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PRIVATIZATION OF FERTILIZER MARKETING IN CAMEROON: A CASE STUDY

JUNE 1991

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by

Richard D. Abbott

June 1991

THE AGRICULTURAL MARKETING IMPROVEMENT STRATEGIES PROJECT

The University of Idaho/Postharvest Institute for Perishables

Abt Associates

Deloitte Touche

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GLOSSARY

AMIS - Agricultural Marketing Improvement Strategies Project

BEAC - Banque des Etats de l'Afrique Centrale (central bank)

EC - European Community

FCFA - Francs CFA

FONADER - Fond National pour le Developpement Rural

FSSRP - Fertilizer Sub-Sector Reform Program

GRC - Government of the Republic of Cameroon

IFDC - International Fertilizer Development Center

MINAGRI - Ministry of Agriculture

ONCPB - Office Nationale de Commercialisation des Produits Bruts (National Produce Marketing Board)

PRAMS - Program of Reform in the Agricultural Marketing Sector

PSIE - Programme Speciale d'Importation d'Engrais

SCB - Societe Camerounaise de Banque

TSC - Technical Supervisory Committee (of the FSSRP)

PREFACE

This is one of a series of case studies on marketing produced by the Agricultural Marketing Improvement Strategies Project (AMIS), a centrally-funded project of AID's Bureau of Science and Technology. Abt Associates is the prime contractor; The University of Idaho/Postharvest Institute for Perishables and Deloitte Touche are subcontractors.

The intent of these studies is to draw on the experience of AMIS staff engaged in long term analysis of marketing issues in a single country, and to highlight lessons learned from this experience which might be applicable elsewhere. This particular case study is based on the author's field work in 1988, 1989, and 1990 when he prepared annual assessments of the Fertilizer Sub-Sector Reform Program of Cameroon for the USAID Mission in that country. For the third annual assessment, the author was joined by a banking expert, Mr. David Lloyd, and the sections on credit and banking use material drafted by him. This assessment work was supplemented by farm-level surveys to learn more about factors influencing demand for fertilizer in Cameroon. AMIS consultants Nicholas Minot, Jerry Johnson, and Tony Johnson, were involved in the design of the surveys and evaluation of the results.

The AMIS work on the Fertilizer Sub-Sector Reform Program of Cameroon was carried out in close collaboration with USAID/Cameroon. Dr. Tham Truong, Chief, Office of Economic Analysis and Policy Reform, together with Mr. S. Tjip Walker of that office, provided invaluable support throughout. The author also wishes to acknowledge the cooperation of officials of the Government of Cameroon, particularly M. Mohamadou Talba, Secretary General, Ministry of Plan and Regional Development.

EXECUTIVE SUMMARY

In September 1987, USAID/Cameroon and the Government of the Republic of Cameroon (GRC) signed an agreement under which the government would withdraw from fertilizer procurement and distribution and turn it over entirely to the private sector. Studies had shown that the old system, involving some five government agencies, was cumbersome and inefficient. Moreover, the GRC had recognized -- as the effect of an economic crisis worsened and the government ran huge deficits -- that it could no longer afford to subsidize fertilizer sales. Under the new program, known as the Fertilizer Sub-Sector Reform Program (FSSRP), import and distribution of fertilizer were open to any private firm or cooperative with prior experience in handling fertilizer. (In practice, this did not prove to be a barrier to entry as the rule was interpreted liberally.) The objective was to create a system that was "competitive, sustainable, and subsidy-free". Subsidies were to be phased out over a five-year period, and would be supplemented by an AID-funded loan program to facilitate entry of private firms into the program. The loan program had the additional objective of requiring commercial bank participation in the process, thus helping to integrate fertilizer marketing companies into Cameroon's private financial system. It was hoped to attract maximum participation from the private sector so that fertilizer users would benefit from active competition at each step in the marketing process.

This case study examines the FSSRP after three years' experience. During the first two years, 1988 and 1989, the new system succeeded in importing the same volume of fertilizer as in 1987 -- approximately 64,000 tons of five types. Distributors in 1988 were generally the same coffee cooperatives who imported under the old program. More recently private distributors other than cooperatives have begun to participate in the program; these range from small farm supply firms to individuals who truck fertilizer to the interior for retail sale directly to farmers. The principal new element in the marketing structure was the appearance of two importing firms, both having been established by non-Cameroonians specifically to take advantage of the liberalization scheme. Two established Cameroonian firms which had previously imported fertilizer participated in the 1988 program, but have not imported since then, though other local firms have made offers to distributors since then which did not result in orders. Two commercial banks handled all fertilizer import transactions in the first two years. In the third year, a third bank participated to the extent of considering and rejecting a credit application. It had been hoped that there would be greater participation from the private sector than has been the case thus far.

Under free market conditions, the privatized system proved much more efficient than the government-controlled scheme. The time from placement of orders by distributors to reception of fertilizer was reduced from twelve to eighteen months under the government scheme to four to six months under the privatized system. The landed cost of fertilizer at Douala in 1988 was more than 40% lower than in the previous year, a remarkable accomplishment which could be explained in several ways. Since there had been little change in world market prices, it is possible that the government system had not assured negotiation of puchase contracts at the most advantageous prices, had involved too many middlemen or brokers charging commissions, had provided opportunities for "rent seeking" by government officials -- or all of the above. The cost of distribution from the port to point of sale was also reduced (by about 17%) in the first year of the new program, as competition for transport contracts by trucking companies produced lower prices than the old government contracting system. The farmer has benefitted from this competitive situation. Whereas unit subsidies have been reduced by over 75% in 1990 compared to 1987, farmers are paying only about 30% more for their fertilizer.

By 1989, the severe economic problems being experienced in Cameroon had begun to affect the program. Tight credit limited access to commercial bank financing of import and distribution of fertilizer. Delayed payments to farmers for coffee by a government marketing board strapped for cash, and later the halving of official producer prices for coffee, greatly reducing the purchasing power of farmers. As a result, fertilizer consumption in 1989 was roughly two-thirds of the previous year's level and importers were left with substantial inventories. Fertilizer importers responded rationally to this situation and reduced imports to only 22,000 tons in 1990. By the end of the year inventories had been reduced to manageable levels. However, the fall-out from this situation was that one of the two importers became financially over-extended and had to suspend fertilizer imports in 1991.

It is concluded that the FSSRP is achieving its objective of creating a viable private sector fertilizer marketing system. The system is competitive in that farmers are receiving fertilizer in a timely fashion and at a prices which have gone up proportionately much less than the rate of reduction of subsidies. As to sustainability, an AID evaluation found that the USAID Mission's day-to-day involvement in management of the program raised doubts about its ability to stand on its own after the five years are up. The Mission, however, sees its role as one of providing information and monitoring services, supplemented by occasional help in resolving problems. This useful contribution does not appear to have jeopardized long-term sustainability, which will be determined by economic conditions generally, and the demand for fertilizer in particular. To a considerable extent, AID involvement was made necessary by the limited support provided by the GRC. It could be concluded that close monitoring of the program by USAID and the Fiduciary Bank provided few opportunities for rent seeking by government officials and hence a lack of interest.

The program will probably be extended somewhat beyond its planned termination date of 1992, since the rate at which subsidies are being reduced has been slowed to cushion farmers from the full effect of reduced coffee prices. However, some lessons may be drawn from experience with the FSSRP as it enters its fourth year. The history of the program points up the difficulties which can arise when an input marketing system is privatized but the "output" marketing system -- in this case coffee -- is not also privatized. Free market forces operating on fertilizer marketing were thwarted by the government's continuing control of coffee marketing. Uncertainty about when they would be paid for coffee and about future government policies toward the coffee sector, restrained farmer purchases of fertilizer and caused financial difficulties for importers. And clearly, a period of declining output prices is not optimum timing for privatizing an input distribution system.

