



International Science and Technology Institute, Inc.

CAMEROON

ASSESSMENT OF THE CLIMATE

FOR

PRIVATE SECTOR DEVELOPMENT AND INVESTMENT

Prepared for:

Office of Private Enterprise
Bureau for Africa
Agency for International Development
(Contract No. PDC-0000-I-34-3083-00)

By:

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SUMMARY

Relative to most other sub-Saharan countries, Cameroon's record of economic growth is enviable. The country "houses" one of the larger and potentially more vibrant private sectors, both indigenous and foreign. Cameroon is self-sufficient in food production, has one of the higher gross national products per capita (\$740), has 30% of its 10 million population in the cash economy, has moderate reserves of oil and gas, and on balance has a workable infrastructure for business operations. Local, French and U.S. banks are located in Cameroon. The country neither has squandered its oil income nor has acquired an inordinate amount of debt. Thus, many of the elements important for private sector development are present. Cameroon does have potential.

On the negative side, excessive, slow-moving bureaucracy, corruption, a general lack of understanding of business ethics, an aggressive, adversarial taxation system, and a lack of credit for local entrepreneurs are slowing private sector development in Cameroon.

On June 15, 1985, President Biya delivered the government's budget at which time he called for a more liberal economy, a more liberated financial system, a greater flow and freedom of information, and he recognized implicitly the overinvolvement of the State in the marketplace. Recently, Cameroonian businessmen have been brought into the political party. The voice of the business community is beginning to be heard.

With the foregoing as background, and the recent November 1985 visit of a Cameroonian Trade and Investment Mission to the U.S., and a March 1986 OPIC-sponsored Trade and Investment Mission to Cameroon, the time appears favorable for USAID to intensify discussions with the Cameroonian government along lines where U.S. assistance and expertise can be put to use to capitalize on the business potential that exists, and to resolve some of the problems lacking that potential.

The principal ideas put forth are the creation of a specialized bank to meet the credit needs of small- and medium-sized businessmen, technical assistance in studying and establishing a small, but modern financial market with appropriate financial investments to spread "ownership" of the business economy among many citizens, and assistance in improving Cameroonian business education.

Further recommendations include improvement of the country's "food chain," especially in food processing and marketing, and in meat and dairy production. The housing sector and urban infrastructure deserve attention, as there is widespread need for affordable housing and improved infrastructure in the cities. Cameroon's natural gas reserves are of sufficient size to warrant study of the feasibility of transforming the gas into gasoline and diesel fuel, using new technologies that are now on stream. Cameroon Airlines merits study to determine whether it should be privatized and whether the potential exists for it to become a regional hub airline much as is Ethiopian airlines in East Africa. Finally, Cameroon's tax system should be revised so that it provides greater incentives to business, as well as gathering revenues, and that it no longer is a hinderance to the business community.

Thus, the time appears propitious for USAID to start serious discussions on specifics with the government of Cameroon. The potential for the business sector to become a true driving force of the economy is present.

1. INTRODUCTION

This report describes the findings of a two-man team sent to Cameroon in June 1985 to assess the climate for private sector development and to suggest a program for investment promotion. The team was sent at the request of the Embassy and AID Mission in Yaoundé by the Office for Private Enterprise of the Africa Bureau of AID (AFR/PRE).

Cameroon was the third country to be visited by an assessment team. Madagascar and Ghana preceded it, and Botswana, Gabon and Zaire have followed it. Cameroon's reputation for sound development policies and its record of steady, if slow, growth, made it a suitable candidate for new private sector investment promotion programs being investigated by AID. On the negative side, excessive bureaucratic intervention and an atmosphere of low business morality seem to pervade the Cameroonian economy. The team was asked to provide an "unvarnished" assessment of the business and investment climate, especially in light of the investment missions, in fall 1985 from Cameroon to U.S.A. and in early 1986 from the U.S.A. to Cameroon. The team was organized by International Science and Technology Institute, Inc. It consisted of Peter Glenshaw and David Harmon, independent businessmen with considerable experience in development and in Africa, who were assisted by Al Lincoln, a U.S. expatriate who is a leading private consultant in Douala. The team interviewed numerous people in Washington who deal currently with Cameroon before travelling there via Paris. It worked closely with the staff of the U.S. Embassy and AID in Yaoundé and the U.S. Consulate General in Douala, interviewed many public officials and private businessmen and made a short field trip to Limbe, Kumba, Bamenda and Bafoussam. The team is grateful to the many people who cooperated with us and especially to the U.S. staff who arranged appointments and transportation.

Cameroon is a large, mainly agricultural, country with a low but unevenly distributed population of almost 10 million. If its southern border were laid out in the U.S. Gulf Coast, its northernmost tip would reach up to Chicago. The population is concentrated in the north and west, and 40% live in urban areas. Life expectancy is short at 47 years, which shows the anomaly of the generally low average standard of living in a country which has for many years been self-sufficient in food supply, a major exporter of coffee, cocoa, timber, rubber and palm oil and, recently, a producer of oil. Uneven concentration of wealth and income has resulted in such other anomalies as Cameroon's reputedly being the country with the third highest per capita consumption of champagne.

The country has good land and climate resources on which its agriculture is based, some of the best reserves of tropical forest in the world, moderate reserves of oil and natural gas, and unexploited reserves of bauxite and iron ore which are large but inaccessible. Its rich agricultural potential made it a sought-after prize in the colonial scramble for Africa and its artificial boundaries derive from the Berlin conference of the late 1800's when it was "allotted" to Germany. The result was a colonial territory and the current nation which encompasses some 160 tribal groups, each with their own language or dialect, varying from Nilotic people in the North to Bantu in the South and East who are more closely affiliated to people across the borders than they are to one another. The complexities were increased after the First World War when the colony of defeated Germany was divided between France and Great Britain. The German inheritance faded quickly but the French and English influences both survive to the present. The strong

French influence is explained by the fact that 80% of the population is from former French Cameroon, and because the French, rather than the British, system of decolonization prevailed at the time of independence. This has resulted in close ties with France, a French system of public administration which requires firm political leadership and bureaucratic control, and strong reliance on the French economy.

