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FINAL REPORT
CAMEROON
PRIVATE SECTOR STRATEGY SURVEY

Prepared for

Agency for International Development
Bureau for Africa
USAID/Cameroon

(Contract No. AFR-0438-C-00-5037)

Prepared by

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March 1988

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TABLE OF CONTENTS

	PAGE
INTRODUCTION AND SUMMARY	ii
CHAPTER 1 – THE BUSINESS CLIMATE	1
A. THE CURRENT ECONOMIC CRISIS -- A BRIEF OVERVIEW	1
B. RECENT ECONOMIC PERFORMANCE	2
C. THE CURRENT INVESTMENT CLIMATE	5
1. Government Policies and Regulations	5
2. Economic and Business Factors	10
3. Prospective Reforms	20
4. USAID's Role	21
CHAPTER 2 – AGRICULTURE AND AGRIBUSINESS	23
A. OVERVIEW OF THE SECTOR AT PRESENT	23
B. OBSTACLES, PROBLEMS AND NEEDS	29
C. FUTURE PROSPECTS	29
D. THE USAID ROLE	30
CHAPTER 3 – USAID	32
A. AMERICAN PRIVATE INVESTMENT	32
B. THE FERTILIZER SUB-SECTOR REFORM PROGRAM	33
C. INDUSTRIAL FREE ZONES	34
D. A PRIVATE SECTOR OFFICE IN YAOUNDE	36

INTRODUCTION AND SUMMARY

In late October and November of 1987, a three-man mission was dispatched to Cameroon to carry out a Private Sector Strategy Review. Similar, although less comprehensive reviews, were conducted in 1983 and 1985. This report emphasizes a strategy for USAID Yaounde.

The timing of the present mission was most propitious. Following a long period of sustained economic growth, Cameroon is suddenly in a serious recession. Continuing low prices for the country's basic exports -- oil, cocoa, and coffee -- combined with the effects of major, government spending in the early and mid 1980s, has produced a liquidity crisis that is affecting all sectors of the economy. Bank credit is virtually unobtainable, capital flight is occurring and business activity in most sectors is seriously reduced.

Furthermore, the situation does not lend itself to short-term solutions. Oil and crop prices are not expected to improve, and oil reserves will be exhausted in six years at the present production rate. Worse, the offshore oil revenue account which was established to cushion economic downturns, now seems to be virtually exhausted.

All of this has led the Cameroonian government to take a number of drastic measures. The national budget has been radically reduced, the burden of the bureaucracy is being lessened, and the whole parastatal sector is being seriously reconsidered. The Government is negotiating a structural adjustment loan with the World Bank, and eventual IMF intervention is probable, as major donor nations (France, Germany) have made it a condition to any substantial new commitments.

Under these circumstances private investment is now vital not only to sustain the economy, but to keep its growth ahead of a huge population increase.

More than ever before, the timing is right for the U.S., through USAID Yaounde, to play a significant role in the development of the private sector. A.I.D. has already embarked upon an important program that is based on policy reform; the Fertilizer Subsection Program. This project, while relatively modest in terms of dollar costs to A.I.D., now takes on new and greater significance. We have studied it carefully since its success can be a demonstration of economic revitalization in a key sector -- agriculture -- through market-driven forces. Indeed, we feel that certain steps should be taken now to reduce the risks inherent in the project's operation, and these steps are outlined in our report. Success will engender many similar projects, while failure (or perceived failure) could jeopardize local attitudes towards private sector actions by both Cameroonians and outsiders.

With this and many other similar projects in mind, and given the favorable attitudes toward private enterprise in Cameroon, one of our recommendations is the establishment of a Private Sector Office attached to USAID in Cameroon. An amplification of this suggestion is found in Chapter 3, Sections D and E.

A meaningful private sector dialogue between the two governments has long been called for. Never will there be a better time to start it.

We believe that the number one priority for the nation is adding value to its agricultural production. Cameroon's greatest resource remains, and will remain, (barring new discoveries of minerals or hydrocarbons), its cash crops. As the former President of Cameroon has said: "Before oil there was agriculture, and after oil there will still be agriculture."

However, most of the country's cash crops are produced in a traditional fashion (on farms averaging 1.7 hectares), collected and processed inefficiently, and exported unprocessed. In addition, Government control of key stages of the food chain has been regressive. Industrialization of agriculture for local consumption is primitive, and very few attempts have been made to process crops for export to the EEC as finished products.

Obviously, much needs to be accomplished to increase productivity so that basic export crops become more competitive. However, lowered unit costs are also vital for an efficient agribusiness.

Changes are in the air. It is significant that the Government's own Marketing Board is conducting studies of privately-based agribusinesses that would add value to the country's main export crops. It is also significant that the Government has broken its own banana monopoly under the impact of an attractive investment opportunity by a foreign multi-national (Del Monte). It is significant, once again, that the supply of fertilizer will be liberalized.

Our recommendations for projects to be undertaken, or associated with, by USAID are briefly summarized below.

In Agriculture and Agribusiness:

- o Complement current and future curricula especially at the University of Dschang (Florida State program), with courses in business.
- o Develop models of added value crop processing industries, working with the Government Marketing Board (which is conducting studies of such industries). These models should be widely distributed to private investors, both domestic and foreign.
- o Provide technical assistance to both producers and users of by-products from the brewing and sugar industries.
- o Establish programs designed to provide technical assistance in the logistics of marketing of local products, e.g. collection systems, grading and handling techniques, distribution systems, and road maintenance.
- o Promote, following the Del Monte example, the use of Cameroon as a base for access to the European Common Market by U.S. agricultural interests.

In industry:

- o Investigate the feasibility of setting up industrial free zones, especially for agricultural value-added processing.
- o Promote the transfer of U.S. expertise and technology through licensing, management contracts, and franchising.
- o Initiate a dialogue with the local French authorities with a view towards developing valid joint ventures between U.S. and French companies.

In the financial field:

- o Continue and rapidly expand the successful rural Credit Union program.
- o Offer, and eventually provide, technical assistance to the government's program of reforming the nation's banking system.

In general:

- o Urgently, open up a dialogue with the Government Privatization Commission, with a view towards providing technical assistance in the privatization of the parastatal sector.
- o Establish a strong line of communications with those in the Cameroonian government who are concerned with policy reform, and provide them with technical assistance. (Probably the most useful type of help will be case studies of successful policy and structural reforms in other Third World countries.)

USAID should carefully assess its capabilities, present and future, to take on these important and timely tasks. It must make this assessment within the dual perspective of:

- o realizable, short range projects such as a business curriculum for agricultural students, assistance in food collection etc.
- o long range projects that are less manageable (sometimes), less tangible, and more demanding, such as technical assistance to the Cameroonian government for policy reform.

Policy reform, or rather moving on policy reform, should be the main underlying thrust of USAID efforts in Cameroon. But reform is best implemented as a result of specific actions viz the abolition of the Banana Marketing Board caused by the Del Monte investment. Therefore, USAID should concentrated on, and associate itself with, as many "real" projects as possible.

Cameroon is facing a new period of lowered standards of living, spread among a rapidly-expanding population (2.5 percent per year). Its political stability may be undermined as economic difficulties increase, especially since the country's great diversity already makes for a delicate balance. Capital will be hard to find.

Nevertheless, the country's potential, in human and natural resources, is enormous. Compared to its neighbors, Nigeria and Gabon (not to mention Equatorial Guinea), Cameroon's economy is reasonably well-managed. Furthermore, the country is practically self-sufficient in food, a comparatively rare situation in Africa today. Cameroon remains one of Africa's best long-term bets, but winning this bet will take time, patience and application. The present leadership seems to be on the right track. Private initiative must not be found lacking, as it is the only viable alternative in Cameroon today.

CHAPTER 1

THE BUSINESS CLIMATE

A. THE CURRENT ECONOMIC CRISIS -- A BRIEF OVERVIEW

Cameroon, only very recently considered a model of development among Third World countries, is currently in the throes of a serious economic recession. The most visible symptom of this crisis is an overall lack of liquidity. Banks have little or no funds for lending, even for credit-worthy projects; the country's largest credit user, the Government, is seriously behind in its domestic payments; the parastatal sector is drawing on the financial institutions to cover major losses; companies are cutting back, and, in some instances, folding.

This extreme lack of liquidity has created a crisis psychology that is both demotivating and demoralizing. New investment projects, financed either from domestic or foreign sources, are very few in number and size, and at least one long-standing multinational resident, UNILEVER, is leaving. Others are doing -- or threatening to do -- the same. The situation is worsening daily; in fact, it is accelerating much faster than is generally realized. Business turnover is down between ten percent and twenty percent over the past year, and in some sectors, it is off up to 50 percent. During a ten-day period in early November, only two ships arrived in Douala port.

Business confidence is ebbing fast. Substantial capital is being transferred abroad. Even small savers had been sending funds to France, until postal money transfers ceased in early November 1987. Unemployment is growing, especially in the cities, where the prosperous years of the oil boom had accelerated a rural exodus.

Recently, some very rude shocks occurred in the economic life of Cameroon.

PAMOL, the giant Unilever palm oil company, went into liquidation October 13, 1987. It has been estimated that this closure affects directly and indirectly some 20,000-30,000 people. Many of the problems that led Unilever to liquidate are typical of the difficulties of operating a business in Cameroon, that we will describe in this report. Unilever has left behind some 1.6 billion CFA in unguaranteed bank debt. The fact that a huge veteran of West Africa (86 years in Cameroon alone), has abruptly closed its doors should be a serious omen to the government.

We have heard of other prospective closings as well. The largest supplier of electrical equipment, Entrelec, is planning liquidation.

Socopao, the large French freight-forwarder, has laid off 350 personnel, and is selling out, possibly through a merger.

Most international companies are, however, trying to stay on, with minimal staffs, in the hope that they can ride out the present crisis. General sentiment nevertheless has it that there will be more Unilevers as the crisis deepens.

The causes of the present crisis are well-known -- depressed oil prices in a devalued currency (the U.S. dollar), continuing low world prices for the main export crops, exorbitant government subsidies for poorly planned and managed state enterprises*, and a costly, inefficient bureaucracy. However, it is not within the scope of this mission to review the past, but rather to assess the present situation in

* See Appendix 1

a realistic and constructive manner. This assessment, which is set out in the following pages, has enabled the members of the mission to point to ways in which USAID can contribute to the growth and well-being of the private sector. We are convinced that the key role in Cameroon's future must be played by private enterprise, if economic growth is to be rekindled, and then maintained.

B. RECENT ECONOMIC PERFORMANCE

There are indications that the "petroboom" of the early 1980s began to tail off around the year 1985 and has slowed to a virtual halt at the present time.

This is not necessarily reflected in the official statistics published by the Cameroon government, which minimize the full impact of the oil sector. The Government's policy of obscurity regarding oil sector operations was undertaken initially to avoid creating undue expectations and pressures for increased government expenditures; but since 1985 it has probably had the opposite effect of preserving an inflated degree of optimism on the part of Cameroonians and foreigners alike which is no longer justified by the facts. USAID should join with the international agencies in urging the Cameroon government to adopt a more open approach to information about the oil sector.

Fortunately for present purposes, some reasonably reliable and comprehensive estimates of the overall economic accounts, including the oil sector, have recently become available in official circles from the World Bank and the IMF. The published World Bank estimates¹ run for the most part through mid-1985. These were updated through June 1986 with some estimates for the following year in the most recent IMF consultations paper.² These estimates are summarized in Table 1 below.

In summary, these estimates show that the growth of GDP in nominal terms dropped from an average of over twenty percent per year during the period 1982-85 to five percent in FY 1986 and an estimated two percent in FY 1987 (see Table 1). In real terms, the drop is less pronounced but the pattern is the same. Almost all the slowdown is accounted for by the oil sector. The average export price of Cameroonian crude, which before mid-1985 had exceeded \$30 per barrel, fell abruptly about May 1986 to \$10 per barrel, before stabilizing at about \$14 per barrel by December of that year. The depreciation of the dollar vis-a-vis the CFA franc in the recent period has accentuated the impact of the decline in oil export earnings on government revenues. A downturn in world market prices has also affected Cameroon's major agricultural exports since 1985, and agricultural production has generally stagnated. The non-oil sector as a whole has continued to grow -- but at a reduced rate -- with the government and construction sectors providing most of the impetus.

This slowdown in overall growth since 1985 has brought a host of incipient financial problems to the fore, with a highly negative effect upon the private sector's operations and expectations. The government's budget has come under increasing pressure, and large public expenditures hitherto financed outside the budget from oil accounts abroad have had to be curtailed. Many of the parastatals whose operating deficits were covered by subsidies financed from oil revenues began to experience acute financial difficulties, and their payments to the private sector for goods and services fell heavily into

¹ World Bank Report No. 6395-CM Cameroon: Country Economic Memorandum, February 19, 1987.