On the other hand, strengths inherent in the private sector were demonstrated by the flexibility to adjust to changing economic conditions on the part of commercial banks, importers, and distributors. Market forces induced importers to adjust import levels to match apparent demand, and fertilizer buyers benefitted from price competition. It appears that expectations of private investment in handling and distribution facilities (mixing and bagging plants, up-country warehouses) were too optimistic, in view of the relatively small market for subsidized fertilizer of about 64,000 tons annually. Had economic conditions been more favorable and coffee prices remained high, it is very likely that the market for fertilizer would have expanded and such investments might well have taken place. The implication here for planners is that forecasts of fertilizer consumption and prices need to take into account the downside risk of declining prices for fertilizer-using crops.

Finally, the provisions of the FSSRP which provided for regular monitoring and review of the program contributed greatly to the progress it has made thus far. All private sector participants in the program have the opportunity once a year at the end of the season to hear the results of an assessment prepared by the AMIS Project, and to discuss openly and frankly with supervising government officials any problems they have experienced and make suggestions for improvements. This feature of the program should be a part of any privatization scheme considered elsewhere.

AMIS CASE STUDY
PRIVATIZATION OF FERTILIZER MARKETING IN CAMEROON

1. Origins of the Program

1.1 The FONADER/MINAGRI System

As early as 1985 it was recognized by the Government of the Republic of Cameroon (GRC) that the government monopoly system then in force for procurement and distribution of subsidized fertilizer was inefficient and constituted a severe budgetary drain. Subsidy levels were equivalent to 65% of the retail price of fertilizer and in 1987 cost the government 6 billion FCFA, about US$ 20 million. As Cameroon entered a period of economic recession, brought on by declining prices for virtually all of its exports, the government could no longer afford this financial burden.

The monopoly system, involving some six government agencies, was complex and procedures were time-consuming. The government agency FONADER (Fonds National pour le Developpement Rural) received requests from users (mainly coffee cooperatives) and passed them on to the Ministry of Agriculture (MINAGRI). After matching these needs against available funds, MINAGRI allotted tonnages to each user and issued public tenders for the determined amounts. Cameroon firms which were successful in winning contracts then ordered from foreign suppliers. Once received at the port of Douala, the fertilizer was delivered to the MINAGRI warehouse and payment was made to them. MINAGRI contracted with transporters for delivery to users, who repaid FONADER once they had been paid by farmers, keeping 10% to cover distribution costs. All fertilizer was sold at a uniform price, regardless of nutrient content or distance from the port.

There were numerous problems with the FONADER system. The once-a-year ordering process was inefficient and forced fertilizer users (cooperatives) to place orders before they could be sure of real needs. Likewise, it encouraged users to place large orders since they knew that allotments would be less than the amounts requested. Landed costs of fertilizer were far higher than they should have been (see discussion in Section 3.3).

1.2 Introduction of the FSSRP

At the request of the GRC, a comprehensive study of Cameroon's fertilizer sub-sector was carried out in 1985 by the International Fertilizer Development Center (IFDC). The study found that total fertilizer consumption in Cameroon amounted to about 105,000 tons in the 1984/1985 season. Approximately 65,000 tons of this was subsidized and was consumed mainly by coffee growers. Imports were limited to five types: NPK 20-10-10, NPK 12-06-20, NPK 10-30-10, Urea, and Ammonium Sulfate.[1] (Under the FSSRP, imports are also limited to these types.)

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[1] Unsubsidized fertilizer imports, used mainly on cotton and rice in the northern provinces, consist of Urea, NPK 20-10-10, Ammonium Sulfate, NPK 15-15-15-6S-1B, DAP, TSP, and KCl.

In 1986/1987 AID engaged in a dialogue with the GRC over fertilizer reform policy, working through an ad hoc interministerial committee (which later became formalized as the Technical Supervisory Committee of the FSSRP). Options of (1) reinstituting fertilizer manufacture in Cameroon, and (2) creating a new quasi-public fertilizer distribution monopoly, were both rejected in favor of the third option of total privatization of fertilizer importation and distribution. Indeed, given the depth of the economic crisis affecting Cameroon by 1987 the first two options were no longer viable.

In September 1987 the GRC and USAID/Cameroon signed a grant agreement governing the Fertilizer Subsector Reform Program (FSSRP). Under its terms, the GRC agreed to eliminate public tenders, import quotas, various restrictions at the distribution level, quantitative allocations to end users, and uniform pricing. In its place, the new FSSRP system would open subsidized fertilizer procurement and distribution to the private sector. The government would continue to provide subsidies, though at progressively lower rates, until by the end of the program in 1992 (later extended) fertilizer would be sold at market prices. Disbursement of subsidies would be linked to a loan program to partially finance importation and distribution of fertilizer, and these funds would be managed by commercial banks.

AID agreed to provide $20 million over the five year life of the project, of which $17 million would be used to create and progressively expand a revolving credit fund to assist in financing the import and distribution of fertilizer. Additional funds were provided for special studies and analysis to ensure effective implementation of the project.

The grant agreement thus tried to address those issues limiting private sector participation in fertilizer marketing, specifically (1) removal of legal and regulatory constraints imposed by the government, and (2) creation of positive incentives for the private sector. These incentives included the availability of a loan fund at preferential rates, and facilitating access to subsidy funds through commercial banks (see Section 2.2). While the effect of the program is to shift costs from the government to the farmer, resulting in appreciably higher fertilizer retail prices, it was felt this would be at least partially outweighed by the advantages to the farmer of more timely delivery of fertilizers and, ultimately, of fertilizers better adapted to his needs.

As of March 1991, three full years of operation under the new system had been completed. At the request of the USAID/Cameroon, the AMIS Project has conducted assessments of the program each year. This paper draws heavily on findings from those annual assessments.