The benefits have been mixed. On the one hand, there has been political and financial stability, but on the other, there is an inflexibility regarding internal and external change.

2. CAMEROON GOVERNMENT POLICIES, REGULATIONS AND PROCEDURES

a. Political Stability and Risk

Cameroon is, and has been politically stable except for an attempted coup in April 1984 against the new government of President Biya. The President is attempting to put his personal mark on political development and has introduced serious measures to democratize, liberalize and moralize the society. Below the seemingly calm surface, there is a measure of political uncertainty due in part to expectations which have not yet been met, and in part due to the presence of inflexible, entrenched bureaucracy.

On the negative side of the question, are the following factors:

- (i) Many feel Mr. Biya is not consolidating his power fast enough to deliver on the promises he made to Cameroon.
- (ii) The government's/culture's need to make decisions through time-consuming consensus of all groups. In the words of one Cameroonian businessman, "Our government manages more by inaction than by action."
- (iii) The regional/religious/ethnic/linguistic differences that make up Cameroon call for an extremely adroit balancing act.

On the positive side are the following factors:

- (i) Others feel that, in fact, Mr. Biya is consolidating his power, and is becoming more "tested" as time goes on.
- (ii) The country's security forces are loyal.
- (iii) Mr. Biya is starting to bring individuals from the private sector into the party (political).
- (iv) The French military, economic and business presence is a stabilizing force for Cameroon.

Relations with neighboring countries are good, but there is some tension on the Nigerian border, which is now closed. Contraband is a constant source of friction and occasionally there are mutual charges of each country drilling (on a slant) into the other's oil fields (adjacent to one another). Relations with the other neighbors are good, the only potential problem being Mr. Qaddafi's ambitions in the area.

b. National Development Plan

The economy is planned on a formal basis with the fifth 5-year plan period ending in 1986. The plan is complex and places heavy demands on the human, institutional and financial resources of the country.

The third, fourth and fifth Plans state the importance of private enterprise, in part through emphasis on private investment and in part through development of small and medium-sized enterprises. In fact, the government has been active in the establishment and ownership of large industrial projects. For example, public investment under the Fourth Plan accounted for about two-thirds of all investment.* Investment Code incentives encouraged large scale activities with heavy foreign investment, technical and management overtones. Long, drawn out administrative procedures, and lack of financial resources may discourage smaller enterprises. The state is heavily involved in large-scale manufacturing and other industries which have not been profitable. Port, railroad and airline operations function quite well; telecommunications less so; banking is tied down by a web of minute regulations.

Sectoral priorities are expressed in general terms: agriculture is the base on which industry builds in order to supply internal markets first, and then export markets with manufactures.

Cameroon's economy is correctly described as mixed in the degree of government control. Manufacturing activities are partly controlled from the standpoint of privileges granted and price controls. The state participates in the financial sector through its requirement of partial (33 1/3%) ownership in banks.

c. Business Formation and Investment

There is no general requirement that a business has to be licensed except for certain sectors. In general, if you want to establish a business, not requiring Investment Code privileges, and your business is not in those activities falling under the purview of governmental approval and screening, establishment is not complex or time-consuming. A legal form for the business is chosen, the requirements of the legal form met and the business registered.

The most common types of business forms are the Société Anonyme (the closest to the standard Anglo-Saxon business corporation), the Société à Responsabilité Limitée (a highly simplified form of private limited company commonly used for family enterprises and other small businesses), partnerships of various sorts, and the company limited by shares - under vestigial British law still applicable in the South West and North West provinces. The Société Anonyme is top-rated because of its familiarity.

The activities which require governmental approval and screening are limited to: banks, insurance companies, mining, petroleum, and the professions. Exploitation of any natural resource requires a license, as does food processing - a health license.

* Private Sector: The Tortoise Walk: Public Policy and Private Activity in the Economic Development of Cameroon, AID Evaluation Special Study No. 10, March 1983, p. 22.

Banking and petroleum are the only industries requiring government participation ownership. The law stipulates Cameroonian government participation in banks of 33 1/3%, but, in fact, government ownership is 35%. In petroleum, the government share is 20%, but with production sharing and other arrangements, its share effectively rises.

The general rule of thumb about investment screening and approval, is that the more one asks of the government in terms of Investment Code privileges, the more complex and time-consuming the screening and approval processes become. Unfortunately, the investment screening and approval processes lack automaticity. Bottlenecks include vagueness of the law and the lack of clear screening/approval criteria.

When a business wants major concessions from the government, such as partial government ownership or loan guarantees, the screening and approval process can take anywhere from 1.5 to 6 years. The lengthy time is partly due to general bureaucratic inertia, partly due to the consensus nature of any and all decisions, and partly due to the fact that the government in the past had guaranteed loans, only to have them go sour.

Finally, there is a recently adopted investment code which favors majority owned Cameroonian enterprises. This will be detailed in Section H.

d. International Remittances

There are no restraints on repatriation of capital, repayment of debt, and remittances of profits provided that the initial transaction, whether investment or loan, has been properly documented and cleared (investment declared; offshore borrowing authorized) at the inception.

Foreign exchange is available, its availability guaranteed by the Franc Zone agreement with France, and is obtained through the banking system, with most outward transfers requiring prior authorization. The CFA franc converts to the French franc at a rate of 50 to one as fixed by treaty in 1972.

As an "inducement" for businesses to transfer technology to Cameroon, the government levies a 15% withholding tax on offshore services, equipment leases and the like. It also limits allowable offshore service charges to 10% of taxable profit. For construction and petroleum companies, these charges may be no more than 5% of gross revenue.

e. International Trade Restrictions

On imports, tariff levels vary from 50-90% on invoiced value and shipping. The usual complex francophone-type duty schedule is used. Tariffs are comprised of a customs tax, an entry tax, a turnover tax and a "national complementary tax." For example, in the interests of protecting its battery industry, Cameroon places a 50% national complementary tax on the imports of batteries. Everything imported must have an import license, although there is no particular difficulty in getting one.