² IMF: SM/86/283 Cameroon: Staff Report on the 1986 Article IV Consultation, November 24, 1986; and SM/86/288 Cameroon: Recent Economic Developments, December 3, 1986.

arrears. The government's withdrawal of balances deposited with local banks from 1985 onwards has caused an acute liquidity crisis in the banking sector and a virtual cessation of new bank lending to the private sector. Indeed, the banks are at present so illiquid that private enterprises are often unable to use their sight deposits without extended negotiations and long delays. (This contrasts with the situation in 1985, as reported in the previous Investment Climate Assessment, when banks had surplus liquidity.) The "crisis", as it is called, has also meant that companies which are owed money by the government have been unwilling or unable to make their tax payments on time. In several respects, the crisis has self-reinforcing characteristics. It could thus be said that a vicious downwards spiral is currently underway in the financial side of the economy.

One may ask why business confidence and investor interest, which remained strong throughout the first half of 1980, crashed so suddenly around the end of 1986. It must be acknowledged with hindsight that the Cameroonian "success story" had for some time been oversold: e.g. as recently as early 1987 an official U.S. publication still presented the country as "an almost ideal climate for doing business in Africa".³ Warning signals had however been evident for several years. The precarious financial position of the principal parastatals and the banks was well known. In official circles, the international agencies had for some time been warning of troubles to come (*vide* IMF Consultations Reports for 1983 and 1984). It appears as if Cameroonians and foreigners alike wished to believe the Government's statements about its prudent management of the resources obtained from oil, and thus chose to ignore the unsound underpinnings of the ongoing boom.

It was until recently widely believed that the government still held very substantial oil balances abroad which would be used to cushion any downswing in oil revenues. The worst shock in the final months of 1986 was the news, which, according to one banker "spread like wildfire" in business circles, that the World Bank's forthcoming report would show nearly all of the secret overseas balances to have been used up. The report, issued in February 1987, does indicate that some 86 percent of cumulative oil revenues since 1978 (the year in which oil production began) has been reinjected into the economy, and that public sector expenditures have already fully adjusted to the high level of oil receipts that pertained before 1986, thus making any subsequent adjustment to lower receipts "much more difficult than commonly supposed". Furthermore, the report also revealed that oil production has already peaked and, in the absence of substantial new investment in exploration and development (which is not presently in sight), will start tapering off after 1987 and come to an end some five or six years later.

The recent decline in the value of the dollar has had two other effects which should be noted. First, it has devalued Cameroon's remaining balances abroad, which are believed to be held mainly in New York. Cameroon has been unwilling or unable to repatriate such funds to reconstitute its balances with the Comptes d'Operations in the French Treasury, as it did regularly in the past, and therefore it has been in deficit under the monetary arrangements with France since the end of 1986. Second, the declining dollar has in effect devalued the remaining reserves of oil still in the ground. This, together with the continuing glut in the international oil market, makes it less probable that oil companies operating in Cameroon will be prepared to invest in new exploration and production facilities in the near future. Even if new exploration were to be started now, it would be somewhere between five and ten years before this could result in substantial new production. Thus a steady decline in oil output stretching well into the 1990s is already certain.

³ The quotation is from a U.S. Department of Commerce publication, "Foreign Trends and their implications and the United States-Cameroon" (March 1987), prepared in the American Embassy, Yaounde.

TABLE 1
SELECTED ECONOMIC INDICATORS
(FOR YEARS ENDING JUNE 30)

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
<u>National Accounts</u>						
GDP at current prs. (CFAF bil.)	2,173	2,618	3,195	3,739	3,926	4,044
percent Increase:						
Current GDP	21	20	22	17	5	2
Real GDP	7	3	7	9	7	4
Oil Sector	38	22	22	20	5	0
Non-oil Sector	4	2	6	8	7	5
<u>Production</u>						
Oil (million tons)	4.7	5.8	7.0	8.4	8.9	8.9
Cocoa (thousand tons)	123	106	109	121	123	---
Coffee (thousand tons)	108	128	64	66	102	---
<u>Export Unit Prices</u>						
Oil (\$/ton)	279	254	226	211	156	---
Cocoa (CFAF/kg.)	533	506	833	965	912	---
Coffee (robusta) (CFAF/kg.)	340	486	625	1,124	917	---
<u>Government Budget</u>						
Budget Revenues (CFAF bil.)	389	48	95	649	761	799 (actual)
Budget Expenditures (CFAF bil.)	328	378	516	604	706	762 (actual)
Extra-budget Expenses (CFAF bil.)	190	218	209	259	239	---
<u>Exchange Rate</u>						
CFAF (per dollar, at June 30)	336	417	480	378	323	305

Sources: World Bank and IMF reports, op. cit.

C. THE CURRENT INVESTMENT CLIMATE

1. Government Policies and Regulations

a. Impediments to Investment

Obviously, the current crisis carries its own discouragement to investment, both domestic and foreign. During the period July-October 1988, only eight projects were approved by authorities under the Investment Code, and two of them were extensions of existing projects. In the past, for the same three month period, at least thirty projects would normally be approved.

Let us, however, consider some of the endemic problems for business investment and subsequent operations.

- o Administrative Delays. This is a recurring theme in every Western report on Cameroon; but local Cameroonian businessmen are just as vociferous on the subject, if not more so.

Government approvals are required for any change, and months can pass as files move from ministry to ministry, on even very small matters. This situation requires constant visits and reminders. To start a new small business (PME) under the present Investment Code requires between 40 to 60 applications and numerous signatures.

- o Price Controls. Prices are controlled on all products and some, but not all, services. They are vigorously enforced by government inspectors. All requests for price increases must go to the Office of the Presidency, after prior approval of the Ministry concerned. The process is slow, sometimes taking up to a year. It is costly, as well, since justification for price increases must be made in great detail, involving hundreds of man-hours.

- o A Heavy and Arbitrary Taxation. Taxation in Cameroon takes many, complicated forms. It includes (but is not limited to):

- **Corporate income tax** -- This tax amounts to 38.5 percent (35 percent National, plus 3.5 percent for local councils), of net income. Normal business expenses, including depreciation (ranging from five percent on buildings to 50 percent for certain disposable items), are deductible. Taxes on oil companies income is 57.5 percent.

- **Taxes on payments abroad** -- fifteen percent is the rate on payments for foreign know-how, patents, license fees, royalties etc.

- **Tax on industrial and commercial profits** -- This tax of 22 percent of profits is often added to the corporate income tax.

- **Tax on agricultural profits** -- fifteen percent plus 10 percent local council taxes.

- **Tax on real estate revenues** -- This is a twenty percent tax on rental income.

- **Personal income taxes** -- A progressive and heavy tax, with the top marginal bracket of 60 percent reached at 7,500,000 CFA (\$25,000) annual income (for a single taxpayer). In addition, there is a special tax on income from wages and salaries of three percent.
- **Sales tax** -- This is a national tax of nine percent on most sales.
- **Import and export taxes** -- Imports are taxed at a standard rate of ten percent. Exports are taxed according to schedules that vary from 2 to 42 percent.

There are additional taxes on businesses such as the "patente" (business fee tax), special production taxes etc.

In all, the number of officially listed taxes in Cameroon amount to 34.

A new tax on corporations was enacted in 1985. Companies with annual sales of 200 million CFA or more were required to revalue all their assets before 1987, no matter how old any such assets were, to pay a 2.5 percent one-time tax on the revaluation surplus in the 1987/88 fiscal year, and to reinvest 150 percent of the surplus in new assets. If the reinvestment is not carried out, very severe penalties will be imposed.

The stated goal of this tax goal is to encourage capital investment, and for companies who happen to be expanding, the tax incidence is small. However, in view of the current economic crisis, most firms have neither the funds, nor the inclination, to add new capital assets. In these cases, taxation penalties may be confiscatory. Furthermore, the interpretation of the rules under this scheme is unclear, and many businessmen are genuinely uncertain how to apply them to their own situations.

Obviously, this tax law hurts older, established companies more than newer ones. However, it is greatly feared that the government may repeat this exercise over and over again, collecting taxes repeatedly on the same assets. To that extent, it is actually a disincentive to capital formation.

The executives of the larger companies that we have interviewed have already revalued, and have paid the 2.5 percent tax. Many, however, are delaying new investments because of the current recession. Many experts believe that collections under this particular tax will drag on for years, and it will eventually have to be modified, or curtailed.

Taxation in Cameroon is carried out along traditional French lines, with a distinct separation between the imposition (perceveur) and collection (receveur). Tax collectors are, in fact, tax farmers (fermiers-generaux) and are required by the government to remit a certain quota of revenue, over and above which they can, and do, keep.

- o Controls on Margins. Gross margins in manufacturing are theoretically limited to twelve percent, but in fact the margin calculation is a function of price control, and good managers have learned how to circumvent its literal application. More serious are tightly-controlled marketing margins. The distribution margin is generally limited to 30 percent, often not enough to allow for transportation, sales coverage, and advertising.

- o A Restrictive Labor Code. Once again modeled on the French standard, the Cameroon Labor code is very rigid, and involves fixed pay scales according to:
 - geographical location
 - type of business
 - size of the employee's family

The procedures for terminating employment are lengthy and costly, with heavy severance payments.

While the labor code has been widely enforced in the past, it appears that enforcement is less today due to the current recession. The mission's conclusion is that business is not adversely affected at this time.

Moreover, it must be pointed out that there has not been a general wage increase since mid-1985. Furthermore, strikes are very rare.

- o Unfair Price Competition from Imports. It has become a very common practice for the authorities to grant import licenses to individuals who are politically powerful, despite the existence of local production. Since productivity is not high in Cameroon, and since units of production -- either in agriculture or industry -- are small, the imported product is generally cheaper and better. Although this very arbitrary way of controlling importations often has the result of keeping consumer prices down, it damages local industry, much of which was set up under protective duty tariffs.

A good example is the milling business. There is a rather large flour mill with a rated capacity of 100,000 tons. It is presently producing only about 35,000 tons, as imports of flour from EEC surpluses come in at one quarter of the European cost price.

Another example is in cotton. The Government is forcing the purchase of locally produced cotton by the Cameroon textile industry (mostly CICAM, a French group), at prices that are over 50 percent higher than world market prices -- at the same time tolerating the cheap imports of used clothing. Many other examples abound.

- o An Out-moded Investment Code. (See Section 1.b.)
- o Lack of Business Talent. The older Cameroonian businessmen are basically traders, with a short term commercial outlook. They have rarely become industrialists, invariably investing surplus funds in real estate. They are strongly patriarchal, authoritarian, and their enterprises generally die when they do.

Since Independence, a new generation of Cameroonians developed different attitudes. The ideal career became that of a civil servant, a "functionnaire". This is primarily a socio/cultural phenomenon, modeled on the French background. Vast numbers of young Cameroonians were (and still are being) educated in France, primarily in non-productive disciplines. Today, 62 percent of French-speaking African (not including Zaire) students in secondary schools in France are enrolled in law, political economy, and

social studies.⁴ Relatively few students take business courses, or other studies that will prepare them for viable, productive careers when they return. When the Cameroon government sector was expanding rapidly during the "Petroboom" years, these graduates obtained government posts easily. Between 1983 and 1986, President Biya recruited more than 30,000 civil servants, many of whom had been educated in France.

Now, as government must contract, many of these highly intelligent, cultivated public officials must look for work in the private sector, for which they are ill-prepared.

Furthermore, in those areas of the Government where business studies are vital, such as the giant national investment company -- the Societe Nationale D'Investissement (S.N.I.) -- one rarely finds a manager or director who understands the practical side of business operations. (See Appendix 1 for an analysis of the S.N.I.)

Thus, rapid and efficient development of a modern private sector will be handicapped by an intrinsic lack of managerial talent in Cameroon. There are young people who have been educated and trained in business disciplines abroad -- often in the U.S. -- but they are rare. Some civil servants can be "recycled" since they are intelligent, and well-educated in a theoretical way, but this process will take time.

Additional problems that were encountered during our mission were:

- o low productivity, (especially in government-controlled enterprises) both in the agricultural/agribusiness and industrial sectors. Overmanning seems to be the rule, and old-fashioned oversee-type discipline is still generally used, since performance-based incentive schemes have not yet worked (they are still being tried);
- o taxes on exports, an obvious aberration in the present situation;
- o lack of a capital market. (See below).
- o a relatively poor physical intra-structure. While major intercity road connections are relatively good, intra-city traffic and road maintenance is bad, and getting worse. Port facilities lack adequate silo and storage capacity. Telephone service is erratic (except for overseas connections which are excellent, since they are satellite-based). The water supply in Yaounde is uncertain, with at least two waterless days each week.