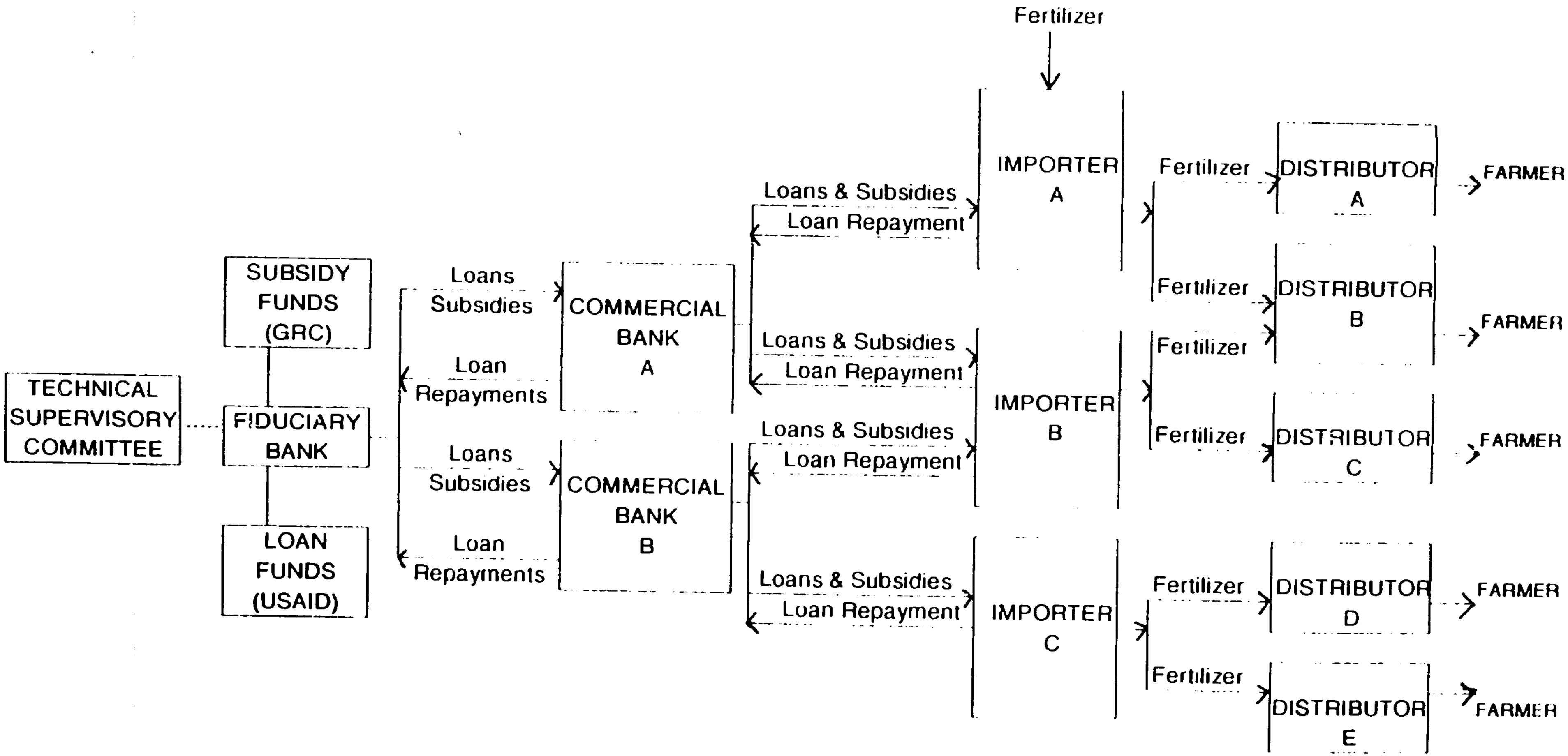
2. The FSSRP System Described

2.1 Structure of the System

The organizational structure of the FSSRP is depicted in Exhibit 1. Overall supervision of the program is provided by the interministerial Technical Supervisory Committee, consisting of representatives of the Ministries of Plan and Regional Development (whose representative serves as President of the

EXHIBIT 1

STRUCTURE OF THE FSSRP



Committee), Finance, Agriculture, Industrial and Commercial Development, Higher Education and Scientific Research, and the National Produce Marketing Board. A USAID representative is an ex officio member of the committee.

The "Fiduciary Bank" is a commercial bank (Bank of Credit and Commerce Cameroon) selected by the Technical Supervisory Committee for this role. It manages subsidy funds contributed by the Government of Cameroon and a loan fund contributed by AID, channeling these funds through commercial banks to importers.

Participating commercial banks are any of those meeting the eligibility requirements specified in the FSSRP Agreement -- in practice virtually any solvent commercial bank qualifies -- and approved by the Technical Supervisory Committee.

Eligible importers are those which have imported or distributed fertilizer at least once during the 1984 - 1987 period. A new organization which has as shareholders persons of entities which meet these criteria is also eligible, as is a new marketing organization which adds significant value to imported fertilizer through warehousing, mixing and bagging, or transport. The intention is not to exclude any qualified importer or distributor, but only to screen out organizations with no relevant experience in fertilizer marketing or intention to invest in fertilizer distribution facilities.

Distributors are the importers' customers. In the first two years of the program, these were limited mainly to coffee cooperative unions in the four western provinces of the country, who re-sold fertilizer to their member cooperatives and then on to coffee farmers. The broadening of participation at the distributor level is discussed in Section 3.5.

2.2 The FSSRP Credit and Subsidy System

The FSSRP provides two types of financial incentives for private sector companies to engage in the import and distribution of fertilizer.

A Revolving Credit Facility has been established with the Fiduciary Bank to provide short-term financing to commercial banks at below-market interest rates for fertilizer importers or distributors. These "importation loans" are intended to facilitate the importation and distribution of fertilizer by making available low-cost funding between the time of payment to foreign fertilizer suppliers and receipt of sales proceeds. The interest rate is determined by a formula linked to current market interest rates, and provides a margin for the lending bank large enough to induce them to participate.

The Fiduciary Bank also controls access to subsidy funds which are paid directly to importers by commercial banks, thereby reducing the importers' costs and allowing them to pass on the savings to buyers. (These subsidies are being incrementally phased out.) Since subsidy funds reduce the cost of imported fertilizer by 20% - 50%, they are currently the primary attraction of the program to importers. However, in order to receive subsidy funds after they have been earmarked, an importer must first apply for and receive an importation loan from its commercial bank.

Although funding for the loan is provided by the Fiduciary Bank, the credit risk is assumed by the commercial bank -- since the bank must issue a promissory note to the Fiduciary Bank and repay these funds whether or not it is repaid by the importer. This structure is meant to induce the participating commercial banks to treat FSSRP importers as regular customers, lending to reliable borrowers but denying access to the program to less credit-worthy companies. Additional documentary requirements proving shipments of goods, value, and arrival in port are also imposed to help prevent fraudulent transactions and claims for subsidy funds.

A distribution loan facility has also been made available, but is not required, for distributors. Its purpose is to provide a distributor with short-term financing at below-market rates to facilitate storage, transport, and sale of fertilizer at the wholesale and retail levels in Cameroon. Although documentary requirements are different, the structure of Fiduciary Bank funding of a commercial bank loan is the same as the importation loan. Both importation and distribution loans are for 50% of the import value of the fertilizer.

2.3 How the System Functions

The cycle begins in March of the year when the government announces subsidy levels for the coming twelve months. (For a graphic display of the flow of loans, subsidies, and fertilizer among FSSRP participants, see Exhibit 1). Importers estimate their needs for the coming year, relying mainly on orders from the larger distributors -- mostly coffee cooperatives. They then apply at a commercial bank for participation in the FSSRP program for the current year, submitting a marketing plan showing prospective imports and sales, together with a request for FSSRP subsidies and importation loans for upcoming shipments. The bank examines the application, and if it finds it satisfactory and considers the importing firm to be credit-worthy, passes on to the Fiduciary Bank a request to set aside ("earmark") the amount of subsidies corresponding to the planned imports. The Fiduciary Bank records the earmarked subsidy and at the same time sets aside an importation loan equal to 50% of the delivered cost of the fertilizer. (In practice, and contrary to the original intention, the FSSRP importation loan does not enter directly into the financing of fertilizer importation under the program.)

The importer then proceeds with the normal commercial practice of placing orders for the fertilizer and arranging for Letter of Credit financing of the importation through his bank. To confirm the subsidy and importation loan earmarked for the importer at the Fiduciary Bank, the commercial bank must advise the Fiduciary Bank within 45 days of earmarking of its intention to issue a Letter of Credit to the supplier on behalf of the importer. Upon notification that the fertilizer is loaded at the port of shipment, the importer has access to the importation loan. Once the shipment reaches the port of Douala, the importer has access to the subsidy.