There are no import quotas. As long as a person/business can get an import license and pay the duty, they can import whatever they want.* There are no restrictions on payments and credit.

Non-tariff barriers to free trade are limited to South African imports which are prohibited, the closed Nigerian border, and some suspected EEC dumping of wheat flour. Other impediments are delays in getting goods out of the port of Douala (as long as three weeks), some graft and a big problem with pilferage.

Export quotas do not exist except for coffee under the International Coffee Organization. Price controls exist through the National Produce Marketing Board - a monopoly pricing board. The NPMB imposes their prices (what they will pay producers) for the major export crops.

There are private coffee exporters, however, and they are subject to export quotas. There is no system of export licensing. Export duties do exist and are modest, two percent in general, except for major cash export crops.

For example, for coffee and cocoa export duties equal 42% plus additional taxes of 50 CFA/metric ton. Timber ranges from 15-35% depending on the species, while panels, veneers and plywood are taxed at two percent. In general, raw materials exported are heavily taxed, while products with value added are not.

Special incentives such as tax relief exist under the Investment Code (see Section H). Foreign exchange credits are not necessary due to the ready availability of foreign exchange.

f. International Agreements

Cameroon belongs to the Central African Customs and Economic Union (UDEAC) along with Chad, The Central African Republic, Congo, Gabon and Equatorial Guinea. UDEAC allows capital goods and produce to circulate freely and minimizes or abolishes duties on manufactures. Because of size and strategic position (good port access to the Atlantic Ocean) Cameroon is the most important member of UDEAC. Cameroon is a signatory of the Lomé III Convention which gives it duty free access to the European Common Market. It is also a member of GATT. A bilateral investment treaty between Cameroon and the U.S. has been initialed, but not yet signed.

Cameroon falls under the aegis of OPIC which provides inconvertibility, expropriation and war risk insurance to U.S. investors. There are Export-Import Bank loans and guarantees,** and Cameroon has programs with COFAS (the French equivalent of export insurance credit), with EDC (Export Development Corporation-Canada) and with ECGD (Export Credit Guarantee Department - UK).

* Subject to certain regulations. There are three categories of regulated goods: (1) Sensitive - i.e., rice, flour, sugar. Under conditions of shortfall, rice, for example, can be imported; (2) Jumelage (twinning) - for certain products, the importer must demonstrate that he is selling the same local product; (3) Simple Regulated, e.g., Uncle Ben's luxury rice.

** Currently, Cameroon is having problems making payments on Cameroon Air's Boeing 747. As of June 21, 1985, a loan payment has been overdue since December. An outstanding loan on a warehouse for the Chamber of Commerce is also under contention.

Cameroon is a member of the African Organization of Intellectual Property (AOIP), a good regional system of registration of intellectual property rights made up of 13 African countries. Cameroon is also a member of WIPO.

g. Taxes

The French concept of an all powerful fiscal authority and inspectorate has been taken into the Cameroon economy whole and intact. No one has looked at the tax system as an incentive generator, rather it is considered a tax gatherer. The serious problem is the arbitrary nature of fiscal control.

Cameroon's tax system is complex and relies heavily on customs duties and other indirect taxes for government revenue purposes rather than on income taxes as such. Nonetheless, income and other business taxes are substantial. In toto, they can amount to 50-55% of gross profits. Cameroon has a corporate income tax of 38.5% on taxable profits, a minimum income tax of 440,000 CFA or 1.1% of annual turnover regardless of the year's results, a 15% withholding tax on overseas fees and charges, a 16.5% tax on all interest and distributions including dividends and any payments which are not allowed as deductible expenses for corporate income tax purposes, a turnover tax of 9.9% on gross billings (normally passed on to the customer), a tax on capital upon formation of a company (2%) and any subsequent capital increase (2%), AND an annual registration tax on the company's outstanding capital stocks and bonds and its reserves figured at 1.5% of the first billion CFA, 1% on the next billion and 0.5% on the remainder. This recurring annual tax is a disincentive to build capital. There are also business license taxes, payroll taxes, social security taxes, all of which a company is liable for. Finally, there is a complex "subsystem" of registration and stamp taxes.

Another example of tax disincentive is the recent mandate that companies will revalue their assets, under a formula which will force companies to reinvest 150% of their capital gain. If the company does not or cannot reinvest, then it will have to pay a one-time tax on the capital gain at twice the normal rate (see Annex 1 for greater detail). Clearly the revaluation formula could have an adverse impact on business confidence.

Tax enforcement policy is also a problem. When tax is assessed above and beyond what has been paid initially, there can be as much as 50-400 percent penalty on the extra tax collected. While it is difficult to verify these claims, one must nonetheless view the tax region cautiously.

h. Investment Incentives

On June 26, 1984, Cameroon enacted a new investment code into law. Under the new code there are four "categories" of incentive packages. The size of the investment largely determines which category applies, except for one category which is largely reserved for majority ownership by Cameroonian interests.

Category A applies to investments exceeding 500 million CFA. For 10 years, it grants a reduction in import duties to 5%, and an exemption from duties levied on the local purchase of materials and equipment, spares, raw materials and intermediate parts.

Category B applies to investments exceeding 2.5 billion CFA. For 10 years it grants the advantages of Category A plus, for five years, exemption from transfer taxes and deferral of depreciation during the five-year period.

Category C applies to small and medium-sized enterprises (SME) which don't exceed 500 million CFA in invested capital, are owned at least 65% by Cameroonians. This category grants Category A advantages for 10 years, or if the SME is established outside of zones of high industrial concentration (Douala, Yaounde) Category A advantages for 15 years, plus for both an 8-year exemption from the corporate tax, tax on capital, tax on credit distribution, registration duties, and the tax on interest and investment income.