The biggest problem of all, the one which overshadows all the others -- and the elimination of which would dramatically help solve the others -- is the inefficient bureaucracy. To correct this problem, a change in mental attitudes is required on the part of the authorities. Although the President has repeatedly called for fast and more efficient processing, (and a number of ministries are now computerized), the situation has shown no real improvement to date.

We have many case studies, far too numerous to cite. Here are just two:

A French businessman, who is in partnership with important local magnates, requested a license to import a modest amount of fertilizer on June 16th. On October 30, he received a letter from the Ministry of Agriculture (dated October 20th) refusing the request. However, he had already received

⁴ Africa International, November 1987. Article by Orme Sylvie Kana.

a favorable reply from another part of the same Ministry on August 14, by which time his fertilizer had already been shipped and delivered.

Without knowing how to deal around the system, he would still not have his fertilizer.

A second example is that of a foreign (U.S.) insurance company that, following proper legal advice, set up a local subsidiary in 1985. It took another eighteen months for them to obtain the license to carry out business, a license that was supposed to be granted when the subsidiary was formed. The result is a shutdown, since the entire capital of the company was exhausted in two years, and the parent company, having lost patience, has decided not to advance more funds. In the meantime, business has been declining rapidly.

Paradoxically, the very acuteness of the present crisis has created an ideal atmosphere for a constructive dialogue with the Cameroon government as to how to increase the role of the private sector. The "how" is to be stressed since the government has already committed itself to this goal. This commitment appears to be firm and sincere.

b. The Investment Code

The new Investment Code introduced in July 1984 has been in operation now for more than three years. The main innovation introduced in 1984 was a special regime for small and medium-sized enterprises, which are defined as those having not more than CFAF 5,000 million total investment and at least 65 percent Cameroonian ownership. Such enterprises can receive up to eight years' exemption from taxes, or up to fifteen years if they are located away from densely-populated areas. By September 1987, 823 applications had been approved under the Investment Code, of which 464 were under the special regime for small and medium-sized enterprises. However, fewer than one third of these applications have as yet resulted in any new enterprises actually being established, and, of those, 90 percent were commercial rather than industrial ventures.⁵ The authorities feel that the present Code is deficient in several respects. First, it makes inadequate distinction as to the type of activity being encouraged, and in particular fails to give preference to productive investment. Second, the size and local ownership requirements are frequently circumvented. Third, the benefits conferred are mainly related to customs duties and protection from imports rather than deferral of taxes until the business can become profitable. A revision of the Code to correct these and other deficiencies was under active discussion between the Ministries of Finance and Commerce and Industry during the team's visit. This latest revision of the Code will probably abolish the local ownership requirement and will include measures to speed up the process of application and approval.

Meanwhile, the procedures for approval of projects under the existing Code remain extremely cumbersome and time-consuming. Delays of one or two years and external negotiation before approval is granted are usual. One businessman said that he was required to submit 60 copies of his application and to present his case to five ministries before receiving the go-ahead. The team also heard of cases where the government has failed to honor benefits it has granted under the Code; for example, assurances of protection have been vitiated by the grant of import licenses for competing products, as mentioned above.

⁵ For this purpose, parastatals are defined as any enterprise having 25% or more government participation.

Foreign remittances remain in principle free from controls, and the CFA currency is convertible into French francs at the fixed rate CFAF 50 = FF 1 without restriction. This indeed provides a powerful incentive for foreign investment -- particularly French investment -- in the whole CFA area. The conversion of CFA franc instruments directly into currencies other than the franc is, however, subject to approval by the local BEAC under regulations established by the Bank of France. As Cameroon's reserve position under the monetary arrangement with France has deteriorated and gone into deficit during the recent period, there has been increasing resistance to effecting such overseas transfers. Cameroon receives relatively little official sympathy from France at the present time because for years it has not met the franc area requirement that all foreign exchange reserves be deposited within the franc area. There has also recently been a breakdown in the system of postal transfers to France due to non-payment by Cameroon to the French Post Office of balances due under the arrangement, and transfers throughout this channel are at present suspended.

c. Business Attitudes to Government Policies

In general, businessmen interviewed are convinced of the sincerity of the Government's commitment to reform, but they have yet to see any significant changes in the climate for successful business operations. The following table illustrates these findings.

2. Economic and Business Factors

a. Operating in Cameroon Today

To operate successfully within a system that carries such constraints -- and there are a number of very successful operators in Cameroon -- essentially means operating around the system. By this, we don't necessarily imply bribery, but rather knowing how to get things done despite regulations, and often in the face of them.

At this point, it should be put on the record that there is a whole new generation of Cameroon businessmen, many of them educated abroad, who are opposed to the present system (regardless of politics; in fact most of them are very loyal to President Biya), and who are working actively to change it. They want a deregulated economy, and a small but efficient civil service.

With respect to the present bureaucracy, the French legacy is a heavy one to bear. Upon Independence, Cameroon adopted the old-style French "dirigiste" type of administration to the letter. This even includes a national ENA (Ecole Nationale d'Administration) to form elite government civil servants. Ironically, at a time when the French are modifying their own system through privatization, the Cameroonians retain the old style and form of tight central control.

The younger generation knows that their country can't live with such a system much longer and they have become somewhat anti-French. This is decidedly generational, the older generation -- the "establishment" -- being identified with French ways.

TABLE 2

**RELATIVE IMPORTANCE GIVEN BY BUSINESS EXECUTIVES
TO GOVERNMENT POLICIES, REGULATIONS AND PROCEDURES
IN ENCOURAGING PRIVATE SECTOR DEVELOPMENT
CAMEROON**

As a benchmark, the following comparison with a similar study conducted in 1985 may be helpful.

KEY: x = 1985
o = 1987
xo = same

	<u>Considered as Favorable</u>			<u>Considered as Unfavorable</u>		
	<u>Major</u>	<u>Moderate</u>	<u>Minor</u>	<u>Major</u>	<u>Moderate</u>	<u>Minor</u>
<u>FACTORS</u>						
Political Stability and Risk		xo				
National Development Priorities	o		x			
Business Formulation Regulations				o	x	
International Remittances		xo				
International Trade Policies		o	x			
Taxes				xo		
Investment Incentives				o	x	
Labor Laws			x	o		
Government Controls				xo		
Banking and Credit				xo		
Business Advisory Services						xo

Source: International Science and Technology Institute Inc., based on results of interviews in Cameroon in June 1985 and November 1987.

In this respect, there is an intellectual hurdle to jump. The resentment of the French by the "Young Turks" cannot be carried to its logical limits, because they fully understand that membership in the French economic zone is extremely advantageous. They realize that Cameroon's financial stability is based upon the pegging of the CFA to the French Franc.

We met a selected few of these young Cameroonian businessmen during the course of our mission. Their careers show that it is indeed possible to create and manage relatively large enterprises despite the obstacles cited above.

Any discussion of business conditions in Cameroon today would be incomplete without mention of the parallel economy, which is functioning smoothly.

Outside the official one, Cameroon has a thriving unofficial economy. Following millenarian patterns, agricultural products are brought to urban markets, consumer goods are brought to rural markets, personal services are rendered, and new businesses are started, all in a parallel economy that accounts for as much as one fifth of total Cameroonian economic activity. It is a monetary-based economy that is outside the official banking and fiscal systems. This is the world of the famous "tontines", small savings and loan societies usually comprising fifteen to twenty families, which are discussed more fully below.

b. Business Attitudes to the Present Crisis

Although the general level of business confidence has been lowered, we encountered a surprisingly constructive attitude among certain key business leaders. These individuals, some Cameroonian, some expatriate, almost welcome the crisis as a needed corrective. They feel that the authorities have no other solution than an externally-imposed fiscal discipline. They are remarkably well prepared to accept a temporary (two years?) period of austerity during which strong, well-managed companies will survive, and weak ones will deservedly fall by the wayside. At the same time, it gives them an opportunity to trim their payrolls, adjust inventories (this has virtually taken place already), and prudently prepare for the upturn. They feel certain that much of the parastatal portfolio will be liquidated, thus eliminating key sources of unfair price competition.

They also feel that smart foreign investors will, and should, start now to assess investment opportunities in Cameroon, as many excellent "buys" will arise as the crisis deepens, and the government is becoming much more hospitable to new investment proposals. These attitudes are reflected in the findings shown in the following comparative table:

c. Long-term Strategic Investments

Although the current climate for investment is bad, some interesting moves have recently taken place.

In 1986, the British-American Tobacco Company (BAT) purchased BASTOS, a French-owned manufacturer of cigarettes. The French owner, Bollere, had decided to divest themselves of their Cameroon holdings. These included 75 percent of BASTOS, which was on the verge of bankruptcy, 60 percent of an inefficient and loss-making steel company, and 100 percent of two small trading companies.

TABLE 3

**RELATIVE IMPORTANCE GIVEN BY BUSINESS EXECUTIVES TO
ECONOMIC FACTORS IN ENCOURAGING PRIVATE SECTOR DEVELOPMENT
CAMEROON**

KEY: x = 1985
o = 1987
xo = same

<u>FACTORS</u>	<u>Considered as Favorable</u>			<u>Considered as Unfavorable</u>		
	<u>Major</u>	<u>Moderate</u>	<u>Minor</u>	<u>Major</u>	<u>Moderate</u>	<u>Minor</u>
Size of Market and Growth Prospects		x				o
Basic Material and Parts		x				o
Infrastructure			xo			
Credit and Capital				xo		
Business Services						xo
Entrepreneurial Talent						xo
Management and Technical Personnel						xo
Skilled Workers		x				o
Unskilled Workers					o	x
Other services						xo

Source: International Science and Technology Institute Inc., based on results of interviews in Cameroon in June 1985 and November 1987.

BAT has the steel company up for sale, and is massively re-organizing BASTOS. The competition, SITABAC, is strong, with the leading brand, and a first-rate international partner, the German Reemtsma company. In addition, SITABAC pays only five percent duty on its imported tobacco while Bastos pays 160 percent.

In spite of all this, BATS has seized this unique opportunity to own a cigarette factory in Francophone Africa, for the very first time.

This could almost be called a case study in long-term strategic investment policies. Incidentally, part of BAT planning is to develop the local tobacco crop from 100 tons to 600 tons in five years -- in exchange for a lowering of duties on their imported tobacco. A fair trade-off, if they succeed.

Del Monte is making a \$9-10 million investment in Cameroon bananas. This has been engineered by Del Monte Europe with an IFC loan. The idea is also strategic in nature; Cameroon bananas have duty free access to the European Common Market through the Lome convention. Coincidentally, the government-owned banana monopoly is being liquidated.

We have cited these two examples of strategic multi-national moves to demonstrate one of the recurring themes of this report, i.e., Cameroon has significant long-term potential.

d. Cameroon and its Donors

Cameroonians are very open to the entire Western world, and there seems to exist a very large degree of respect, admiration, and liking for the United States. Of course, the country's middle and upper classes were brought up in the French culture, and they are still very much imbued with it. However, it is becoming more a matter of style, language, and living habits, as the years pass.

French economic domination effectively ceased when the offshore dollar oil account was opened. Cameroon did not send an official delegate to the widely-publicized Congress of the French Language Countries held in Montreal last year. (They sent an unofficial "observer".)

Over the coming months, as many as 3,000 French technicians ("conseillers techniques") will be repatriated at the request of the Cameroonian government. This is of course mainly due to the government's new austerity program, but the effect is to lessen French technical and professional influence.

Other nations are filling the gaps. The West German government, in particular, has become very active in Cameroon. Following a high Trade Fair in Donala in 1986, preferential government lending, combined with technical assistance, to Cameroon increased to an estimated 70 million DM (\$43 million), putting West Germany second -- admittedly at a long distance -- to France in the donor-nation ranking.

In addition, West Germany, through its Trade Unions, is apparently sponsoring an enormous program of worker apprenticeship, involving eventually 500,000 Cameroonian workers.

Cameroon has responded to all of these efforts with evident enthusiasm. In 1986, Germans were exempted from the entry visa requirement, a privilege even the French don't have. The recent visit to Cameroon by Chancellor Kohl apparently resulted in new government credits and assistance for specific projects, but not, as was hoped in Yaounde, enough general financial support to avoid the IMF. In fact, Chancellor Kohl, echoing Prime Minister Chirac, publicly advised Cameroonian acceptance of an IMF program.

Other nations have been active in Cameroon. Canada recently cancelled Cameroon's debt, and Canada's aid program continues to be one of the largest. The Japanese, the Italians, the Belgians and the Kuwaitis are among other major donor/assistor nations. Recently, a rash of English inquiries have been directed to local lawyers, CPAs, and business workers.

One mustn't exaggerate. The French still have 26 percent of all investments made in Cameroon, or two-thirds of total foreign investments. In addition, French banks control an estimated 60 percent of Cameroonian financial assets. Even if President Biya wishes to use the help of other nations to break out of the French zone, it is doubtful that they would encourage him to do so. The present system is advantageous to all concerned, even if it is generally recognized that the CFA franc is overvalued.