Distributors may apply for loans under similar procedures upon presentation to the commercial bank of an executed contract between the importer and the applying distributor. The amount of the loan is equivalent to 50% of the subsidized farmgate value of the shipment, plus the subsidy, minus the CIF import value of the shipment. Loans are granted 90 days from issuance of bill of lading or the customs clearance date, whichever is earlier, and are due 180 days from date of disbursement. An importer who also acts as distributor may apply for both types of loans at the same time, but the distribution loan is not disbursed until the import loan has been repaid.

3. The FSSRP Three Years After

3.1 Fertilizer Imports Under the Program

Performance of the FSSRP during the first three years of operation is shown in Exhibit 2. Fertilizer imports in 1988 and 1989 were approximately the same as in 1987, the last year under the old FONADER program. However, in 1990 the program felt the delayed effects of an economic crisis in Cameroon which actually began in 1986. The direct effect of the crisis on the FSSRP (more fully described in Section 4) was to reduce the purchasing power of the farmer by depriving him first of full payment for coffee already delivered to the government marketing board, and then later to reduce by half the price he received for his coffee. Another effect of the crisis was a shortage of bank credit which made it difficult for importers and distributors to finance purchase of fertilizer. As will be seen below, the FSSRP importation loan facility, which was designed to ease this credit squeeze, has had only a minor impact on this situation.

For these reasons, consumption of fertilizer declined in 1989 and importers were left with large unsold stocks. The private sector responded rationally and reduced imports in 1990 to one-third of previous levels. As a result, inventories were reduced substantially. Consumption in both 1989 and 1990 was roughly 40,000 tons, or two-thirds of previous levels. This situation is depicted graphically in Exhibit 3.

3.2 Fertilizer Subsidies

The data in Exhibit 2 illustrates the very sizeable savings in subsidy payments by the government -- one of the objectives of the program. Subsidies cost the government FCFA 2 billion in 1988, one-third the amount in the previous year under the old program.

Subsidy rates dropped from 66% of delivered cost in 1987 to 26% of delivered cost in 1990. It had been planned to reduce the subsidy rate in steps, beginning with 45% in the first year (1988), then to 30%, 15%, 10% and zero in the final year. It was later decided to accelerate the process, starting with 30% in 1988 (which turned out to be over 37% as fertilizer CIF prices and distribution costs were lower than expected). Subsequently, it became necessary to slow the rate of reduction of subsidies in order to cushion the devastating effect of the economic crisis on the farmer. This illustrates the importance of the flexibility which was built into the FSSRP.

3.3 Procurement and Distribution Costs

Probably the most remarkable effect of privatization has been on the actual delivered cost of fertilizer. While in 1987 under the government monopoly, it

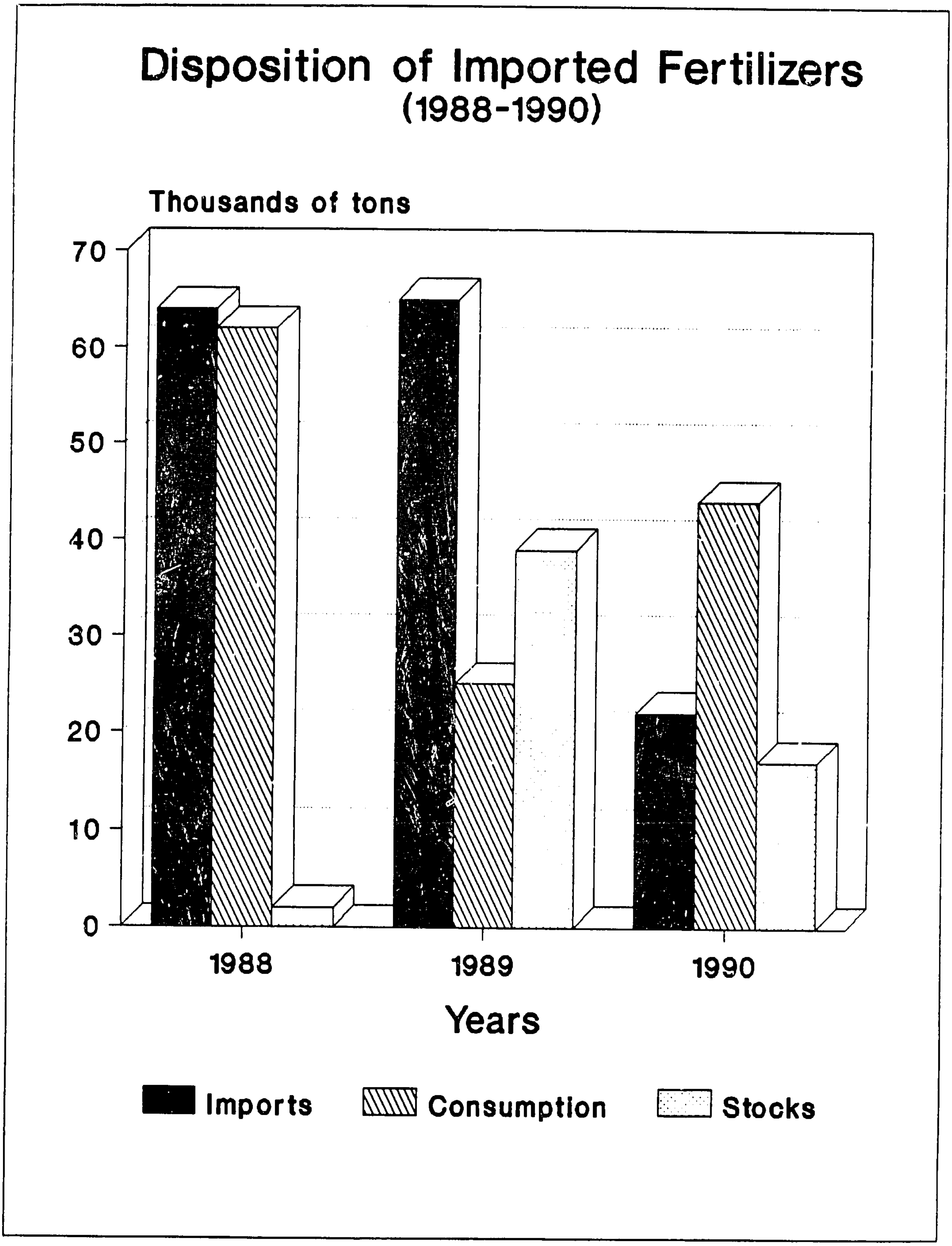
EXHIBIT 2

COMPARISON OF SUBSIDIES AND MARKETING COSTS, 1987-90

	Public Monopoly 1987	Fertilizer Sub-Sector Reform Program 1988	1989	1990	% Change 1987-1990
1. Tons Imported (000)	64	63	64	22	
2. Subsidy Disbursed (FCFA millions)	5,670	2,027	1,545	477	
3. Avg. Unit Subsidies (FCFA/ton)	88,600	32,175	24,075	21,677	-76%
4. Subsidy Rate (% of delivered cost)	66.3%	37.6%	29.7%	26.4%	-60%
5. Delivered Cost (FCFA/ton)*	133,600	85,839	81,026	81,971	-39%
of which:					
Avg. CIF Cost	97,600	56,116	56,199	57,144	-42%
Avg. Distribution Cost	36,000	29,723	24,827	24,827	-31%
6. Avg. Retail Price* (FCFA/ton)	45,000	55,435	57,776	57,776	+28%

* cooperatives only

EXHIBIT 3



Disposition of Imported Fertilizers
(1988-1990)
Thousands of tons
70
60
50
40
30
20
10
0
1988
1989
1990
Years
Imports
Consumption
Stocks

cost FCFA 133,600 to deliver fertilizer to the farmer (before subsidies), this figure was reduced to about FCFA 82,000 in 1990, a reduction of almost 39%. Most of the savings come from reduced CIF costs of fertilizer. This is not due to changing world market prices for fertilizer, as these have been quite stable in recent years. One explanation is the inefficient ordering process, which utilized brokers at several steps in the process. Another is the practice of purchasing less-than-shipload quantities. There was, undoubtedly, also some "rent seeking" involved, as the system allowed favoritism in the award of contracts to importers and allotments of product among users. Whatever the reason, these cost savings would appear in and of themselves to justify privatization of the system.