Category D applies to investments of at least 5 billion CFA and which are of strategic importance for the realization of the country's economic development plan. Firms in this category receive Category B advantages plus a 15-year guarantee against unfavorable changes in the tax law. In addition, they can negotiate with the government for renewal of concessions, the supply of energy and water, the use of rail and port facilities, etc.

The investment code favors new or expanded businesses in the following sectors:

- agriculture, livestock and timber exploitation
- manufacture, including processing and assembly operations
- tourism, hotels
- construction and public works
- mining, extractive industries
- maintenance of industrial equipment

The code stresses value added, employment creation, geographical decentralization and greater Cameroonian ownership and management of enterprises. Further, the turnover tax and customs duties are replaced by a "single tax" (Tax Unique) for firms exporting to other UDEAC countries. Agricultural exports pay zero tax, while manufacturers pay 5-20%. Payment of the single tax exempt firms from customs duties in other UDEAC countries.

The investment code is slanted toward SMEs, but can be discouraging to small, foreign investment. According to many Cameroonians, they want foreign smaller business with relatively unsophisticated technology, yet the code militates against this kind of investment. Also, the new code clearly spells out provision for penalties, and the government views the imposition of penalties as iron clad. For example, if a firm does not (can not) invest what it said it would in its application, or employ the number it said it would, it is penalized. The fine can run from anywhere between one to three percent of gross revenues (before taxes). If the government wishes, it may withdraw approval.

Examination of the code suggests that most of all the important tax breaks are aimed at companies with majority Cameroonian ownership and that to obtain a significant tax holiday, the foreign firm must invest a minimum of \$5 million.

i. Labor Laws

Cameroon has a very detailed and strictly applied minimum salary schedule, matched to the individual's educational level. These minima, which include fringe benefits, are low. Minimum wages, however, differ by law for civil servants as opposed to the private sector (which includes the parastatal "sector"), for agriculture, industry and services and for urban vs. rural. The minimum wage is 17,000 CFA per month. By contrast, the minimum wage in the Ivory Coast is 33,000 CFA per month, and 64,000 CFA per month in Gabon.

There is some pressure on the private sector not to pay more than the civil service pay levels. The civil service does not understand that to get quality you have to pay for it. Also, there is the inevitable element of jealousy - "if you overpay, you will distort the economy." One bank official had the theory that to get the best, you have to pay well. The bank recruited Cameroonian MBA's from the U.S. - which was good for the bank and good for Cameroon - a reverse brain drain. The Cameroonian Chief Executive Officer, however, could not deal with the fact that these MBA's were being paid more than a "normal" Cameroonian.

In general, banks pay the best, followed by transportation and manufacturing. Parastatals pay better than the government. Following is a rough index of salaries/fringes:

<u>Minimum Scale by Category</u>	<u>Public Sector</u>	<u>Parastatals</u>	<u>Private Sector</u>
Workers	100	115	115
Supervisory Personnel	100	125	125 - 135
Managerial Personnel	100	125	150 - 200

Labor-management relations are generally good. There is little unrest or protest and a philosophy of compromise reigns.

Almost all large businesses have in-house/in-service training programs, and some have training centers - banks, insurance companies, oil companies and the breweries. Some employers send employees to the National Training Center (SONAFOB) and some send employees overseas for training. Thus, there is a growing pool of skilled labor.

Cameroon does not have a quota system for expatriate staffing, but does follow a "Cameroonisation" policy on a flexible case-by-case basis. Entry and residence requirements are that the expatriate employee (1) obtain an employment contract approved by the Labor Ministry (1-3 months for approval), (2) enter Cameroon and obtain a residence permit (3-9 months). Most employment contracts are for a maximum duration of two years. All companies will get one or two indeterminate length contracts. There is no work permit per se.

The investor (he has to be share holder and sole statutory manager/proprietor), applies for an indeterminate length residence permit (which is granted 3-9 months after the investment dossier is approved). In the interim, he obtains a three-month visa which can be extended.

Foreigners can be expelled by the Ministry of Territorial Administration (Interior) without explanation or recourse.

Companies can layoff workers for legitimate reasons. The labor delegate of the company's personnel (employees' representative) must be consulted regarding the order in which employees will be laid off. The Ministry of Labor must be consulted as to the reasons for the layoff. To fire an individual employee requires careful documentation and building a strong case for the firing. Firing can be considered wrongful if the employer, in the view of the Ministry of Labor, does not have good enough reasons. The employer is required to write a detailed letter of dismissal to the employee explaining why he is being fired. This letter is reviewed by the Ministry of Labor with the fired worker.

j. Government Controls and Interference

Monopolies, in the strict sense of the word, exist in telecommunications (post office, telephones, telegraph, telex and press services) and in utilities. Ipsa facto, some monopolies exist simply because of the small size (population) of the country and the attempt by UDEAC to limit the economic union to a single factory in various manufacturing activities, because of the even smaller sizes of the other member countries.

Prices are controlled for almost all manufactured goods, especially key commodities. The underlying philosophy is that inflation should be kept at certain levels, at any cost. One of the major issues is the homologation of prices. Homologation of a product's complete cost structure takes 12-18 months, is complex and has to pass through the Ministry of Finance to the Deputy Secretary General in the Presidency, who is responsible for personally approving all pricing decisions. Because of delays in approval, businesses claim a tendency to fall behind current real costs.

In law, there are no formal wage caps, however, people seem to think there is as is indicated by the often-stated words "you can't do that, he's only in category 9." There are no production controls, and no formal limits on profit.

The government, when combined with parastatal organizations, is an important purchaser of goods and services, accounting for perhaps one-quarter of all the motor fuels bought in Cameroon, 15% of all the trucks and cars bought, and is a significant customer for furniture, office supplies, and construction materials and services. On the services side, the government is a growing customer of consulting services. Both Cameroonians and foreigners are hired by parastatal organizations.