Returning to attitudes towards the United States, a relatively small player in the Cameroonian stakes, Cameroonians are, as mentioned above, quite pro-American on the whole. Despite a period of somewhat benign neglect by Washington in recent years, the American way of doing business, American political institutions, and, above all, American efficiency are all much prized in Cameroon. This is a priceless, and virtually untouched source of moral capital.

e. Economic Prospects

Although the economy is at present in recession, the medium-term prospects remain potentially favorable, especially by comparison with most other African countries.

Cameroon still has broad self-sufficiency in food supplies and a diversified export crop sector producing cocoa, coffee, palm oil, cotton, rubber, timber, bananas, etc. The world price prospects for these commodities are not altogether encouraging, but there will always be some demand, and the diversity of products helps to avoid the price dependency of a one-crop economy. There is scope for further expansion of most agricultural exports if market factors turn more favorable, and a considerable industrial base is already in position. Oil extraction will continue for at least another five or six years on the basis of reserves now being tapped, and any rise in the world price of oil (or in the value of the dollar, in which world oil prices are denominated) could make additional reserves of oil (and perhaps natural gas) economically exploitable. Despite question marks about the use of some oil revenues in recent years, it is evident that a considerable part has been used for investments in infrastructure which will stand the country in good stead in future. A part was also used to pay off high-cost external debt.

Early in 1987, after several attempts to secure loans from other friendly countries, Cameroon approached France for a very large budget-support loan from the CCCE. The French response was that Cameroon should first negotiate a financial program with the IMF. That was not politically acceptable to President Biya, who announced that Cameroon would not go to the IMF "for the time being". Instead he introduced an austerity budget in which the expenditure provisions were cut from CFAF 800 b. in 1986/87 to CFAF 650 b. in 1987/88 -- the first overall budgetary cut since Independence. Details on how this is to be achieved remain vague, but the implementing measures included a standstill on the hiring of new civil service personnel (hitherto the civil service had been growing at around about eleven percent per year), dismissal of about 16,000 civil servants (about ten percent of the total) who were near or over retirement age or were receiving two government salaries, a zero pay increase, and other austerity measures designed to curtail misuse of government cars and telephones. How effective these measures have been will not be known until after the end of the budgetary year, but even if the expenditure targets are met, they are unlikely to cut the regular budget deficit as much as expected, because revenue is clearly overestimated in the budget projections (it is officially estimated at eleven percent above the previous year's actual, whereas the IMF projects the

increase at only five percent). The government is also severely cutting its extra-budgetary expenditures financed directly from oil funds held abroad, although by an unknown amount since a full accounting for these types of expenditures has never been made public.

The government has also apparently opened negotiations with the World Bank for a structural adjustment loan which will probably involve conditions not unlike those that would be required for IMF support. A consortium of international consultants (Shearson-Lehman, Lazard Freres and S.G. Warburg) has been hired by the government to help it prepare a program of financial and economic rehabilitation which it could present to the World Bank. It is not impossible that successful conclusion of such a program with the World Bank could attract financial support from the IMF and France as well.

The government has also activated its "Commission for Rehabilitation of Public and Parapublic Enterprises" which was set up in 1986 to examine the situation of the parastatal sector and make recommendations. The Commission's recently-approved terms of reference require it to identify those enterprises which should be closed down or partially or fully privatized, and to evolve new rules under which the remaining state-owned enterprises should operate. Forty of the most critical parastatals have been selected for initial examination out of a total of about 150. Recommendations on these are to be submitted to the Government by May 1988 -- in time to incorporate resulting actions in the 1988/89 budget. The banks will be the subject of a separate study. Importantly, technical support for the Commission's work is to be provided by the World Bank.

Some foreign observers have suggested that a devaluation of Cameroon's currency is required in present circumstances. Indeed, the United States has for several years taken an official position in the IMF's Executive Board that this question should be raised for all the CFA franc countries. Certainly in Cameroon's case, as with most of the others, purely economic calculations would suggest that a devaluation of the CFA franc by at least 20-30 percent would be beneficial. If supported by the proper internal measures, it would encourage exports, discourage imports, and restore internal and external price relationships to a more viable balance.

However, devaluation does not seem a realistic possibility at the present time. The historic relationship of CFAF 50 to one French franc, which has remained unchanged since the establishment of the system in 1948, is something cherished throughout the franc area, and most Cameroonians are shocked at the suggestion that it should be changed, as are most Frenchmen (French interests in Cameroon would clearly suffer). Politically, devaluation would be most difficult for President Biya to propose, involving, as it would, sharp increases in domestic prices and reductions in real wages. But, more compellingly, the institutional arrangements of the franc area are such that Cameroon cannot unilaterally devalue its currency: such action would at a minimum require that the seven members of the Central African central bank (BEAC), and probably those of the West African central bank (BCEAO) as well, agree with France on a fundamental realignment of their currencies. This is just not going to happen in the foreseeable future. The alternative that Cameroon should leave the franc area and establish its own independent currency and central bank is likewise not realistic and would be severely damaging to confidence, since convertibility of the currency would no longer be guaranteed by France. The present system, whatever its disadvantages, has the overwhelming virtue of ensuring that a budgetary problem cannot be solved by resort to domestic currency creation by the central bank, which in numerous other cases has led to domestic inflation, depreciation of the exchange rate, and/or depletion of external reserves. The exchange rate imbalance in Cameroon is still not so acute that it cannot be dealt with by alternative means. For these reasons, it seems unproductive to press for devaluation as a solution to the current crisis.

f. Capital and Financial Markets

The Present Situation. For several years now, the formal banking sector in Cameroon has not provided those services to the private sector normally expected of a modern banking system. Very few new credits have been extended by the commercial banks, and most bank lending is of a revolving nature, involving the rolling-over of relatively risk-free commercial credits to only the most credit-worthy of borrowers, or else to ailing parastatal enterprises. The growth in total credit to the private sector slowed during the period 1983/84-1985/86 to an annual average rate of 7.5 percent -- well below the rate of expansion in nominal GDP over the same period. The observed increase during the calendar year 1986 (see Table 4) is apparently due to the increased needs of parastatals, which has had the effect of crowding out the purely private sector still further. Private sector deposits with the banks have also grown only slowly, with time and savings deposits actually declining during 1986 (see Table 4). As mentioned earlier, many of these deposits are in effect frozen at the present time, as banks are unwilling or unable to meet requests for withdrawals. The central bank -- the six-member Banque des Etats de l'Afrique Centrale (BEAC), of which Cameroon is by far the largest member -- is unable to do much to stimulate banking activity because of its negative balance with the French Treasury, which under the franc area rules places several limits on its ability to extend credits and provide rediscount facilities to the banks.

Banking activity is thus at present at a virtual standstill, with most of the banks technically bankrupt if normal accounting practices were applied to non-performing assets. They are kept from insolvency only by the government's maintaining large balances on deposit with them -- balances which have been gradually drawn down since their peak in 1983, and which the government would at present like to reduce further to finance budgetary operations, but cannot do so for fear of precipitating a collapse of the whole banking system. There is indeed a danger, mentioned to the team by several bankers and businessmen, that some new downturn in public confidence in the banking system (which is already at a very low ebb) could cause such a collapse, regardless. But most seem to believe that the present situation will continue without dramatic worsening, at least until some sort of a rescue operation which is now being devised with World Bank assistance can come into effect.

The causes of this situation, which has highly negative impacts on the entire private sector, have been comprehensively analyzed elsewhere,⁶ and will be only touched upon here. Briefly, these include fundamental undercapitalization, bad management, undue government interference in day-to-day operations, some ill-advised lending in the past (particularly loans to northern merchants made during the Ahidjo regime, which still account for a large proportion of unrecoverable debts), and burdensome government regulation in a number of areas (e.g. tax and interest-rate requirements, sectoral lending "targets", and forced contributions to five-year bonds of the national investment corporation (SNI), which in fact are mainly redeposited in the banks at higher interest rates).

The Government's development bank (BCD), and related public financial institutions intended to channel credit on concessional terms to private-sector entities (i.e. FOGAPE, a guarantee fund for loans to small and medium-sized enterprises; and FONADER, a rural-development credit organization), are also at present inoperative. All three of these institutions in fact do more to support the commercial banks, through deposits placed with them and (in BCD's case) participations in their equity capital, than to directly meet private sector credit needs.

⁶ See World Bank Report No. 6028-CM, Cameroon: Financial Sector Report, June 2, 1986; and U.S. Embassy Yaounde Airgram to Department of State, Cameroon Banking Sector, August 12, 1986.

TABLE 4
THE PRIVATE SECTOR AND THE BANKING SYSTEM:⁷
SELECTED INDICATORS

(at year end, in CFAF billions or percent increases)

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
<u>Credit to the Private Sector</u>	679	809	806	878	986
Percent Increase Credit	21	19	0	8	12
<u>Private Sector Deposits</u>	374	483	600	715	662
Of which Demand	189	248	275	277	279
Time and Savings	185	235	325	438	383
Percent Increase Deposits	23	29	24	19	-7.5
<u>For Comparison:</u>					
Percent Increase GDP	21	20	22	17	5

Source: IMF, International Financial Statistics, September 1987.

So how, in this situation, it may be asked, do private enterprises obtain any credit?

Larger enterprises can and do conduct much of their banking business abroad, particularly in Paris, where the absence of exchange and convertibility risks and the freedom of transfers within the franc area makes it possible to obtain credit and place surplus funds. There is little doubt that relatively low and fixed interest rates in Cameroon generally encourage the flight of savings to France. Larger enterprises with parents in other countries (e.g. the U.S.-based oil companies) now also do most of their banking abroad -- a change from the early 1980s when their borrowing at least was done locally, to take advantage of the lower lending rates then prevailing in Cameroon.

⁷ Private Sector includes parastatal organizations; banking system comprises commercial and development banks.

There remain two other sources of credit to the private sector which continue to work, although on a limited scale.

There were by 1984 more than 200 rural credit unions, having in total more than 50,000 members, mainly in the western agricultural provinces, and the coverage is expanding rapidly. These member-owned institutions are linked by a central association, the Cameroon Cooperative Credit Union League (CCCUL), and operate with minimum government intervention. By the end of 1984, some CFAF 5.3 billion (US\$ 13 million) had been mobilized.

The Credit Unions and CCCUL are well known to USAID, having received technical and training assistance since 1981 under two successive USAID programs, and therefore there is no need to describe them further here. The Credit Unions have been successful in serving their main purposes -- the taking in of savings and the provision of credits to members -- and they occupy a useful niche between the banks and the completely informal tontines to be described below. This AID project is a highly appropriate one in that it assists private institutions to serve private-sector needs, and builds upon a local private-sector "self-help" initiative already in place. This project should continue to receive support.

The "tontines" (already referred to in Chapter 1) are informal local savings institutions, found also in other West African countries under different names, but apparently more prevalent in Cameroon than elsewhere. A tontine consists of a group of individuals -- averaging 15-20 families -- who know and trust each other. Each member subscribes each month to a kitty which is periodically allocated to one of the members, either by rota, by lottery, or, in the larger and more sophisticated tontines, by auction to the highest bidder. The implicit interest rates are high and maturities short, but the system is popular because no paperwork or formal security is involved. Default is apparently extremely rare, since this involves complete social ostracism, and in some instances, reportedly has impelled defaulters to commit suicide. There are, of course, no statistics on overall operations of the tontines, but some estimates suggest that as much as 85 percent of all Cameroonians --including wealthy businessmen and government officials -- belong to one or more tontines, and the magnitude of total credit thus extended rivals that of the formal banking system. In one recent instance, an amount equivalent to nearly \$1 million was raised by a tontine to finance a member's office-building project.

Bankers and foreign experts sometimes criticize the tontine system on grounds that it inhibits the development of more efficient banking institutions, but the fact remains that the system flourishes, and under present circumstances it provides one of the few channels available in Cameroon for converting personal savings into private investment. The team suggests that the tontine system should be left strictly alone in any official interventions in the banking system. As and when other more efficient mechanisms evolve (and conversion into formal credit unions is a logical next step), these will gradually supplant the function of the tontines without need for official intervention.

In summary, therefore, the vast bulk of the private sector in Cameroon at present -- i.e., those enterprises which do not have ready access to foreign banks or grass-roots institutions (this group includes most of the small and medium-sized enterprises to which the government gives development priority) -- at present have little or no access to credit, a feature which greatly inhibits the evolution of a vigorous and broadly-based private sector. This also helps to explain the success of a few super-rich Cameroonian businessmen who are in a position to finance new ventures from their own funds. The situation of the banking system must be resolved before private enterprise in Cameroon can move ahead on a broad front to take advantage of the many opportunities present.