As to distribution costs, the evidence is that increased competition in transport of fertilizer from the port of Douala to users in the western provinces (the North West, West, Littoral, and South West Provinces) caused a reduction in cost from FCFA 36,000/ton in 1987 to just under FCFA 25,000 in 1990. Formerly, fertilizer was transported either at a fixed rate established by the government for transport companies, or a flat percentage allowance was granted to cooperatives which transported the fertilizer in their own trucks. Currently, cooperatives transport fertilizer from Douala at their own cost, either in cooperative-owned trucks or by transport companies which bid for these services. Per ton costs have declined steadily, due in part to increased competition but also under the effect of a general economic decline in Cameroon.

3.4 Retail Prices

Retail prices under the FONADER system were set at a uniform FCFA 45,000 per ton for all types of fertilizer at all locations. The FSSRP system initially set "target ceiling prices" which took into account differing nutrient content of the five types of fertilizer and also allowed for differing transportation costs according to the distance to users from the port of Douala. The intent was to encourage the participation of private sector operators by reflecting the true cost of delivering fertilizer to users anywhere in Cameroon. (Later these target ceiling prices proved unnecessary as competition kept actual prices well below the ceiling levels.)

As indicated in Exhibit 2, although unit subsidy rates declined 76% between 1987 and 1990, members of coffee cooperatives ended up only paying 28% more for fertilizer under the privatized system . (Data on distribution costs and retail prices in Exhibit 2 was available only for cooperatives but they account for the majority of consumption.) The decline in procurement and distribution costs, discussed above, is responsible for this encouraging development and speaks strongly in favor of the efficiencies inherent in a free market system.

3.5 Private Sector Participation

Participation in the FSSRP by private sector operators has been less than hoped for. At the commercial bank level, two banks have served as the channel for all subsidies and loans since the beginning of the program, though a third bank was involved in 1990 to the extent of receiving (and rejecting) an application from a prospective importer.

Likewise, at the importer level two firms have dominated the program, both having been incorporated in Cameroon specifically to take advantage of features of the FSSRP program. The experience of these firms is discussed in Section 6.4. Except in the first year of the program, companies which had imported fertilizer under the old program did not import subsidized fertilizer. In general, they were less aggressive in seeking sales and proved unable to compete on price with the newly established firms.

At the distribution level, on the other hand, participation has been increasing. As shown in Exhibit 4, coffee cooperatives were the only distributors in the first year, pretty much repeating the pattern under the old program. In 1989, however, importers were forced to seek other clients as the coffee sector increasingly suffered from the effects of the economic crisis (see Section 4.1). Several small farm input supply companies purchased product for resale to farmers. This trend continued in 1990, and in addition a sizeable number of small businessmen began picking up fertilizer from importers at Douala and trucking it to the interior for resale. Little information was available on these new market entrants at the time of the 1990 program year assessment. The 1991 assessment will need to take a closer look at them to see what role they can be expected to play in creating a nationwide distribution network. It will be important to find out if they are buying crops as well as selling fertilizer.

4. Problems and Prospects

4.1 The Economic Crisis

It is impossible to properly evaluate the FSSRP without taking into account the impact on Cameroon's coffee and banking sectors of the current economic crisis, and of the Structural Adjustment Program which dealt with the crisis. Falling prices for the country's major exports -- oil, coffee, cocoa, rubber, and cotton -- contributed to a 20% decline in Gross Domestic Product between 1987 and 1989. Declining revenues from oil and from other sectors controlled by parastatals caused contraction of government deposits in commercial banks. A growing public sector deficit was financed in part by delaying payments to suppliers and delayed payment of subsidies to money-losing parastatals.

4.2 The Coffee - Fertilizer Link

Coffee planters in the western highlands of Cameroon are the largest users of subsidized fertilizer, a fact which has had important consequences for the FSSRP. The failure of the National Produce Marketing Board (commonly know by its initials in French, ONCPB) to fully pay coffee farmers for deliveries of coffee from 1986 onwards deprived farmers in these areas of their main source of income. Arrears amounting to an estimated US$ 40 million had accumulated as of 1988. The coffee stabilization fund maintained by the ONCPB was depleted, in part because coffee producer price levels were set too high in relation to world market prices -- but also because the government had diverted stabilization funds to help finance its deficits. The financial status of coffee cooperative unions, through which coffee is marketed, were also hurt by delayed coffee payments, making it more difficult to finance the purchase and sale of fertilizers to their members.

EXHIBIT 4

FERTILIZER DISTRIBUTION BY TYPE OF PURCHASER
1988 - 1990
(tons)

	1988	1989	1990
Cooperatives	63,000	20,397	18,067
Parastatals	---	---	6,286
Other Distributors - Small	---	2,219	8,117
Other Distributors - Large	---	2,721	7,889
Private Banana Plantations	---	2,539	1,376
Totals	63,000	27,876	41,735

The IMF Structural Adjustment Loan calls for the reorganization of the ONCPB and termination of its coffee marketing monopoly. As part of the reorganization of the ONCPB, settlement of payment arrears has been partially completed and this will have a positive impact on the ability of farmers to pay for fertilizer. It appears likely at this juncture that the organization will continue to exist but with a much reduced scope of activities.

Unfortunately, the effect of this arrears settlement has been counterbalanced by newly reduced producer prices which took effect in 1990. Producer prices for both arabica and robusta coffee were reduced to approximately 50% of previous levels in order to bring coffee prices more in line with world market prices. While it is too early to measure the full impact of these changes on the FSSRP, it seems clear that fertilizer sales levels will be strongly influenced by the extent to which farmers have or can find more remunerative uses for fertilizer on food crops and market garden crops.

Recognizing the importance of this coffee-fertilizer link, USAID/Cameroon succeeded in getting the agreement of the GRC for a coffee liberalization program, beginning with the North West Province. Under the "PRAMS Project" (Program of Reform in Agricultural Marketing), AID will provide technical assistance to strengthen the cooperative and engage in export marketing of its product. The improvement of coffee quality, and the attainment of higher prices for coffee, is one of the main objectives. AID hopes to extend this program to robusta coffee and cocoa in the West, Littoral and South West Provinces in the future. These measures can have a positive impact on the FSSRP by giving cooperatives control over their business operations and permitting, for example, the use of coffee as collateral for bank loans to finance purchase of fertilizer and other inputs. Coffee stocks can also be used to pay directly for imports of these products.

Another effect of the reduced income from coffee is to encourage farmers to shift more to production of cash food crops for local sale. Production of maize, in particular, has greatly increased in recent years in coffee growing areas. As might be expected, coffee farmers are diverting a portion of their fertilizer purchases to these crops. In some cases, farmers have even uprooted coffee trees, in violation of cooperative rules. While it seems clear that there will be a decline in production of coffee in Cameroon as a result, this trend will help sustain farmer income -- and fertilizer consumption.

