one of SOMENAC's larger potential sources of savings. If they were able to reduce usage of the loan denominated in DM, that could also help reduce foreign exchange exposure.

As a comment for the RCF in general, the considerations covered above add an additional argument to the case for considering addition of an interest subsidy (*bonification*) option to the RCF.

Note: We learned from Mr. Gebregziabher that trucks used to move fertilizer from the quay to the bagging facility will be rented, not owned. Availability of trucking is more than adequate. Ownership involves management and maintenance headaches as well as financing costs that are not warranted.

1.4 Changes to the Revolving Credit Fund

We mentioned to Mr. Gebregziabher that in other meetings with program participants we had received a suggestion to add to the RCF a commission for earmarking, to be refunded if imports actually occurred. That would help discourage any "frivolous" earmarking requests. He concurred heartily with that suggestion.

2. Africa Project Development Facility (International Finance Corporation/World Bank Group)

Interviewed: Claude F. Rougeot, Investment Advisor
Location/Date: Douala, April 20, 1994

2.1 Background

Mr. Rougeot, a Frenchman whose background is in the private sector, has been representing the APDF in Cameroon for about 18 months. He is quite knowledgeable about the SOMENAC project, since the APDF was responsible for the feasibility study discussed in the preceding section. The study was carried out by a Belgian consultant, Mr. Jean Tixhon, and was financed through a grant from the Norwegian Trust Fund.

Mr. Rougeot noted that the APDF study was undertaken at the request of the German equivalent of IFC, the DEG. Following submission of the study, DEG had a very positive initial reaction, he said. Mr. Pelzer of DEG will visit Cameroon starting May 7 and certainly will schedule several meetings to review this project at that time. As for IFC, Rougeot feels they will be able to take a final decision no later than June 30, and that their general attitude should be known about the middle of May.

Mr. Rougeot clearly is keen on this project. He cautioned us to treat the project file, which USAID had received from the promoters of the project, as a confidential document. Potential competitors of SOMENAC might use information therein to their advantage and the company's detriment.

2.2 Technical Aspects

Location in the port area and access to the quay are important to the smooth functioning of the project. Rougeot did not feel that in itself the need to use trucks to transport fertilizer from quayside to the warehouse is any particular handicap. (This concern had been voiced by an officer of *Crédit Agricole* in Yaoundé earlier in the week.) Easy access to the quay is what is critical, in his view. Exclusive access to the quay would be preferable.

Expert opinions vary whether to rehabilitate the existing warehouse or simply raze it and construct a new one. No particular expert in this field, he leans to the former view.

Technical management is critical to the project's success, since Ms. Mbonde and her associates do not have significant experience in that area--they are marketing people, above all. Recruitment search has started, and respectable c.v.s are coming in. Of interest, Ms. Mbonde was told by a fertilizer plant operator in Nigeria that the key quality of the technical manager is likely to be people management--getting the employees to do their job well and on time--more than understanding of the intricacies of the machinery. In part, this is true because the machinery is well tested in the African environment and is not particularly complicated.

2.3 Market

The key to success clearly is the size and development of the market for fertilizer. Rougeot is firmly convinced that the market in Cameroon does not have room for two fertilizer bagging (and blending) operations. He feels the report's estimated market size of 85,000 mt the first year, and project's break even level of 35,000 mt are set quite conservatively and are realistic.

Expansion of the market is somewhat less problematic than would have been the case six months ago, because of some measures that were taken under IMF guidance to accompany the FCFA devaluation. In particular, agricultural trade within the Central African customs area (UDEAC) should expand because of tariff simplification and harmonization. Cameroon will be able, for example, more easily to export green beans and other fresh vegetables to Gabon, inducing additional fertilizer consumption within Cameroon.

2.4 Financial structure

The team had not been able to examine the financial aspects of the proposal carefully before the meeting, so we covered only a few details of the financing structure. (In any case M. Rougeot seems most interested in the marketing, management, and technical sides of the project.)

Mr. Rougeot did confirm certain points of interest on financing. Most important, IFC has taken a very positive attitude to date toward providing a subordinated loan--a vital part of the company's proposed capital structure. Second, Rougeot said the interest make-up (*bonification*) technique is clearly the most advantageous of the options offered by the FSSRP.

The key questions on financing probably will concern the success Crédit Agricole Cameroon (CAC) encounters in putting together a local lending syndicate, presumably using the FSSRP's medium term facility. CAC's general manager, Bernd Stiehl, is becoming interested in the project, Rougeot said, and is visiting Douala this week to pursue the matter. Rougeot feels DEG's ownership of CAC will help simplify the latter's credit evaluation.

Overall, now that a good feasibility study has been produced, Rougeot hopes the various prospective lenders--CAC in particular--will be able to reach in principle lending/credit decisions by mid-May. This sounded a bit ambitious, but Rougeot clearly is optimistic.

The APDF has a good relationship with Eximbank, although no deals have been done together in West Africa that Rougeot is aware of. He did not mention any approaches by the company (or his office) to Eximbank for partial financing of this project.

3. FERIDA Fertilizer Project

Rougeot confirmed that last year the IFC had declined to participate in this project. One key reason apparently had to do with relative lack of capital by the promoters. Rougeot thinks the FERIDA people still have title to their land near the quay in Bonabéri. He has heard little about this project for a number of months, and has heard that Mr. Mbida, the promoter, continues to undertake consulting activities for the IFC and World Bank.