No effective capital market exists in Cameroon, and it is hard to see how one could be established quickly at this stage. This deficiency will make future privatizations of public and semi-public enterprises doubly difficult. In practice, the selling-off of state equity holdings will have to be

negotiated directly with potential buyers. The World Bank study envisages a new non-bank financial intermediary institution which could eventually perform capital market functions, but this would be a longer-term project.

3. Prospective Reforms

The government has until now done relatively little towards a comprehensive reform of the banking system. Various new regulations and interest-rate changes introduced in 1984 were designed mainly to improve the profitability of the banks, and, while probably necessary to induce them to hang on a bit longer, failed to address the fundamental deficiencies. Several studies have been undertaken and recommendations made, the most important of which being the World Bank's June 1986 Financial Sector Survey, *op. cit.* But concrete action has been lacking, and the situation has been allowed to drift on. Apart from the continued inhibiting effect this has had on all private-sector operations, the ongoing crisis has dangers of its own: there may well be more departures of foreign banks from the local scene, and the possibility of a more spectacular crash involving closure of some or all banks can by no means be ruled out. (One bank -- the wholly government-owned Cambank -- has already had to close its doors.)

The most positive step taken to date is the activation of the Government's Commission for Rehabilitation of Public and Parapublic Enterprises discussed above. An important part of the Commission's work will be a separate study and recommendations concerning the banks, all of which count as parastatal enterprises (25 percent or more government participation) under the Commission's definition. The technical work, to be conducted by World Bank staff and consultants, will obviously draw upon the findings of the earlier Financial Sector Survey but can be expected to be more narrowly directed at the specific problem of what to do about the existing commercial banks. The results of this study are expected by May 1988, in time for action to be taken in the next government budget; and at that time action on the part of the banking sector will probably be insisted upon by the World Bank as a condition for the Structural Adjustment Loan the Government is now seeking.

Thus, several more months are likely to go by before any concrete reform measures are proposed, and at this stage it is probably best to await the results of the study before urging new actions upon the Government.

The recommended reforms directly concerning the banks will probably include some or all of the following:

- o **Recapitalization.** The capital base of all banks is exceptionally weak, and if bad debts are written off (see below) will almost certainly become effectively **n e g a t i v e**. Increased capital might come from the Government (undesirable), foreign parent banks, and/or private interests.
- o **Write-off or rescheduling of bad debts.** These reportedly total about CFAF 120 billion, or more than nineteen percent of all bank credit to the private sector.
- o **Abolition of the SNI contribution.** The requirement to contribute to 5-year bonds of SNI (the National Investment Corporation) -- which itself has stopped new lending activities and redeposits its surpluses with the banks -- would be abolished and the presently-outstanding bonds retired at maturity.
- o **Elimination of certain taxes.** Present taxes on bank operations and lending contribute relatively little to government revenues but have a high nuisance effect on the banks.

- o **Consolidation.** Those existing banks which have large government participation may be merged, perhaps with increased private participation.
- o **Restructuring of BCD.** The development banking institutions (BCD/FOGAPE/FONADER) will require comprehensive reorganization.
- o **BEAC.** Although this will require zone-wide approval, it will probably be recommended that BEAC raise its interest rates, simplify the structure of interest rates, and make certain changes in its rediscounting and credit-control systems.

4. USAID's Role

A comprehensive program of banking reform such as is needed and is apparently now on the cards might open up several new opportunities for foreign donor assistance. USAID should in particular closely follow the proposals for reform of the development banking institutions, which could provide an avenue for introducing U.S. financial and technical support in an area complementary to the existing Credit Union Development Project. The Credit Union project is unlikely to be directly affected by banking sector reforms, but is in the opinion of the team a highly appropriate and successful project as is, and one which should be continued. It is possible also that proposed restructurings and consolidation of existing banks may create opportunities for new participation by American banks, especially the Chase bank which is already on the spot, or the Bank of America, which remains associated with the new IBAC.

USAID should offer whatever assistance it can to the technical work being undertaken by the World Bank for the Public and Para-Public Enterprises Rehabilitation Commission, and the evolution of the Bank's recommendations concerning the banking sector should be followed as closely as possible.

Comparison with 1985

In compiling our own findings, we referred to an earlier study which covered much of the same ground two years ago. The reader of both reports will be struck by certain similarities of the observations, conclusions and recommendations. However, some noteworthy differences appear. Some of these are as follows:

- o Although the constraints to investment and business operation reported in the earlier study are still present, an important new one has been added: the onset of a serious recession.
- o Where the earlier report found "excess funds in the banking system", there is now a lack of funds in the system, and the country is undergoing a very severe cash squeeze. We have analyzed both the causes and effects of the liquidity crisis.
- o As opposed to the government promises of reform reported earlier, some real action has been, and is continuing, to be taken. As we observe in our report, the present government has reduced both the size and the cost of the civil service; has drastically cut the national budget; a serious Privatization process has been started; negotiations have been started for a large structural adjustment program with the World Bank; the government has hired three prestigious investment banks as advisors.

- o The revenue from cash export crops has decreased since 1985, due to production stagnation and lowered world prices. More seriously, oil revenue has declined sharply since May 1986. Most importantly, the offshore dollar oil account seems to be virtually depleted.
- o Although the urban logistical situation is still bad, and has in fact deteriorated since 1985, some important infrastructure additions have been made. Good roads now connect Yaounde, Douala and Bafoussam. An excellent rail passenger service now exists between Yaounde and Douala.
- o Many of the investment ideas put forward two years ago are still valid, but they must now be looked at in the context of the newest economic crisis. One large project idea - the transformation of natural gas into gasoline -- seems to be abandoned, as reserves are now known to be substantially less than earlier estimated.

CHAPTER 2

AGRICULTURE AND AGRIBUSINESS

A. OVERVIEW OF THE SECTOR AT PRESENT

Traditionally the Cameroon agricultural production makes the most important contribution to the Cameroon economy. It has shown a steady increase in monetary value for a number of years, from 586.7 billion CFA during the 1981/82 period to an estimated 888.3 billion CFA during the 1986/87 period. (This does not take into account inflation, estimated at ten percent for the period) Table 5 shows agriculture's share of the Cameroon GDP from 1981/82 through 1986/87. While still commanding the largest share, its relative value has been decreasing. According to the IBRD it had decreased to 22 percent of GDP during the 1985/86 season from 27 percent in 1981/82.

With the expected depletion of the petroleum reserves, the Government of Cameroon considers that the agricultural sector will remain the most important and lasting resource of the country. It consequently emphasizes the need for its further development. According to the 1984 agricultural survey, nearly 70 percent of the population of Cameroon lived in rural areas. Present IBRD estimates are that this has now decreased to about 60 percent, and that the migration to the urban areas is accelerating, with young people being less inclined to live and work in rural areas. Thus the average age of the farmers is increasing considerably.

These factors make the need to improve living conditions in the rural areas absolutely vital. At present most of the farming activities are carried out on small family farms, ranging in size from one to three hectares. They practice traditional farming methods, using mainly primitive hand tools with little or no mechanization.

TABLE 5
CAMEROON: COMPOSITION OF GDP AT CURRENT PRICE;
1981/82-1986/87

(in billions of CFA francs)

	1981 to <u>1982</u>	1982 to <u>1983</u>	1983 to <u>1984</u>	1984 to <u>1985</u>	1985 to <u>1986</u> (Prel)	1986 to <u>1987</u> (Est)
GDP at current prices	2,172.8	2,618.0	3,195.0	3,739.1	3,926.1	4,044.3
Oil Sector	263.1	400.5	520.5	654.3	417.5	248.0
Non-oil sectors	1,909.7	2,217.5	2,674.5	3,084.8	3,508.6	3,796.3
Of which:						
agriculture, forestry, animal husbandry, and fishing	(586.7)	(607.1)	(702.0)	(785.3)	(853.4)	(888.3)
Manufacturing and utilities	(246.9)	(290.9)	(358.5)	(448.5)	(545.1)	(605.5)
Construction and public works	(125.0)	(145.8)	(192.6)	(220.7)	(252.7)	(280.2)
Commerce and transportation	(368.5)	(439.5)	(562.2)	(645.7)	(739.2)	(806.0)

They produce food crops as well as cash crops. The most important cash crops are coffee, cultivated by about 38 percent of the farmers, cocoa by about 27 percent, and cotton by about 14 percent.⁸

A significant part of cash crops are exported. The composition of Cameroon exports is shown in Table 6 which gives the value of the main exports 1981/82 through 1985/86. The main agricultural export crops remain cocoa and cocoa products, coffee, followed by cotton, bananas, rubber, tobacco and palm products, totalling about 30 percent of all exports. Although petroleum exports have exceeded those of agricultural export crops, this is considered a transitory situation with the expected gradual depletion of the petroleum reserves. (While not specifically studied by this mission, it should be noted that logs and wood products have recently become a factor in exports -- about four percent of total exports.)

⁸ USAID: The Cash Crop Sector: Its Performance and Future Development Possibilities, by Carole Gage-Gervais, Yaounde, November 1984.

TABLE 6

CAMEROON: PRINCIPAL EXPORTS: 1981/82-1985/86

	1981 to <u>1982</u>	1982 to <u>1983</u>	1983 to <u>1984</u>	1984 to <u>1985</u>	1986 to <u>1987</u>
<u>(In billions of CFA francs)</u>					
Petroleum products	<u>289.9</u>	<u>411.6</u>	<u>531.4</u>	<u>707.5</u>	<u>455.7</u>
Crude petroleum	269.4	380.7	498.3	668.7	431.4
Refined products	20.4	30.9	33.1	38.8	24.3
Non-petroleum exports	178.3	238.0	306.4	369.0	356.1
Cocoa beans	36.9	48.1	74.7	93.7	92.5
Cocoa products	7.0	9.0	14.3	11.8	14.2
Coffee	45.3	71.2	94.8	110.2	112.3
Robusta	27.3	52.2	63.8	81.3	83.5
Arabica	18.0	18.7	30.4	28.9	28.3
Cotton	16.8	17.8	20.0	4.9	9.0
Logs and wood products	25.4	22.4	18.3	36.1	36.2
Aluminum products	4.8	23.0	25.0	29.4	19.1
Other manufactured goods	25.2	27.3	36.9	59.3	52.3
Miscellaneous agricultural goods	17.1	19.3	22.3	22.7	19.4
Total exports	<u>468.2</u>	<u>649.6</u>	<u>837.8</u>	<u>1,076.5</u>	<u>811.9</u>
<u>(In thousands of metric tons)</u>					
Petroleum products					
Crude petroleum	3,500.0	4,570.0	5,740.0	7,100.0	7,510.0
Refined products	368.0	464.0	456.5	465.5	499.2
Non-petroleum exports					
Cocoa beans	69.2	95.0	89.7	97.3	101.4
Cocoa products	11.0	12.3	12.4	11.6	9.5
Coffee beans	107.3	129.3	130.5	93.9	115.1
Robusta	80.2	107.3	102.1	72.3	91.1
Arabica	27.1	22.0	28.4	21.6	24.0
Cotton	27.6	27.3	22.5	28.1	20.5
Logs and wood products	444.1	384.4	294.3	694.8	683.0
Aluminum products	13.2	63.4	47.1	63.9	52.9
Other manufactured goods	53.4	45.1	73.4	92.4	100.7
Miscellaneous agricultural goods	78.8	89.5	91.3	92.3	93.2
Total export volume	<u>4,672.6</u>	<u>5,880.3</u>	<u>6,957.5</u>	<u>8,739.8</u>	<u>9,185.5</u>
Excluding Petroleum	804.4	846.3	761.2	1,174.3	1,176.3

Source: IMF Documents

It is very clear that agricultural production is virtually stagnating. A common feature of the Cameroon agricultural export products is that they are exported as rather basic products, with little or no added value. This problem has stimulated an acute interest in agro-industries. Some are already established in cocoa, coffee, vegetable oil, cane sugar, palm kernel, beer and dairy products, plus grain milling, and some minor agro industries such as fruit-juice production. The producer price and export unit values for principal cash crops are shown in Table 7 for the years 1981/82 through 1985/86. It demonstrates low producer income in relation to export values, as well as export price stagnation.

Promotion, collection, handling, processing and marketing of cash crops have mostly been done through parastatal organizations. Among these are SODECAO, whose main function is to promote a national program for cocoa production, and SODECOTON, which serves a similar function for cotton production. The Office National des Produits de Base (ONCPB) is the government-owned marketing board for the major cash crops: cocoa, coffee and some cotton. As such, it is the largest business in the country. The mission interviewed its Director at length.

Producer prices are established at the beginning of each agricultural campaign through presidential decree on advice by ONCPB. Essentially, the ONCPB has a monopoly on the external and internal marketing of above-mentioned crops. Prior to the advent of petroleum production, agricultural cash crops were the major providers of foreign exchange. They also provided revenues for development projects. Some information was collected from reputable private sources on the present cost/price relationship for three cash crops. These figures below demonstrate dramatically the disproportions between Cameroon and world markets.