4.3 The Liquidity - Credit Squeeze

The importation and distribution of fertilizer by the private sector in the amounts foreseen for the 1989 campaign required an unhindered flow of funds among commercial banks, importers, distributors, and farmers. For reasons largely beyond the control of the FSSRP, this did not happen. The problem stems from the very poor condition of commercial banks in Cameroon.

Throughout the 1980's, poor internal credit control and political influence at banks gave rise to an enormous buildup of bad loans to both public and private sector borrowers. The World Bank in 1989 estimated defaulted debt at CFA 300 to 375 billion, about one-third of total bank credit to the Cameroonian economy and 10% of GDP. Mounting government budget deficits caused large scale withdrawal of its deposits from the banking system. Loss of confidence in the official banking sector and the value of the CFA franc promoted capital flight into the informal sector ("tontines") and overseas. With this massive contraction of deposits and unpaid principal and interest on a major portion of their loan portfolios, some banks stopped functioning for lack of liquidity.

The banking sector and the Cameroon government were finally forced to address this disastrous situation toward the end of the decade. With assistance over the last two years from foreign donors, the World Bank, and the BEAC (central bank), four banks have been liquidated and one reconstituted with new foreign capital (Credit Lyonnais/SCB). Credit limits have been imposed on all banks, pursuant to the Structural Adjustment Program. Of the three remaining major banks in the country, one has ceased functioning pending acquisition. The other two continue to function with substantial bad debt portfolios pending restructuring and recapitalization agreements between the Cameroon government and French bank owners. Some smaller and newer banks continue to conduct business, having avoided or controlled defaults on loans. Eventually, most bad debt from all these banks will be spun off to a new company, Societe de Recouvrement de Creances, for rescheduling and recovery. Like Credit Lyonnais/SCB, the remaining banks will have been recapitalized and unburdened of their bad debt and therefore capable of resuming normal banking activities, presumably in a more cautious manner.

Although the liquidity situation appears to have stabilized, credit is scarce and lending and remuneration standards are very high. When lending is accorded, maximum interest rates (21%, including 3% tax and about a 7% margin) are often charged. This would be particularly true in bank transactions with the coffee sector, which is financially weak and a higher risk than other sectors. Nevertheless, all banks interviewed insisted that adequate liquidity is available to finance well-conceived and clearly viable short-term commercial transactions.

To cover letters of credit issued to suppliers, the two fertilizer importers under the FSSRP -- both new companies with foreign ownership -- have been required to post collateral in excess of the value of the fertilizer to be imported. The banks are no longer willing to accept fertilizer as partial security and are insisting that some portion of the collateral be in the form of cash deposits. Distributors, mainly coffee cooperatives, have an even more difficult time qualifying for loans to finance fertilizer purchases. Increasingly, importers are having to choose between spot sales for cash or extending credit to distributors for as much as six months.

In summary, the effect of the commercial banks' strict collateral requirements for opening a letter of credit to import FSSRP fertilizer has been to limit access to the program to companies which are well established and have available credit or sufficient capital, liquidity, and industry connections to post the necessary collateral. Alternatively, new importers with some financial sophistication and market contacts (among foreign suppliers and Cameroonian users) have also gained access by arranging for collateral from other parties as detailed above. Among FSSRP importers, the latter type have predominated.

4.4 Limited Market Size

A large and growing market for fertilizer in Cameroon should induce increased participation in the program by importers and distributors. It had been hoped that importers would invest in fixed assets such as warehouses, bagging facilities, and up-country distribution points owned either by the importers or by independent businessmen. This has not happened (although one Cameroon businessman plans a mixing and bagging plant in Douala). While economic problems and uncertainties have played a role here, another factor is the limited size of the market for the types of fertilizer imported under the FSSRP. A market of about 60,000 tons, and a highly seasonal one at that, provides little justification for construction of warehouses and the carrying of stocks.

USAID/Cameroon has encouraged discussions with the European Community-sponsored fertilizer program in the northern provinces (the Special Program for Fertilizer Importation or PSIE) aimed at combining the two programs. Currently between 40,000 and 50,000 tons of fertilizer are imported annually for use mainly by the cotton parastatal. Funds come from a revolving fund which was generated initially by a grant of fertilizer by the EC. Unfortunately the majority of the tonnage is of types not approved for import under the FSSRP, so the immediate impact would not be great. However, over the longer term -- after the FSSRP terminates -- a market of over 100,000 tons would be much more attractive to private sector investors.

There has been pressure to increase the types of fertilizer which can be covered by the FSSRP -- and thus eligible for subsidies. The TSC and USAID have resisted these pressures as a matter of policy, in part because the program should not be in the position of subsidizing fertilizer types which were not subsidized under the old government-directed program. It is felt that this would send the wrong signal to participants, indicating that the government was increasing rather than decreasing its involvement in fertilizer importation. Aside from that, given the state of government finances, and the limited amount of funds available for subsidies, there is no desire on the part of the GRC to expand the program in any way.

Discussions with the EC program have not yet progressed very far. The sticking point appears to be the ownership and use of the PSIE revolving fund. However, the desirabiliity of melding of the two programs is obvious and is likely to occur eventually.

4.5 Limited Participation by Importers/Distributors

Two firms, CAMATREX and IBEX, dominate the import picture under the FSSRP. Both of them are controlled by U.S.-based investors of Ethiopian origin, and were established in Cameroon specifically to take advantage of the FSSRP. They rented warehouse and office space in Douala, canvassed fertilizer users for orders, and imported product from European suppliers. With minimal investment, primarily office furniture, they succeeded in capturing virtually 100% of the market. It is interesting to note that established agricultural supply firms in Cameroon, of which several made offers to coffee cooperatives, did not get any of this business as their prices were considerably higher.

These established firms, some of whom have substantial investments in warehouse facilities in Douala, and who maintain stocks of fertilizer and agricultural chemicals, are resentful of the new firms. In their view, these firms have made no long-term commitment to Cameroon and were merely set up to take advantage of the privatized -- but still subsidized -- fertilizer program. They maintain that their costs are higher because they have made this commitment -- not only of physical facilities, but also in terms of technical advice to users of these agricultural inputs. They feel that Cameroon needs their type of firm. It is worth further exploration to determine if the services and facilities these firms offer really justify their higher prices, or whether in fact they have simply benefitted from preferential business arrangements through the Cameroon government to keep them in business. Their situation could change if importation and distribution of agricultural chemicals, as well as fertilizer, is fully privatized.

At least two of the newer importers state that they have plans to engage in mixing and bagging and to set up distribution networks. However, they cite difficulties in obtaining medium or long-term loans from Cameroon banks, and also are reluctant to make such investments until the demand situation is clearer.

As mentioned elsewhere, the vast majority of fertilizer has been consumed by coffee cooperative unions. Acting as distributors, they purchase large tonnages of product and truck it directly to member cooperatives, where it is sold to farmers. The process is much the same as under the old program and nothing new has been created in the way of distribution facilities. An encouraging development has been the appearance of small businessmen with trucks who are purchasing fertilizer from importers at the port and trucking it to the interior for retail sale to growers. While the tonnage is modest (about 8000 tons), and the only investment is in trucks, these businessmen could form the nucleus of an eventual distribution network.

5. Conclusions: What Has the Program Accomplished?

5.1 Progress Toward Program Objectives

The FSSRP has three policy thrusts: subsidy elimination, liberalization of fertilizer marketing (dismantling of the government system), and privatization (replacing the old system with a new, entirely private one). The goal is "to replace the public fertilizer procurement system with a private system that is competitive, sustainable, and subsidy-free" (Truong, 1990). Progress toward these goals is discussed in the following sections.