For cash export crops, the government, through the National Produce Marketing Board is a very large purchaser and marketer (through licensing) of these products. The one effective private sector organization is the Bamileke Cooperative, UCCAO (The Central Union of Arabica Coffee Cooperatives of the West). French companies contract with individual farmers to grow green beans for export to France.

Parastatals are active only in certain sectors, (for example, petroleum refining and marketing, export crops marketing, state investment) however, the state is very active through the National Investment Corporation (SNI), a fully state-owned company. At independence, the private sector did not have sufficient money to invest heavily in agriculture, industry and trade. What private sector there was was French. SNI was established in 1964, in part to finance investments across various broad sectors of the economy through equity participation, loans or loan guarantees. In general, the Cameroonian government is not directly involved in production activities. SNI funds were mostly channelled into large scale government-promoted enterprises - some of which were promoted for other than profit making potential.

SNI funded (partially) enterprises in the agriculture and agriculture-related sectors are engaged in food processing, fisheries, livestock, leather goods, cash crops, agribusiness and textiles. SNI also has funded enterprises active in construction materials, metallurgical and electro-mechanical operations, hotels,

tourism, advertising, banking, transportation, and freight forwarding. In all, SNI has interests ranging from 10-51% in 63 companies. It has a competent staff, many of whom have U.S. MBAs. It has financed a number of white elephants, however.

Foreign competition from imports is blunted somewhat by regulations which block "sensitive" products or only allows imports of goods if the importer/retailer is selling a similar Cameroonian product. Expatriate investment presence certainly offers competition in the sense of being able to mobilize substantial funding rapidly, better management, greater credit worthiness and in general, higher credibility than local firms. For example, in the area of public works, the government gives preference to local contractors, but as they have little capital, and in general are small, they cannot compete. Any special treatment from the Cameroonian side is directed toward the indigenous businessmen - e.g., preferential bond interest rates, the Central Bank more ready to rediscount a loan that was made to a Cameroonian business.

k. Banking and Credit Policies/Regulations

In the past, banks were politicized, in the sense that the government used to tell the banks to whom and for what to lend, with the result that the banks ended up with portfolios full of bad loans. This practice has been stopped.

Currently, the law requires 33 1/3% state ownership in all banks. Actually, the state ownership level is 35%. The Ministry of Finance prescribes collateral required, the types of loans and the maximum interest rates banks can charge. Thus, banks can only compete in terms of service.

Regulations are pitched in favor of Cameroonian businesses, with strict interest rates to prevent banks from discriminating against these businesses. This policy arises from a very high level of prior bad experience with Cameroonian businessmen, a low opinion of indigenous management skills and integrity, and the fact that SMEs are not remunerative for banks. The three American banks located in Cameroon are principally involved in wholesale banking.

Moreover, inadequate legal procedures in the courts do not permit banks to recoup loans, foreclose, etc. Banks will make housing and consumer loans to civil servants, because of their regular salaries, part of which the banks can always attach. In fact, banks would prefer to have the civil servants salary "domiciled" in their banks where the bank can take out monthly payments.

Two state organizations have been established to help SMEs. FOGAPE guarantees bank loans made to SMEs, while CAPME helps SMEs with technical assistance and training. Both organizations have poor track records to date. Forthcoming legislation should allow FOGAPE to pay out automatically on a problem loan and let banks do their banking as they see fit.

l. Business Advisory and Promotional Services

A serious problem facing business in Cameroon is the lack of statistics and general business information. Marketing studies are difficult to do as a result. Information, much of it spurious, circulates by word of mouth.

Technical advisory services are largely absent, although the organization CAPME is supposed to assist SMEs in this domain. Syndustricam, an umbrella organization for manufacturing organizations, does provide its 107 members with information on new laws and regulations. Many members of Syndustricam are majority French owned, however, the organization reports it is trying to recruit Cameroonian SMEs.

In terms of economic and market information services, there is very little. The Chamber of Commerce has some labor statistics, the latest pay scales and cost of living indexes, but nothing on markets or suppliers. Apparently, the Chamber of Commerce does not see its role as collecting and disseminating information on a systematic basis. Basically, what little economic information there is, is scattered - there is no one-stop shopping. The Central Bank has credit and money supply information, customs has import and export information, and the National Produce Marketing Board has export crop production data.

The situation is somewhat better for investment and trade promotion. Cameroon has sent trade and investment missions to Canada, France and Japan. One is planned for the U.S. in autumn 1985. An OPIC mission to Cameroon is planned for early 1986. The state of Ohio recently (June 1985) sent a Trade and Investment Mission to Cameroon as part of a four-country tour to Africa.

Cameroon has an organization, ONCE (The National Office of Export Promotion), formed to help manufacturers export. With FED funding, it has held trade fairs in Cameroon, Congo, Gabon, the Central African Republic and Zaire. It has also participated in European fairs in Paris, London, Berlin, Utrecht, Leipzig, Milan, Munich and Marseilles.

ONCE's philosophy is that the manufacturer should first be able to produce for and market to the internal market successfully, and only then consider export markets. ONCE will try to find products which can fill a market niche and find markets.

Finally, there are sufficient professionals (lawyers, accountants, financial consultants) who can help both potential investors and operating businesses on financial, legal and regulatory matters.

Summary

Table I summarizes the team's findings of the impact of government policies and regulations on the development of the private sector. The findings are based on interviews with a variety of businessmen, local and expatriate. Only political stability and risk, and international remittances, are considered moderately favorable factors, while there are various major and moderately unfavorable elements of government policy which businessmen see as hampering development of the private sector.

TABLE I

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

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

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

In addition to these factors, others were identified by the Cameroonian business people who were interviewed by the team. These, in order of priority, are as follows:

1. Excessive interference by the bureaucracy at all levels and in all sectors of the economy. There are no clear rules of the game; regulations are interpreted in an arbitrary way.
2. Pervasive and subtle situations in which the state assumes responsibility for many aspects of Cameroonian life.
3. A system of business more European than American in nature.
4. Lack of modern management and business skills.
5. No mechanisms to mobilize capital.
6. A workforce that requires a great deal of supervision and that is not used to taking initiative.
7. Poor intra-country communications, and poor urban infrastructure in Douala.
8. Little timely, pertinent, accurate and credible business information available; a short (4-6 hours) workday as a result of the siesta break in the middle of the day.