A p p r o x i m a t i o n s

Crop	Production,	Cash Price,	Producer Price, World Product	
	MT	CFA	CFA	Price, CFA
Palm Oil	100,000	195/kg	295/kg	35/kg
Rubber	60,000	400-450/kg	425/kg	280/kg
Coffee	100,000	1,035/k ⁹	N/A ¹⁰	615/kg

Comparisons have been made with the Ivory Coast, where a high productivity program has been in place. These comparisons are made over a period of ten years.

⁹ This is made up of a base price of	485 CFA
Tax	270 CFA
Transportation	130 CFA
Insurance	30 CFA
Middlemen	<u>120 CFA</u>
TOTAL	1,035 CFA per Kilogram

¹⁰ We have not been able to determine the amount of ONCPB "ristournes".

TABLE 7

Cameroon: Selected Producer Prices and Export Unit Values,
1981/82-1985/86 ¹¹
(In CFA francs per kilogram)

	1981/82	1982/83	1983/84	1984/85	1985/86
<u>Producer Prices</u>					
Cocoa					
Grade I	310	330	370	410	420
Grade II	310	330	370	410	420
Substandard	100	100	130	250	310
Coffee					
Robusta	330	350	390	430	440
Arabica	350	370	410	450	475
Cotton					
Yellow	90	105	117	130	140
White	90	105	117	130	140
Nonselected	85	95	105	117	130
<u>Export Unit Values</u>					
Cocoa	533	506	833	963	912
Coffee					
Robusta	340	486	625	1,124	917
Arabica	664	850	1,070	1,338	1,179

Sources: Data provided by the Cameroonian authorities

¹¹ The producer price for cocoa is announced in September, for coffee in January, and for cotton in November.

Approximations

	<u>1977</u>	<u>1987</u>
Ivory Coast Cocoa Production	200,000 MT	600,000 MT
Cameroon Cocoa Production	200,000 MT	Nearer to 100,000 MT
Ivory Coast Coffee Production	Negligible	324,000 MT
Cameroon Coffee Production	100,000 MT	Stagnant
Ivory Coast Pineapple Production	Negligible	250,000 MT
Cameroon Pineapple Production	4,000 MT	3,000 MT

Food crop production is still made up of traditional crops consumed locally, of which cassava production is by far the most important, followed by corn. The larger share of these is consumed on the farms, but increasing amounts are marketed in urban areas, where the increasing urban population provides a fast-growing market. Virtually all food crop production, together with its distribution and marketing, is in the private sector. Agro industries, now small and inefficient, are potentially most important to the Cameroonian economy, serving to produce added-value products, much of which can be exported.

Major Cameroonian agro industry enterprises are generally located in the areas of greatest production concentration of the crops they process with heavy state involvement. Where the raw materials processed are mainly or totally imported, as is the case for wheat milling, they are located in Douala near the port. Appendix 7 lists the degree of self-sufficiency in agricultural products. This table is useful in pointing out product areas where Cameroon may establish import substitution industries, such as in the case of tomato products, of which Cameroon at present imports about 4,000 MT per year. However, it should be pointed out that Cameroon at present does not have a tomato production system suitable for production of high-quality, competitively-priced tomato products. Such production demands a very special, uniformly high-quality, high-solids, high-yielding competitively-priced tomato. These requirements are hard to meet with tomato production based on very small growers only.

In summary, the agricultural sector may be characterized by:

- o Small-scale, non-mechanized farming;
- o A gradual transition from food to cash crops carried out by a smaller and older segment of the population;
- o A relatively large, but stagnant, export business concentrated mainly in two crops: cocoa and coffee;
- o State dominance and control of cash-crop exports;
- o Low productivity relative to world competitors;
- o An infant, inefficient, and state-dominated agribusiness.

B. OBSTACLES, PROBLEMS AND NEEDS

A poorly-developed infrastructure makes it difficult and costly to collect and distribute agricultural products. For instance, the most important agricultural cash crops for export -- cocoa and coffee -- are grown by small holders mostly accessible only by poor roads and paths. The roads are hard on the transport vehicles and consequently are the cause of expensive repairs and/or early replacement, adding to the already high transportation cost. Another consequence of small-scale production is the primitive initial handling and grading of the crops. For instance, cocoa and coffee beans are often air-dried, laid out directly on dirt, with large amounts of stones and other impurities showing up at the central grading and processing facilities. This naturally affects the overall quality of the graded and exported coffee (Arabica and Robusta) and cocoa.

A similar situation exists in corn, which makes the breweries and feed producers reluctant to use domestically-produced corn in their brewing and feed-mixing operations. This is a problem which should be addressed by the agricultural extension services, provided these services are applied more effectively than at present. The substitution of imported corn by domestic corn, through better crop control and modern processing, should be a top priority.

The field trips undertaken by the three-man team revealed an inadequate infrastructure. Apart from a few black-topped main roads mainly between urban centers, the roads are rough, full of holes, and bordered by gullies washed out by rain. Only in one location were road graders seen in action leveling out the dirt road. Rural electrification and communication is scarce. Apart from the breweries and the government-operated day-old-chicken hatchery at Douala, the various agro industries visited do not have a great deal of mechanical and technical sophistication. With ample and cheap labor this is mostly justified to optimize employment. The very slow, manual grading of coffee beans might be improved by more sophisticated mechanical grading to improve the final export grade. The feed mill at Bafoussam would benefit from a more sophisticated bulk silo system, and would be able to make use of molasses if it introduced pelletizing. It should be pointed out, however, that the present major reason for not using molasses in the feed mixes is its very high transport cost, making it unprofitable as a feed admixture. It could also make use of dried brewer's grain and spent yeast from the breweries, provided they can come up with an economically viable way of drying it. Dried brewer's grain and waste yeast are normally considered a highly valuable feed ingredients.

The wheat mill in Douala would benefit economically from introduction of port-side bulk silo handling of the imported wheat. In fact, the location of the entire milling complex should have been at port-side from the outset.

C. FUTURE PROSPECTS

Paradoxically, the growing urban population is creating an expanding market for food products, and thus for new agro-industries producing more sophisticated added-value food products. Good examples are carbonated and non-carbonated soft drinks. These may be based on domestically-produced fruit juices such as pineapple, citrus and passion fruit. They could be distributed non-refrigerated in commercially-sterile packs such as Tetra Brick, which have a non-refrigerated shelf life of about twelve months. There are numerous international firms which license the production and technical know-how for these products. Such production is commonly carried out in conjunction with that of liquid dairy products, since the same kind of pasteurization and filling equipment can be used, and the equipment can thus be put to optimal use. Actually, the market for dairy products is also expanding at present, and is carried out in the private sector. Possibly, use of domestically-produced plant proteins and derivatives from such as cotton seed (or soybeans) may be incorporated into the dairy-product formulations.

The urban areas are also providing an expanded market for fresh produce. The team was told that the recent opening of a new paved road between the Western agricultural region and Yaounde caused the price of vegetables in the farm region to rise by 60 percent -- an indication of the incentives to production created by improved transportation infrastructure. The present poor infrastructure makes it hard to get the perishable produce fresh to the market. This represents, however, a very promising sector for private initiative. Private rural collection centers with some grading and refrigeration facilities would help to improve the quality of the fresh produce, cut down on waste, and provide producers higher prices (and therefore more incentive). Obviously, urban produce marketing centers with refrigeration facilities are also private-sector opportunities.

Small-scale poultry slaughtering, dressing and freezing plants at Douala and Yaounde are also private-sector venture opportunities. The growing urban areas provide an expanding market for ready-to-cook poultry. The present importation of frozen dressed poultry amounts to about \$1 million per year.

Increased utilization of by-products from brewing and cane sugar in the feed and chemical industries also represent good investment opportunities. As mentioned above, the dried mash (brewer's grain) and spent yeast commonly provide an important income for the brewing industry in industrialized nations where they are used in feed mixes. Newer technologies for the use of waste heat, plus more efficient drying technology may make drying of the mash and spent yeast economically more feasible. Molasses may be used in feed mixes, where, aside from its nutritional value, it also serves as a binder in the production of feed pellets. Molasses also commonly serves as feed stock for the production of refined ethyl alcohol. Ethyl alcohol, besides its uses in alcoholic beverages, also can be used as a solvent and an additive to gasoline, to replace lead-based anti-knock additives. Molasses is also a feed stock in the production of yeast for use in the brewing and baking industry, as well as human or animal feed. Such industries should be located at the sugar refineries to minimize transportation costs.

Growing markets and the present stagnation in production create the need for increased and improved production of certified seeds, seedlings, fertilizer and other agricultural chemicals. These activities should be best carried out by the private sector. There are a number of U.S. companies which should be interested in participating in such Cameroonian undertakings if good feasibility studies can be conducted.

We did not specifically study the forestry industry, but we were informed by many sources that Cameroon's forest resources are much unexploited, and thus offer a large potential for additional exports. The World Bank concurs with this view, estimating that of the 20 million hectares of forests (the third largest area in Africa), only 8 million hectares are currently exploited.

We have not heard or read of any studies made in this field by USAID. Since forestry and forest-based products represent vast and innovative fields of American expertise, USAID should give strong consideration to this field -- especially to the local processing of wood for export. Most of Cameroon's forestry exports consist of logs only.

D. THE USAID ROLE

USAID already has a number of programs in the Cameroonian agricultural sector which are aimed at increasing and improving agricultural production. Among these are the small-seed and tuber-improvement projects. There is also assistance aimed at improving Cameroonian agricultural research programs. The USAID assistance to the University Center of Dschang (University of Florida staff project) is aimed at producing agricultural graduates for the modernization of the agricultural sector. USAID should support more basic business instruction to better equip graduates to start their own enterprises. USAID in Yaounde is aware of this problem. We emphasize it, however, because it is such

a key element in agricultural education in Cameroon today. Basic small-business classes could be supplemented by field trips to appropriate private-sector agro businesses and seminars by private agro business experts. Aid by USAID to support Cameroonian agricultural students to spend some time abroad, actually working in small to medium-scale agro businesses, should be considered. Most top agricultural graduates enter the employment of the Ministry of Agriculture and therefore spend most or all of their career in offices. USAID should encourage more fieldwork, as well as provide direct aid to the field extension service.

The highly ambitious USAID-proposed privatization program for the fertilizer industry, phasing out the Government support program over a period of five years, is commendable. Certain recommendations concerning this program are set out in a separate section.

As noted above, Cameroon has a serious problem in its utilization of by-products such as brewer's mash (brewer's grain), waste yeast, molasses from cane-sugar refineries and, probably, slaughterhouse by-products. Technical assistance for improved economical uses of these valuable by-products might be very appropriate for USAID.

Other areas where USAID technical assistance would be valuable are:

- collection systems
- grading and handling
- distribution methods, especially for perishable products
- road-building and maintenance.

In all of these areas, technical assistance should be provided to private-sector (present or potential) investors whenever possible.

CHAPTER 3

USAID

A. AMERICAN PRIVATE INVESTMENT

It has always been difficult for Cameroon to attract non-French foreign investment, and in recent years the policy of favoring nationals has added a further disincentive. The revised investment code of 1984 is non-competitive, except for companies that are majority owned by Cameroonians.

Despite countless attempts by U.S. interests to invest in Cameroon, American business presence in the country is minimal. The concerted and highly professional OPIC mission of 1986 involved 160 projects, many of which were not only economically viable, but also important to the welfare of Cameroon. As far as this mission can trace, not one of these projects has moved from the study stage. Worse, several very large American investments have been either shelved indefinitely (the Foster Wheeler bitumen project) or cancelled sine die (the Seaboard flour mill project).

With this record, it is hardly surprising that U.S. investment interest in Cameroon is minimal today, especially as word of the current recession gets around.

Perhaps the most telling feature of the American experience in Cameroon is the pulling-out of two of the three American banks that were established during the boom years. Chase, the last remaining U.S. bank, is running on low gear, with a very reduced asset base, and no new lending.

In the current circumstances, one would be hard put to rate Cameroon very high on any U.S. corporate priority list. We believe that American investment in Cameroon over the near to medium terms should logically consist of:

- o Strategic long-term agricultural investments with little fixed plant. The Del Monte program is an excellent example of intelligent exploitation of Cameroon natural resources for market entry (in this case, the EEC). This Lome' Convention effectively opens up opportunities to the larger U.S. food companies that have extensive European involvement.
- o Arms-length Service Sales. There are many opportunities for U.S. business to provide essential services to the Cameroonian economy without major financial involvement. These include:
 - franchising
 - licensing
 - technological transfers
 - consulting services, especially accounting, tax and legal
 - management contracts
 - financial consulting
 - sales of software.