5.1.1 Competitiveness

By saying that the system should be competitive, the program designers meant that the fertilizer should be delivered in a timely fashion and at the lowest possible cost.

As to timeliness, private sector operators have succeeded in reducing the time from placement of orders by distributors to delivery from 12 to 18 months under the old system to 3 to 6 months under the new system. (While there have been some deliveries later than planned, these were mainly due to delays in launching of the annual programs, that is, the announcement of level and availability of subsidies.) Once the program is underway each year, and assuming that the importer's financial status is acceptable to the bank through which he is financing the imports, the process of obtaining orders from distributors, placing orders with foreign fertilizer suppliers, arranging for letter of credit payment through local banks, and receiving and delivering the fertilizer normally occupies about three months, but it can take even less time. Participants and observers of the program generally agree that this constitutes timely delivery, given the relatively rapid response of importers to the needs of users.

The effect of the program on distribution costs and retail prices has been discussed in Sections 3.3 and 3.4. It has been amply demonstrated that costs have been reduced sharply under the privatized system, and that the farmer has benefitted in that the FSSRP has protected him from a much larger increase as subsidies were removed than would otherwise be the case.

5.1.2 Sustainability

"Sustainability" is interpreted here to mean that a system (or the institutions which make up a system) once created is able to continue functioning, and to do so without outside support. It goes without saying that external factors -- those linked to the economic crisis in Cameroon -- will continue to impact the program and its sustainability. These factors, discussed in Section 3, are limiting demand for fertilizer at the user level, and restricting access to import financing by importers.

A recent AID evaluation of the FSSRP stated that a true private market for fertilizer had not yet been created, referring to it as an "administered, quasi-market system". The evaluators, while generally optimistic about the future of the program, found that the government's role in managing the subsidy fund, the existence of a loan program at below-market rates, and AID's intensive involvement in managing the program, made it difficult to evaluate the long-term sustainability of the program.

The Mission took exception to this finding, pointing out first of all that the TSC is not involved in managing either the subsidy fund or the loan fund. These functions were turned over to the Fiduciary Bank, and once that bank was selected by the TSC and loan and subsidy procedures worked out, TSC involvement has been limited chiefly to the annual review meeting and some procedural changes resulting from this review. It is not involved in any way in operations of private firms engaged in the import, finance, and distribution of fertilizer.

As to the Mission's involvement in managing the program, the responsible unit in the Mission has basically served as an information source for participants in the program through its annual assessments (by the AMIS Project), the regular collection of data on marketing of fertilizer, and the counseling of prospective new entrants in fertilizer importing and distribution. This is seen as "reducing transaction costs" (by lowering information-gathering and analysis cost) for new entrants into fertilizer marketing and a justifiable element in the creation of a new marketing system. It had been hoped to transfer these functions to a planned unit within the TSC, but it has proved very difficult to reach an understanding on the funding and organization of this unit. The Mission has mixed feelings on this subject; on the one hand it feels that the GRC rather than AID should perform such monitoring and information functions (and transfer them to the Ministry of Agriculture at the termination of the program), and on the other hand it is reluctant to foster creation of anything resembling a new bureaucratic function in a government already heavily involved in the economy.

It is certainly true that the Mission has become directly involved in management of the program. For example, it has helped on several occasions to solve contractual disputes between private sector participants. Annual assessments contracted by the Mission have recommended procedural changes which have been subsequently carried out. The Mission regards these efforts as "episodic and not systemic" and therefore not constituting micro-management of the system. Their position is that removal of temporary "blockages" is essential to the long-term sustainability of the system, particularly in view of the very difficult economic environment prevailing in Cameroon at present. Our view is that in view of the hands-off stance of the TSC, when it comes to such problem solving (which is probably desirable), the Mission had little choice but to get involved in order to assure the smooth functioning of the program. The real question is how disputes will be resolved once the FSSRP terminates and AID is no longer involved. Unfortunately, the Cameroon judicial system has not proven to be a satisfactory mechanism in this regard. Yet private business is being conducted in Cameroon and one can assume that ways will be found to overcome problems in fertilizer marketing as elsewhere.

A good case can be made that the Mission has taken actions to assure sustainability of the system. It has instituted a program of liberalization of coffee marketing (the PRAMS Project) which will financially strengthen coffee cooperatives and facilitate their purchase of fertilizer. It has encouraged the loosening of FSSRP rules by removing "target ceiling prices" and relaxed eligibility rules for participants. Discussions with the EC fertilizer program in the northern provinces have been fostered by the Mission, with the objective of creating a larger fertilizer market and thereby lowering costs through larger volume transactions. Finally, by serving as advocate for liberalization in agricultural marketing generally, it has helped to overcome resistance to such programs among influential government officials.

5.2 Impact of the Program

The impact of the FSSRP may be evaluated in terms of its impact on the various private sector participants in the program -- the commercial banks, importers, distributors, and farmers -- as well as on the Cameroon government itself.

Commercial Banks: The program has induced commercial banks to participate in the import and distribution of subsidized fertilizer, which was not the case before. While the inducement had much to do with the additional liquidity provided by FSSRP loans and subsidies, the result has been that banking relationships with importing firms have been established where none existed before. Also, banks have begun to learn about the fertilizer business, if only enough for them to realize that they need help to better understand the internal market and what influences demand for the various types. (The FSSRP plans a seminar for banks on this subject.)

Importers: The existence of the FSSRP caused the creation of two new firms dedicated to the import of fertilizer. These firms proved much more aggressive in seeking orders than existing Cameroon and foreign-owned agricultural supply firms. They succeeded in negotiating contracts with suppliers at much lower costs than under the previous government scheme. Competition between the two firms -- and between them both and established firms -- kept fertilizer prices lower than they would otherwise have been. However, due mainly to poor economic conditions in Cameroon, these firms have not yet made any substantial investments in fertilizer storage, mixing and bagging, or distribution facilities. Nor have distribution networks involving local businesses in the major consuming areas been established. It remains to be seen whether either of these firms are prepared to make this kind of commitment which will extend beyond the date when subsidies are completely eliminated. The level of demand for fertilizer by users in the coffee growing areas will be the major determinant in this respect.

Distributors: Coffee cooperatives, the principal distributors of subsidized fertilizer, have benefitted in several important ways from the FSSRP. Previously they had to estimate needs a year or more in advance of sales, and could not know in advance how much they would actually receive through the government scheme. Now they deal directly with an importer, can negotiate with flexibility as to tonnages, types and delivery dates depending on their actual situation, and can expect to receive the amount ordered in as little as three months. As retail prices are no longer fixed for all types of fertilizer, cooperatives are able to differentiate according to nutrient content. For example, it is the current policy of most cooperatives to discourage the use of ammonium sulfate with its low nitrogen content and soil-acidifying characteristics. Likewise, they have more freedom to negotiate transport costs to move fertilizer from the port to their warehouses and these costs have come down. Naturally this free-market situation has its down side too. Smaller cooperatives purchasing smaller tonnages of fertilizer are not in as strong a negotiating position as larger ones and may find it difficult to compete with nearby large cooperatives. And, of course, as subsidies are reduced they must sell fertilizer at higher prices to their members. The free market in fertilizer has also resulted in the appearance of medium and small businesses marketing fertilizer directly to users, and frequently competing efficiently with cooperatives. While at present these operators are selling directly from their trucks and most do not stock any appreciable amounts of fertilizer for spot sales, the trend is an encouraging one.