3. ECONOMIC AND MARKET FACTORS

a. Economic and Market Stability and Growth Prospects

Cameroon's economic performance since independence has been enviable with per capita income growing at an average annual rate of 2.8%, and accelerating with the advent of its offshore oil industry. Inflation reportedly has been kept at manageable levels and Cameroon has followed a cautious fiscal policy (see Section 2a, Political Stability and Risk, for commentary on management by inaction). The US embassy forecasts real growth rates in GDP of 6-7% for 1984 and 1985. Based on a 1983/84 GDP of \$7.3 billion,* CURRENT GDP (1984/85) should be approximately \$7.8 billion. Population was reported at 9.3 billion at mid-1983 and the annual population growth rate was estimated at 2.6% to 2.8%. Thus the mid 1985 population should be 9.9 million. Current GDP per capita therefore is calculated at approximately \$740. The official inflation rate is reported at nine percent, however, others feel it is currently running at 15-20%.

Cameroon's Balance of Payments is in relatively good shape due to its oil export revenues. The current account balance was positive, with exports exceeding imports by approximately \$400 million in 1983/84.

* "Economic Trends Report for Cameroon," American Embassy, Yaounde, February 25, 1985, p.2.

Cameroon's external debt for year end 1983 was estimated at \$3.4 billion and her debt-service ratio was somewhere between 12-23% depending on assumptions made. Cameroon's foreign revenue statistics are incomplete because a large portion of unreported petroleum export receipts are held offshore, and are not recorded until they are repatriated.

Additional population characteristics are an increasingly younger demographic structure (60% of the population are 20 years old or less), and an urban-rural division of approximately 40% - 60%. Douala alone is estimated to hold between 1 and 1.2 million people. Life expectancy at birth remains at 47 years because of high infant mortality. It is estimated that 3 million of Cameroon's almost ten million people are in the cash economy - a high proportion for sub-Saharan Africa. Just about 1/2 of the total population works, and this one half is divided almost equally between men and women. About 70% of the active labor force are involved in agriculture.

There are two viewpoints on Cameroon's breadth of business base. First, Cameroon is reported to be the second best risk in sub-Saharan Africa. 30% of its population is in the cash economy, and it is self sufficient in food production. She has a viable, broad (for Africa) export sector: petroleum, petroleum products, lumber, coffee, cocoa, palm oil and derivatives, bananas, vegetables, tea, pepper, rubber, aluminum products, and for UDEAC countries, manufactured products. Internally, the business base is more diversified than most sub-Saharan countries. It ranges from petroleum to computer services. Much of the business infrastructure is sound, and where it is currently weak (e.g., internal communications, lack of paved roads), it will be improved.

The second view holds that in spite of the foregoing, the marketplace is small, there are too many companies in too few areas (e.g., breweries) and there are herds of white elephants. From an American perspective, Cameroon's effective (cash) market size is a serious constraint. Using food processing, which employs "modest" technology, even the slowest processing and packaging machinery will soon outstrip the market. One American businessman, if all goes well, will open a plant to package soft drinks and aseptic water for medical purposes. For the first three - four years, he figures his machinery will stand idle for a third of the year. He is hoping for increased demand by the end of year four, so that his plant will turn full-time.

The neighboring countries' populations, except for Nigeria, when combined are roughly that of Cameroon, approximately 10 million. The Central African Republic and Chad are accessible by roads, which account for established trade patterns. Small ticket consumer items (cigarettes, beer, soap, chocolate bars, bicycles, plastic goods, aluminum cookware, cement, some sugar) are Cameroon's exports to these two countries. As markets, they are limited by their poverty, low purchasing power, and small fraction of the population in the cash economy.

Gabon and Congo represent more wealthy markets. Gabon imports many food products from Cameroon, but has only 1.1 million people. The road link between Cameroon and Gabon is poor. The Congo is much less accessible as there are no roads from Cameroon to the Congo. Most goods have to be shipped by sea from Douala to Pointe Noire and then moved by train to Brazzaville.

Also, there is the problem of duplication in production within UDEAC. In the case of basic manufactures, UDEAC tries to limit the economic union area to one factory, e.g., bottles - where small market size will not permit more than one. The members, however, are not cooperating fully. In short, market potential in neighboring countries is modest.

For the very long run, and assuming Nigeria gets her house in order, the potential for a 100 million person market cannot be overlooked.

b. Production Resources and Services

While there are no restrictions on availability of basic materials and spare parts, there is some general lack of availability. In fact, a minimum amount of spares are kept on hand. In Cameroon, as in much of Africa, it is attractive to carry many competing brands of products, but not so attractive to carry a lot of spare parts. The low level of business confidence erodes the local dealers interest in carrying large amounts of inventory. One way to "achieve" rapid turnover is to reduce the denominator in the equation. In fact, some branches are willing to forego sales to keep inventories as low as possible so that overall they look better.

Transportation is not a real problem in Cameroon. While only four percent of its roads are paved (vs. 15% for sub-Saharan Africa), unpaved roads are relatively well maintained. Moreover, there are plans to increase the amount of paved roads. There is an ample supply of trucks in the country, except for those times when Chad must be supplied urgently with donor food aid. There are no problems with availability of POL in the country, and Douala has a good repair/spare part chain. For shipment of goods outside Douala, non-Cameroonian transporters must charter Cameroonian owned trucks.

The state railroad, Regiefercam, operates at a deficit, and could better its marketing and reliability. It handles 700,000 to 800,000 tons of traffic yearly and has the potential of handling 2 million tons. It moves goods fairly well, and work is going on to straighten out the center portion of the line between Yaounde and Douala. There are also good storage facilities at its northern railhead - N'Goundere.