However, it is vital that service contracts of this sort be protected by proper contractual controls and enforcement. In the case of licenses, for example, due care must be taken to establish minimum annual sales levels. In the case of franchising performance, standards must be enforced by punitive measures

(e.g. franchise rights withdrawal). Legal contracts per se will not suffice in Cameroon. "Up front" money and letters of credit for all dealings must be insisted upon, at least until the mutual confidence that only time can bring, is established.

American technical and managerial expertise can be put to work profitably in Cameroon through intelligent and prudent transfer mechanisms that do not require large, and risky, capital inputs.

Joint Ventures with French Interests. With the very special exception of the oil sector (Shell of U.S.-Elf-Aquitaine), we have not observed a single instance of the most obvious type of association for American corporations, joint ventures with established French companies. The French have the largest vested interest in the Cameroon economy, their own currency supports it, and they have the most knowledge of how to conduct local business.

To minimize risk, a good way to set up such business combinations is through jointly owned holding companies in France, which would own the Cameroon operating subsidiaries. Thus, both parties' interests would be protected by the various French-American treaties.

These could represent a fairly large range of investment opportunities, including licensing and franchising, but especially American agribusiness.

We do believe that U.S. business interests would be well advised to follow developments in Cameroon closely. With World Bank/IMF intervention, with policy reforms in the government, and with a better overall economic climate, Cameroon may very well become a very viable country for American investment.

USAID, working with Commerce, OPIC, etc. can provide an excellent vantage point to spot business opportunities, especially in agriculture-related industries.

B. THE FERTILIZER SUB-SECTOR REFORM PROGRAM

The mission has studied all key documentation relating to this fascinating and ambitious program. As part of our overview of private sector activity, we have been asked to consider the implications of USAID private sector initiatives. The Fertilizer Program may be the most far-reaching of any USAID project ever launched in Cameroon.

We believe that the implications of the Program are very significant indeed. They go far beyond the fertilizer, or indeed the agricultural, field. If even partial positive results are obtained in a timely fashion (12-18 months), we believe the Program will have an excellent chance of achieving its stated goal of liberalization/privatization; more importantly, it could be a key factor in policy reform of the Cameroon administration.

The phased "hold-back" approach being taken is most sensible, and will enable USAID to cut its losses quickly. On the other hand, the program is of such importance, that every possible effort must be made to monitor its implementation at every link in the chain. If anything, USAID Yaounde should err on the high side in its monitoring efforts. Only limited reliance should be placed on reports from participating banks.

We also would like to make three suggestions that have come out of our limited field experience:

- o Widespread Knowledge of the Program Can Be Crucial to its Success. In our many interviews around the country, we questioned our respondents as to their knowledge of the Program. (This includes people from both business and government.) We did not find a high level of awareness. We believe it is very important that a program of public information about the program should be initiated without delay. This need not involve large sums of money; news spreads quickly through Cameroon when it is disseminated at key points.

Why is an information program important?

- o public opinion support will provide support for Cameroon government participation;
- o it will put an onus on the commercial banks to perform diligently;
- o it will attract a larger number of potential participants -- importers, distributors, baggers, truckers, retailers, etc. and thus maximize competition;
- o it will enhance AID's reputation as a neutral, benevolent motor of policy change, and help secure both public and private cooperation in future USAID projects;
- o it will help explain why fertilizer prices may increase, and thus perhaps forestall an unfavorable public reaction.

Such an information program must be carried out jointly with the Cameroon government, of course.

- o Local Production of Fertilizer. We feel that the logical, ultimate goal of this program is a viable local source of fertilizer. If the project proceeds as planned, a much larger market will develop, and private initiatives to supply this market from a local processing base will inevitably arise. Such initiatives should be encouraged of course, but no special incentives will be necessary; investment will be market driven.

We feel that perhaps not enough attention has been given to this aspect of the Program by USAID. It is psychologically important because of the prevailing Cameroonian prejudice against importers.

- o Location of Program Director. The key aspect of the Program is commercial. Since commercial activities in Cameroon are concentrated in Douala, we believe it would be worthwhile considering locating the actual administration of the Program there, at least during the launch period.

C. INDUSTRIAL FREE ZONES

At the present time, and for some time in the past, foreign fixed investment in Cameroon has been effectively, if not officially, discouraged. Even, and especially, the French have not invested much permanent capital in recent years, despite their dominating role in trade. As we have seen, the existence of a large parastatal sector occupying key areas of the economy is a serious hindrance to private investment.

The mechanisms necessary for privatization may or may not be put in place, but the execution of the reforms will inevitably take a long time. The social implications of shutting down huge agro and industrial operations are too large for any government to carry out abruptly.

There are at present no mechanisms to reform the bureaucracy, since this involves not only curtailing expenses, but also profound structural changes. Hence, the necessary reforms in the actual management of the country will take a long time. Until these two problems are solved, we feel that foreign investors will be loathe to come to Cameroon in any significant numbers.

Industrial Free Zones, which have been successful throughout the world when they were well planned and well managed, may provide a means to attract capital for investment outside the existing fiscal and regulatory system. In a Cameroon Industrial Free Zone, emphasis would be on exportation, especially the transformation and processing of agricultural products for the export markets. Ideal characteristics of such zones would be:

- o Duty and tax-free import of raw materials, both from abroad and from the interior of the country;
- o Duty-free imports of basic manufacturing equipment and components (tools, molds and dies);
- o Duty and tax-free exports of finished products;
- o Total pricing freedom;
- o Tax holidays, including both indirect (excise and sales) and direct taxation, for a certain number of years;
- o Freedom of expatriate movement -- for legitimate managerial and technical personnel;
- o Through private banks within the zones; deposits, loans and remittances either in international currencies, or in convertible CFAs;
- o Establishment of reasonable codes of conduct, i.e., safety, labor, wage, quality standards, etc., with enforcement to be carried out by mixed commissions of zone officials and representatives of zone operators.

The government's interest in such zones would be manifold:

- o the creation of employment. Many such zones in other countries have been very large job-creating machines.
- o substantial revenues from the leasing of land, buildings, and, possibly, new port facilities.
- o increased exports of base products.
- o the training of a whole new generation of Cameroonian managers.
- o large eventual tax revenues.

Modern well-run factories leased to individuals and corporations that have markets abroad would process, transform and ship such products as:

- o veneers, plywood, sidings, components and finished furniture made from Cameroonian wood;
- o coated and vacuum-sealed, as well as soluble, and freeze-dried coffee;
- o chemical, pharmaceutical, and health-care semi-products from cocoa;
- o rubber processing;
- o packaging of cash produce crops for daily delivery to European markets;
- o freezing of cash crops for distribution abroad.

The list can be expanded indefinitely. A good start could be the list of projects compiled by OPIC in 1986, many of which would seem suitable for Free Industrial Zones.

Production would be limited to locally-produced crops and raw materials, except when finished products require a certain percentage of imported materials. An example might be seen in coffee. With the low actual production of Arabica coffee (20,000 tons, compared with 100,000 tons of Robusta), it may be necessary to import enough additional Arabica coffee to make suitable blends for roasted export coffee. However, a local processing industry would provide an incentive for increasing Arabica planting, and the need for importing may eventually disappear.

A special agency of the Government would be set up to finance and build the first zone, possibly with the help of the ample private financing that is now available for these purposes. Since delivery of local crops and raw materials on time and at reasonable prices is crucial, zone operators would require government enforcement of supply contracts. Otherwise the Government's role should be passive.

The idea may not turn out to be feasible for reasons unknown to this mission, but we believe it should at least be discussed within the context of USAID's present dialogue with the Cameroon government.

D. A PRIVATE SECTOR OFFICE IN YAOUNDE

We recommend that a Private Sector Office be established in Yaounde. This office's primary responsibility would be to initiate, and monitor all USAID's projects in the Private Sector.

This office would:

- o Open up, and maintain a dialogue with the Cameroon government for structural and policy reform that would enhance economic growth through private initiative.
- o In particular, track the progress of the Privatization Commission, and provide technical assistance, possibly through the Center for Privatization, when asked (and paid) for.
- o Establish and maintain a Private Sector data bank (see Section 55, following).
- o Towards a Dynamic Private Sector Generator.

As the situation in Cameroon continues to evolve at an ever more rapid pace due to the deepening economic crisis, USAID cannot let itself be overtaken by events. Passivity would result in the U.S. being only a spectator to momentous social and economic changes in a key African country.

For changes are inevitable now in Cameroon, and USAID must not only be intimately involved in these changes, but must assure that the changes themselves proceed in the right directions.

While USAID cannot, and should not, effect a major reorientation of Cameroon society directly, it can, and should, provide Cameroonians with ideas, examples and options for a progressively market-driven, free enterprise-dominated, economy.

We have attempted to identify certain specific areas of USAID's attention, some of which can actually be sponsored directly by USAID (business instruction for agricultural students, producing models of value-added food processing plants, providing technical assistance in the produce collection and distribution chain etc.) and still others can be tackled as a financial partner of the government e.g. liberalization of fertilizer and similar changes that require bridge financing to ease the passage from subsidizing to free markets. USAID should have a number of new projects of this kind on its drawing boards now, to keep the momentum going as, (and when), the first results of the fertilizer scheme materialize.

Rice*, sugar and cotton* are now exploited by huge, inefficient monopolies. USAID can, possibly with a small amount of funding, become a consulting partner with the government in its efforts to make these industries profitable. USAID can call on data readily available from successful conversions of similar crop processing monopolies in other countries, for application in Cameroon. Classic, but tried and true management techniques are available, such as corporate reorganizations on functional lines, incentive plans for performance driven managers, elimination of non-business-related social charges, and the setting-up of proper cost and quality standards. Aggressive marketing is obviously a key final element in the corrective chain.

This work should be carried out in partnership with the government (the SNI), with the government providing the bulk of the funds necessary. USAID or its chosen contractors, should be paid for their work at least in nominal sums that cover out-of-pocket costs. (Some top retread management consultants could be helpful here.)

Another essential but very difficult task is to create an atmosphere of open, constructive dialogue with the key players (not necessarily at the Ministerial level) in the Government. This will take patience, the right man on our side, and (possibly), a special mandate from the President. USAID does not have this dialogue going now. and is highly dependant on outside institutions such as the World Bank and the IMF. A concerted effort must be made by the Mission to be intimate with decision makers in those ministries which are attempting to switch gears from a nationalized to a mixed, and eventually, a free economy.

We saw little evidence of this kind of relationship between USAID and Cameroon at the present time.

This brings up another point. Much more contact between the staff of the Mission in Yaounde must be made with the business leaders of Douala. This will cause extra expense in travel and time, but it must be done. Douala is where the commercial, industrial and entrepreneurial activities take place.

* See Appendix 4

Thus, more links between the business world and USAID seems vital, if we are to advance the growth of private enterprise in the country. These links will also help USAID's dialogue with the Government.

The Information Center Concept

Cameroonians are starved for information from the outside, as they experience the first real decrease in living standards since independence. How has the Ivory Coast improved productivity? How has Guinea fared since it dropped Marxism and returned to the Franc Zone? What are the best markets for wood products? What must be done to attract American investors?

These questions are being asked by Cameroonians of all walks of life. As our commercial office in Douala is understaffed -- and about to disappear -- USAID should set up, maintain, and continually enlarge a center of information to provide documentation on such subjects as:

- o Successful privatization techniques used in other countries
- o Agricultural productivity studies
- o Agribusiness techniques, especially processing for value-added export
- o Practical publications on intensive farming
- o Small business management
- o Methodology for governmental/private sector cooperation (examples from other countries)
- o The experience of small stock exchange in other small countries

Worldwide USAID case study histories would be available to all concerned. It should function in a disciplined, but very open manner, with maximum accessibility to be the leitmotif.

An important ancillary advantage will accrue; the Center will provide a very natural and respectable meeting place for American officials and Cameroonians. Seminars and roundtables can be part of the activities of the Center.

Finally, USAID should sponsor visiting lectures to discuss specific subjects of practical interest -- liquidity in banks, currency problems, taxes (the U.S. has acquired a large data base on revenues and savings inputs recently in our own tax reform work), agricultural upgrading, etc.

The center, if properly staffed, and equipped, should provide a focal point for the providing information to Cameroonians on the proper management of the economy.

Going back to our findings; we have tried to make clear that USAID should stay clear of the tontines. They appear to be functioning well, they are excessively private and even if they would allow us to work with them (not at all certain), it is doubtful that we could improve them. On the other hand, as noted, the Credit Union program should be expanded, and eventually taken to the urban areas. Because Credit Unions can create permanent capital they are better in the long-term than the tontines and Cameroonians will eventually recognize this fact.

We would further caution USAID from entering the currency reform at this time, although the Private Sector office should always be aware of the issues involved.