Farmers: Fertilizer users have felt the effect of increased fertilizer prices as subsidies are progressively reduced. As discussed above, the demand for fertilizer from coffee planters in the face of greatly reduced coffee prices continues to be a determining factor in the success of the FSSRP. The intention of reducing subsidies gradually, rather than all at once, was to cushion farmers from the full effect of privatization, and in fact the rate of reduction has had to be slowed beyond the planned schedule in order to further cushion farmers from the effect of the generally poor economic climate. On the other hand, farmers place great importance on the availability of fertilizer when needed and the FSSRP has improved this situation.

Government: A policy dialogue with the USAID Mission over a period of several years -- and deteriorating economic conditions -- resulted in the government accepting the fertilizer privatization scheme put forward by AID in 1986. The cumulative effect of this dialogue, and the relative success of the FSSRP during its first three years of operation, has contributed to a more favorable attitude on the part of the government toward liberalization and privatization in general. The acceptance of the PRAMS project, involving liberalization of arabica coffee marketing, is a case in point.

6. Lessons Learned

6.1 Privatizing Inputs Without Privatizing Outputs

Experience with the FSSRP Program has demonstrated the dangers of privatizing an input marketing system when the output side of the equation -- in this case, coffee -- remains under government control.

The program got off to a good start in 1988. Fertilizer consumption was about the same as in 1987 under the old government-controlled scheme. At the high 1988 producer prices established by the National Produce Marketing Board for coffee, which required large subsidies by the government to bring FOB prices down to world market prices, the use of fertilizer on coffee trees was still profitable, though only marginally so. When in 1989 prices were cut by half, fertilizer consumption in that year and the following year averaged about 2/3 of 1988 levels. While delayed payments by the ONCPB for coffee delivered in past years was undoubtedly a factor in limiting the farmer's purchasing power, it is the opinion of most observers that the marginal farmer at least perceived that it was no longer a paying proposition to apply fertilizer to coffee trees.

It is also true, however, that in the case of Cameroon there were really no other viable options. The government could no longer afford to pay subsidies at former levels. In any case, the old system was inefficient and corrupt. The FSSRP introduced a system which phased out subsidies gradually, cushioning the shock on the rural sector, encouraged fertilizer importers to go into business by offering them subsidies and loans, and inducing commercial banks to participate by channeling loans through them to importers (and increased their liquidity in the process).

6.2 Inherent Strength of the Private Sector

Actions of participants in the FSSRP have demonstrated the inherent strength of private enterprise. In a very difficult economic environment, importers, commercial banks, and distributors generally used good business sense to survive and make a profit. This helped assure the survival of the fertilizer privatization program.

When locally established importing firms were initially reluctant to enter the field, foreign-owned firms stepped in. Vigorous fertilizer sales efforts resulted in domination by these two firms of FSSRP imports. In the case of one of the two firms, some rash actions resulted in financial problems and at least temporary withdrawal of the firm from fertilizer importing. In the other case, wise and resourceful actions helped the firm to overcome a problem of excessive inventory by increasing sales to new customers. In short, good business practices led to survival.

Commercial banks, stung by past experience with uncollectable loans to government agencies and influential individuals, plus the withdrawal of large government deposits, were forced to ration credit or to impose very stringent collateral requirements. While this has restricted entry to the program, it has had the effect of limiting participation to the most reputable firms. In one case, it kept out an importer group with questionable prospects.

In the case of distribution, privatization has revealed weaknesses which had not been evident before. Some coffee cooperatives, formerly protected in a paternalistic fashion by the government procurement system for fertilizer, have now been shown to be incapable of properly managing their affairs. In at least one case, this has led to an AID-supported effort to strengthen the management of the cooperative.

Assuming a reasonably favorable business climate, and some degree of entrepreneurial spirit, it could be concluded that countries contemplating fertilizer privatization can count on private initiative to make the system work effectively for the good of the users.

6.3 Importance of Market Size

There is reason to believe that the relatively small size of the subsidized fertilizer market in Cameroon, and restrictions on the types of fertilizer to be imported, were two reasons for the limited participation by importers and distributors. Fertilizer volumes were not large enough to justify investments in receiving and distribution facilities. While the program as conceived was the best that could be done under the circumstances, ideally the entire country should have been included from the outset. Other countries contemplating such programs should temper expectations of private investment by bearing in mind the minimum economic size of distribution facilities, such as mixing and bagging plants. (Minimum size for such plants is on the order of 50,000 tons, implying that the current market would support only one such installation and discourage competition.)

6.4 Information Needs

The rather complex provisions of the FSSRP were not understood by many participants. Indications are that a more intensive effort should have been undertaken to educate banks, importers and distributors. This was particularly important in the case of smaller firms desiring to go into import and distribution but having limited experience with banking and commercial practices. One example of this problem was the failure of several otherwise qualified firms to undertake anything resembling a market study. It should be noted, however, that in the case of Cameroon, personal contacts and rewards for favors still play an important role in business relations.

6.5 Importance of Monitoring and Joint Review

One of the main reasons for the achievements registered by the FSSRP, and the flexibility to make necessary changes as the program proceeded, was the holding of annual workshops. In an atmosphere of frankness and openness, private sector participants (banks, importers, and distributors) and representatives of concerned government agencies review the program and discuss needed changes to make it more effective. Annual assessments of the program prepared by the AMIS Project are one tool used in this review. While the meetings are chaired by the Technical Supervisory Committee (a government interministerial committee charged with oversight of the FSSRP), businessmen have felt free to speak out and their suggestions have been acted upon. This atmosphere of mutual trust is essential to the success of any such program.

6.6 All-at-once vs. Phased Approach

Some observers have suggested that an all-at-once privatization of the system would have been better than stretching it out over five years. This way, the thinking goes, it would have been clear to everybody that the government had no further involvement in fertilizer marketing and hard business decisions would have had to be made sooner rather than later. Had subsidies been removed all at once so that fertilizer sold at world market prices -- and if coffee prices had also been adjusted to world price levels at the same time -- a more realistic assessment of market demand for fertilizer would have been possible. Overordering and excess inventories might have been avoided and --along with it -- the problems being experienced by one of the two importers.

It is true that government involvement through the TSC, as for example in setting of subsidy rates, its appointment of the fiduciary bank, and the setting of "target ceiling prices" for fertilizer (now rescinded), caused many participants to see the government's involvement as more direct than it really was. For example, one small cooperative appealed (informally) for help when it mishandled its banking relationships and got into financial difficulty. This same cooperative was also dismayed to find that its fertilizer sales were hurt by sales at much lower prices by a large nearby cooperative and felt that the program should have protected them. The importer who ran into trouble with his bank appealed repeatedly to USAID and the TSC for help and it proved very difficult to convince him that this was not a problem to be resolved by the FSSRP. (In fact, USAID did intervene to a limited extent by bringing the parties together for discussion of the problem.)

While a case can be made for the all-at-once approach, it is also true that the economic crisis through which Cameroon is passing greatly complicated the transition from a public to a private system. The phased approach to subsidy reduction, and the flexibility as to timing of reductions which the program instituted, cushioned coffee farmers from the effects of delayed payments for coffee and the subsequent drastic reduction in producer prices for coffee. One can only guess at what might have happened, but it seems safe to say that reductions in farm income over and above what actually occurred -- along with further decreases in coffee production -- would have had unfortunate political and economic consequences for Cameroon.

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