The port of Douala works fairly efficiently, handling 4.2 million tons of goods yearly. Maintenance and stevedoring are in private hands, and there is a good deal of competition for this work. The port handles approximately 70,000 tons of merchandise in containers annually - not yet enough to justify the installation of large cranes. Container traffic, however, is increasing at a rate of 10-12% per year. Looking at the entire port to customer system, the port's capacity exceeds that of the inland infrastructure. Thus, while there is no port congestion, there is some congestion on the land side. There is a national transportation plan being developed by the government, with the assistance of the World Bank and UNDP, which should be complete by the end of 1987. The port authority estimates that by the year 2000, with port improvement, Douala could handle 10 million tons of merchandise annually. There is a master plan for a deep sea port near Limbe which has been under consideration for the past 5-6 years. Undertaking this project is a function of political decisions, which have not yet been made.

The airline system, Cameroon Air, is fairly reliable, but lacks sufficient capacity. Tickets must be booked in advance. Fortunately, the new road from Yaounde to Douala should alleviate congestion on the Douala-Yaounde flights. Cameroon is building a number of airports capable of taking Boeing 737s.

Telecommunications to the outside are good and by satellite. Telex communications work well. Internally, communications are not good. The telephone system breaks down when it rains, it is overloaded and does not interface with the British system in West Cameroon. The postal system is poor at best - mail regularly gets lost and one can count on 6 day delivery in Douala. In Douala it is more effective to communicate via telex or by hand carrying documents/information.

Urban infrastructure in Douala is a growing problem with the influx of people from the rural areas. Traffic is congested and there is little parking available. There is a sewer and water project underway in Douala to help alleviate some of the urban strains. In general, business has no problems obtaining sufficient water for industrial uses. Electricity is ample except in times of insufficient rains.

Local Credit and Capital

Currently, there are excess funds in the banking system from petroleum export sales receipts, deposits and repatriation of petroleum generated funds from offshore to pay parastatal bills. The economy can not absorb all this credit, and banks are loathe to lend to anyone but the best credit risks, i.e., oil companies and breweries. The biggest problems are financing a business and the borrower's capacity to repay. Further, there is the lack of an adequate security (collateral) mechanism. The problem is finding a security which a small business borrower can put up and which can be realized, if necessary, in a short period of time. There is not yet a formal title system using legal documentation for land ownership.

From the borrower's side, the loan dossier which must be compiled to qualify for credit is extensive - including a birth certificate and a certificate of good morality from the borrower's Village Chief. Second, most borrowers do not know how to complete a dossier which will satisfy the banks. Third, the amount of time a bank takes to process a loan is a big constraint on the borrower. Fourth, there is the difference in the way in which French and American banks operate. French banks tend to operate on a case-by-case basis, and with collateral, will lend on a "name." At U.S. banks, rules are rules, and not only is collateral important, but also the firm's projected balance sheet and cash flow. Finally, on the borrower's side, companies are not optimistic and thus won't expand inventories or carry customers.

The cost of credit is fixed by the government according to the type of lender and the type and term of credit to be granted. It is a complex schedule, however, for sake of explication, some examples will serve to show the cost of credit in Cameroon:

Normal Risk Borrower - Medium Term Loan -	13.25%
Short-term Facility	18%
Building Loan - 10 year term - 1st house	7.75%
2nd house - to rent	13.25%

The maximum interest payable on time deposits is ten percent.

Another serious problem facing the Cameroonian entrepreneur is the almost total lack of venture capital. There is no formal local capital market, although the government and the World Bank are looking into the possibilities of starting one. Because of the oil boom of the late 1970s and early 1980s, real estate blossomed, with the result that today a lot of capital is tied up in real estate. The only other sources are the informal savings "associations" - which operate principally in the short-term. For example, the largest tontines among the Bamileke auction large sums of money - with usurious interest paid for quick cash, e.g., a trusted member can borrow 50 million CFA for 10 days at the end of which time he must repay 55 million CFA. It is estimated that tontines account for at least 20% of the credit available in the country. A very modest, but growing capital source is a credit union movement comprised of two credit union leagues - between them they number some 75,000 members and have total assets of about 6.3 billion CFA or \$14 million. The tontines, by contrast, can mobilize \$500 million. The banks in Cameroon, which have been characterized as S and Ls, and more savings than loan, just want collateral for loans.

Of course, SMEs are the most affected by the credit situation in Cameroon. In June 1984, a law was promulgated to strengthen FOGAPE, the state organization whose task it is to help the small businessman put together a viable proposal and guarantee his loan.

Finally, for a firm's loan to qualify for rediscounting at the Central Bank, at least 1/3 of the firm's capital must be covered by the borrowing firm's own funds. If Central Bank rediscounting is not of importance, a firm can leverage very highly. For example, there is one firm currently in Cameroon which has a debt/equity ratio of 25:1.

Distribution and Marketing

Distribution and marketing channels are relatively good, but would improve considerably with the paving of roads, so more agricultural produce could get to urban areas on a timely basis. Subcontracting for maintenance, repairs and parts is not currently a business activity (except in the computer/office services field), although it is being considered.

Entrepreneurs

There certainly is entrepreneurial spirit among the Cameroonians but entrepreneurial ability needs to be developed. Furthermore, the business mentality of short-term trading among the Bamileke, Ibo descendents and the Hausa, and the usual African "production" mentality - must give way to one of long-term, market driven business.

While there is a general shortage of competent Cameroonian management personnel on all levels, there are some young, educated managers coming along. The general complaint of businessmen is the overall lack of management know-how. One Cameroonian businessman pointed out that it will take a generation of education (including the passage of money to the children for their education) in order for sufficiently educated men and women to shatter the strong ethnic/political barriers that impede true management, and to change the attitude of "family first, work a distant second."