However, a possible area of USAID assistance is in the area of simplifying the Tax Code. This of course would be part of our recommended policy dialogue with the Government. It will also surface with adoption of the new Investment Code which should be analyzed most carefully within the policy dialogue.

To repeat, the number one priority must be to add value to agriculture. Even without structural reform, much can be done to more properly use Cameroon's great natural resources. Processing and shipping processed crops to the Common Market represents real possibilities.

However, to end on what must seem like a broken record; we must sit down with the Cameroonian authorities and work through policy reforms together. From this dialogue, many projects will arise that will benefit both countries.

THE PUBLIC SECTOR AND SNI

The Cameroon Government operates a number of monopolies in such essential public services as:

- Electrical generation and distribution
- Telecommunications
- Railways
- Internal air services

These could be considered "normal" government activities, and in the absence of a capital market, the State will undoubtedly continue to finance and manage them. However, Cameroon has gone much farther in State interventions through the creation of a national investment company.

A brief analysis of the portfolio of the Societe Nationale D'Investissement (SNI) is appropriate, since this government-owned investment company occupies such an important place in the national economy. Furthermore, companies in the S.N.I. group are the most obvious targets for privatization.

The S.N.I. was established in 1964 by the Government as "a surrogate capital market in the place of a non-existent private market".** It was to supply equity capital for economically viable projects, with the long-term goal of reselling its shares to private Cameroonians once the companies in question were fully operative.

Unfortunately, the S.N.I. has been a failure. From the beginning, it has been used by the Government as an instrument of national policy, being forced to invest in projects that stood little or no chance of becoming profitable. In addition, the S.N.I. was forced by the Government to supply vast sums of money for social services and infrastructure through the balance sheets of the companies.

Furthermore, companies were invariably mismanaged, as investment strategies were not linked to management performance goals.

S.N.I. has entered almost every field of Cameroonian economic activity. As of 6/30/86 (latest figures available), there were 59 enterprises in its portfolio. It has an official total equity position of approximately 20%, but government subsidies funnelled through the S.N.I. to cover losses make this meaningless.

The main holdings of the S.N.I. are identified below, but if we focus here on just the so-called "Primary Sector," some idea of the magnitude of the problem can be seen.

** World Bank "Cameroon Financial Sector Report," June 1986.

(in millions of CFA francs)

<u>Company</u>	<u>% Equity SNI</u>	<u>Cumulative Investments</u>	<u>Long Term Debt</u>	<u>Working Capital</u>	<u>Operating Profits</u>	<u>Net Cash Flow</u>
CAMSUCO (Sugar)	36%	13,025	15,086	61	(6,477)	(2,635)
CELLUCAM* (Wood Pulp)	30%	38,352	80,447	(65,454)	(18,795)	(13,591)
SODECOTON (cotton)	25%	15,112	10,610	(12,942)	(20,314)	(18,116)
Total Primary Sector	21%	157,788	174,761 (69,755)	(50,023)	(29,700)	

* Since closed down entirely, at an estimated total real loss
(investment plus losses) of the equivalent of \$1 billion!

Source: SNI Annual Report

As can be seen in the following, some of S.N.I.'s investments have been profitable, notably in consumer goods. It has 17% of Brasseries in Cameroon which had a net cash flow in 1985/86 of 20 billion CFA. However, this company, which has 80% of the Cameroonian beer market, could easily finance its growth through retained earnings, or increased capital from its French parent.

**COMPANIES WITH SALES OVER 3,000 MILLION CFA,
APPROXIMATELY \$10 MILLION**

(in millions of CFA francs)
1985/86

	<u>Products</u>	<u>Net Sales</u>	<u>Net Profits</u>
<u>Agriculture</u>			
SOCOPALM	Palm Oil	8,375	(139)
SODECOTON	Cotton	22,200	(20,314)
<u>Agribusiness</u>			
SCI	Cotton Processing	4,461	507
SOSUCAM	Sugar	7,242	98
CAMSUCO	Sugar	8,831	(6,477)
SAFACAM	Rubber, coffee	3,073	(107)
<u>Metallurgy and Electro-Mechanical</u>			
SOCATRAL	Aluminum Products	23,967	665
SOCAVER	Glass Bottles	5,550	298
ALUCAM	Aluminum	40,357	(655)
<u>Hotel Group</u>			
6 Companies	Hotels, Tourism	9,604	(5)
<u>Transport-Transit and Maintenance</u>			
SOTUC	Operation of buses	8,360	(3,047)
CAMSHIPLINES	Shipping	24,919	773
S.C.D.P.	Oil Stockage	4,103	260
<u>Financial Services</u>			
Participations	Commercial Banking	13,320	385
<u>Other</u>	Car Dealer	11,540	(191)
<u>Wood and Paper</u>			
SOFIBEL	Wood Processing	4,510	(435)
CELLUCAM	In liquidation--See Balance Sheet items		

**COMPANIES WITH SALES OVER 3,000 MILLION CFA,
APPROXIMATELY \$10 MILLION**

(in millions of CFA francs)
1985/86

	<u>Products</u>	<u>Net Sales</u>	<u>Net Profits</u>
<u>Food Processing</u>			
SIC-CACAOS	Cocoa Butter, etc.	12,747	736
CHOCOCAM	Chocolates	6,427	325
S.C.H.	Rubber	5,830	331
S.A.B.C.	Beer, Soft drinks	93,535	4,909
<u>Textiles</u>			
CICAM	Textiles	18,963	(1,643)
SOLICAM	Textiles	4,445	(20)
S.T.T.	Textiles	6,991	150
S.C.S.	Packaging	6,195	311
<u>Building Materials</u>			
CIMENCAM	Cement	27,833	1,027
<u>Leather and Skins</u>			
<u>BATA</u>	Shoes	5,893	639

The total portfolio shows a net loss and a negative working capital position. Heavy subsidies, of which the latest available figure is 90 billion CFA, must be used to cover losses, and these subsidies are recorded above the line. It has been estimated that the S.N.I. has consumed up to one-third of total oil revenues.

This poor financial and operating picture does not present a favorable scenario for a privatization program. The better companies in the portfolio, such as ALUCAM (Pechiney), and Brasseries du Cameroon, will stay with their French parents. Some other firms that are in good "niche" businesses (SOCAVER--glass bottles, SOCATRAC--aluminum products) could undoubtedly attract buyers, but who will want to tackle the economic and social challenges of CAMSUCO or SODECOTON?

In order to privatize the S.N.I., especially without the benefit of a stock market, the Government will undoubtedly have to:

- write off most, or all, of the companies' debts
- take over directly all non-economic activities such as housing, medical care, etc., leaving the companies as business entities only
- identify and sell off good assets in companies that are totally liquidated

- 43 -

- provide tax and other temporary incentives to new investors
- possibly, dissolve S.N.I. itself. Companies to be kept by the Government should be seen straightforwardly as public services.

In any case, there should be some selective opportunities for private investors as the privatization proceeds. However, the process will undoubtedly be very slow.

PPCL LOCAL PRESS STATEMENT

Plantations Pamol du Cameroun, Ltd.

It has been decided with great regret that due to its continuing trading losses Plantation Pamol du Cameroun must go into voluntary liquidation.

The company has been sustaining serious losses for two years due to:

- the sudden increase in state sector production leading to a major export surplus
- the collapse of world prices, which are expressed in US dollars, to their lowest levels in forty years
- already high production costs becoming hopelessly uncompetitive on world markets when the CFA franc rose 40% against the dollar
- a major increase in imports of liquid edible oils which reduced local palm oil sales volumes
- a price war led by the state sector of the industry on the local market.

During the past two years the company has reduced its costs as far as possible, and has looked for assistance to the Cameroonian Government. Its parent company--Unilever--has supported it by introducing substantial additional funds while a solution to the company's problems was found. These additional funds are the equivalent of the total dividends paid by PPCL to Unilever over the past ten years. Unilever cannot continue to support such a high level of losses without seeing evidence of a prospective improvement in the company's financial position.

The company has been offered for sale to the Government and to the private sector. An agreement to sell the company was recently concluded with a group of Cameroonian businessmen for a nominal sum. Regrettably, they have been unable to complete the contract.

No viable solution to the company's difficulties has been found despite the extensive discussions which have taken place over the past two years with various Government departments, with the other producers in the industry, and with prospective local buyers for the business.

The company's immediate liabilities exceed its available assets, and a liquidator from Kooh et Mure, Douala has been appointed.

TWO PARASTATALS

1. SEMRY

SEMRY is the government rice monopoly. It is the result of an immense and costly effort by France, which consisted of:

- River-damming to provide irrigation for rice paddies
- Construction of rice processing plants
- Farming and infrastructure equipment
- Continuing technical assistance.

SEMRY was created in 1971 with funds from the Cameroon government, the French government and World Bank sources. Extensions of rice activities beyond the original territory were financed (64%) by the EEC Development Fund.

Very rapidly, over 12,000 hectares of rice paddies were under cultivation, employing 22,000 families (over 100,000 people depending directly upon rice). Very high yields--11 tons per hectare in two annual crops--were obtained. Farmers were allowed to keep one-tenth of their production as an incentive to productivity. A theoretically beneficial system of cooperation between SEMRY and rice farmers was established and is still functioning. This basically consists of:

SEMRY Roles

- Irrigation
- Supply of plants
- Supply of fertilizer
- Transportation
- Technical assistance.

Farmers' Roles

- Plant growing
- Maintenance of individual paddy ditches
- Weeding
- Harvesting and bagging.

SEMRY supplies its services at a cost to the farmer in return for a guaranteed support price (which today is 78 CFA/kilo). In 1986, 60,000 tons of rice were produced in Cameroon--enough for 50-60% of the local market. Despite all this, rice production in Cameroon has proved uneconomical, and SEMRY is accumulating very large deficits.

The main reasons for this failure, which has now resulted in many months of warehouse stocking of unsold rice that is rapidly spoiling, are as follows:

1. Transportation Costs. These were largely neglected or underestimated by the founders of SEMRY. Rice production is in the North, but most of the rice markets are in the South. In 1987, the cost of transporting one kilo of rice to Douala from the Northern rice-processing plant is 70 CFA. Theoretically, the North is to account for 30% of the production, but in reality it consumes less.

2. Cheap Imports. The Government has granted licenses for the massive importation of rice (most of which seems to come from Asia). The price of this imported rice undercuts SEMRY so drastically that importers make token purchases from SEMRY (for political purposes) but do not claim the product! To make matters worse, the quality of imported rice is higher than that of SEMRY.
3. Slow Payment to Farmers. Because of insufficient cash management, farmers are not paid promptly, with the result that they wait until the last day to harvest. This results in over-mature, low-quality rice.
4. Overheads at SEMRY. SEMRY is over-staffed. It is reckoned that headquarters personnel could be cut by three-fourths.
5. Outmoded Production Facilities. It appears that the processing plants are outmoded. A SEMRY project to put up a new plant for parboiled rice has been delayed indefinitely.
6. Inefficient Collections. Apparently, the system of collection of rice grains at the paddy level is inefficient.

Much of this information has not been confirmed, but it comes from a most reliable source. Private-sector opportunities seem to be abundant in this situation where sector raw rice of good quality, grown in adequately irrigated paddies, can be produced in very high yields. If SEMRY is privatized, private interests could:

1. Process more efficiently
2. Produce better quality rice
3. Market more effectively.

One expert believes that farmers would accept a considerably lesser base price (60 francs/kilo) if they were assured of prompt payments (including adequate pre-financing) and on-time deliveries of special fertilizers.

During the run-in phase of privatization, it would probably be necessary to limit imports. This should only be a temporary measure, however. If Cameroon cannot produce rice competitively--and only thorough feasibility studies by private interests could this be known--it becomes a matter of Government social policy as to whether this expensive enterprise is maintained. In any case, it appears that it can be made far more efficient than it is today.

2. SODECOTON (for which we have less detailed information)

SODECOTON is a state monopoly created when the Cameroon government nationalized a French-owned cotton production and marketing company. Today the Cameroon government owns 70% of SODECOTON, and the former French owners still have 30%. Additionally, they have the contract to market cotton fibers world-wide.

SODECOTON has been running huge deficits for a number of years. Part of the cause of the deficit is the low price of cotton on the world market, especially from Asian competition. Cotton farmers are paid 165 CFA/kilo of picked cotton. It takes 2.5 kilos of raw cotton to make 1 kilo of cotton fiber. This makes 412.5 CFA/kilo, not including transportation and other marketing overheads, compared to the current world price of 300 CFA/kilo.

In addition, SODECOTON, as in the case of many Cameroon parastatals, bears a huge cost burden of social costs--housing, schooling, health care, etc. In fact, there seems to be agreement by the executives of SODECOTON who were interviewed--including both French technician-managers (there are 20) and Cameroonians--that a true allocation of costs among cultivation (price support), transportation (fiber and oil production), distribution and social costs is totally impossible with the present accounting system.