Labor

Although there are no reliable statistics on the labor supply nor on employment, employers feel there is a growing skilled labor force since many large companies have their own training facilities and programs, use government facilities and send employees overseas for training. On the other hand, unemployment in Douala is roughly estimated at 15-20%. It is definitely an employers' market and little hiring is taking place. The possibilities for job mobility are high because of a relatively good transportation infrastructure and because openings are widely advertised in newspapers and on the radio.

The consensus of employers is that training is definitely required. In certain areas, such as finance, it is hard to find capable people. Other opinions are that book sense and theory are good, but hands-on experience in working with complicated machinery is absent, and that constant supervision is necessary.

Almost all large companies have training programs and some have training centers. The government organization, CAPME, is supposed to offer training to SMEs, but to date its track record is poor. Mid-level technicians are in great shortage, especially as new (for Cameroon) technologies come on-stream, such as TV, radio and electronics repair.

In terms of labor characteristics and quality, there are problems. First is a certain lack of initiative and lack of appreciation of time. The family comes first, the job second - which accounts for a high rate of absenteeism. This is due to the presence of the extended family and all of their demands. Other complaints are that the Cameroonians work "with their rule books in their hands." They will do no more than is in their job descriptions. On the other hand, the second generation of job-holders are becoming much more conscientious about their job responsibilities.

Unions are not particularly strong in an adversarial way. They collaborate with business and government, and negotiate under a complete philosophy of compromise. Their motto is "work first, then get the fruits of your work." The unions feel their function is to educate workers about their obligations, their rights and their output.

Unions engage in sector-wide (e.g., agriculture, public works) collective bargaining. Under the Ahidjo regime, they were forced to cut international ties. Instead of becoming weaker, however, they reinforced their movement from within. A good example of this reinforcement was the building of a strong organizational structure of consumer cooperatives. There is very little protest today, and only an occasional slow down.

Other facilities are fair to good. Fire and police services in the two main cities are fair, while facilities and amenities for expatriates are good. There is ample housing, and because of over building, prices should be weakening. There is no problem obtaining consumer and household items.

c. Other Considerations

There are three endemic problems which the private sector faces. The first is the excruciatingly slow speed of government in doing business - in its forms, procedures and decision making. The second problem is that of an absence of an American

style business ethic. Generally, there is a lack of understanding for the need for trust in business relationships. There is little notion of building a relationship, of earning a customer's confidence, and therefore getting repeat business. The third is corruption. Although not on a scale with more aggressive self-aggrandizing economies like Zaire or Nigeria, it does have an impact on new foreign investment decisions. Also, corruption inflates prices which are then passed on to the consumer.

Sanctity of Contracts

Regarding the sanctity of contracts, even if contracts are written, they are not very sanctified. Because of the lack of business ethics, coupled with a written contract alone often is not sufficient. When dealing with Cameroon (both businessmen and government) and credit, the advice of foreign businessmen is "use irrevocable letters of credit only."

Government Non-Payment of Payables. The government of Cameroon is anywhere from 9-24 months late in payment to its creditors. Recently, there have been some reports of speeded up payments, and the government is in the process of paying off parastatals' debts.

Table II summarizes the findings of the team based on interviews with businessmen and government officials in Cameroon. Basic market factors are favorable while the lack of credit and corruption are the principal negative elements.

TABLE II

RELATIVE IMPORTANCE GIVEN BY BUSINESS EXECUTIVES TO ECONOMIC AND MARKET FACTORS IN ENCOURAGING PRIVATE SECTOR DEVELOPMENT. IN CAMEROON

Factors	<u>Considered as Favorable</u> Degree of Importance			<u>Considered as Unfavorable</u> Degree of Importance		
	Major	Moderate	Minor	Major	Moderate	Minor
Size of Market and Growth Prospects		x				
Basic Material and Parts		x				
Infrastructure		x				
Credit and Capital				x		
Business Services					x	
Entrepreneurial Talent					x	
Management and Technical Personnel					x	
Skilled Workers		x				
Unskilled Workers						x
Other Services					x	
Corruption, Contracts				x		

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

4. SELECTED ECONOMIC SECTORS, INDUSTRIES AND MAJOR LINES OF BUSINESS

Following is a description of the economic sectors, industries and lines of business which appear to have the greatest potential to attract local and foreign investment. The recommendations section goes into greater detail on certain of these potential areas.

a. Agriculture/Food Processing

As noted in the beginning of the report, Cameroon has good land and climate resources for its agriculture. It is one of the few sub-Saharan countries which is self-sufficient in food production. Transport is relatively good and there is a growing "cold chain" in the country. It would seem logical that the food chain, from farm gate to consumer, offers various possibilities for local investment and joint ventures, particularly in the areas of livestock, dairy and food processing.

b. Natural Gas

Cameroon reportedly has large gas reserves offshore toward the south. There is technology available today to turn part of this natural gas into gasoline and diesel fuel at relatively favorable costs. Of particular interest are the associated industries which might arise as a result of other uses of the gas, e.g., cooking.

c. Road Transportation/Construction/Repair

Assuming continued growth of the economy, truck transportation should continue to be an attractive area for local investment. Road construction and maintenance/repair will be of increasing interest for local businessmen (and for foreign) as Cameroon embarks on plans to pave much more of its now secondary roads. Cameroon's roads, in toto, are only 4% paved, vs. 15% on average for sub-Saharan Africa. Moreover, with the completion of the Douala-Younda main road, and the planned-for road construction and paving, inter-city bus transportation merits examination.

d. Housing and Urban Infrastructures

Affordable housing for salaried people is in very short supply in Cameroon. The concept of the "housing chain" from the forests (of which Cameroon is well-endowed) to the home is an attractive area for investment because of all the principal (logging, sawmill, transportation, storage, wholesaling, retailing, building) activities along the chain as well as the ancillary ones (equipment, maintenance, building hardware, non-wood building supplies, etc.). Urban infrastructure in Douala is becoming increasingly inadequate as more people move into the city from the rural areas. Communications, traffic, parking and building maintenance are the areas offering potential.

e. Consumer Goods/Repair Facilities

Cameroon's economic growth has brought about the beginnings of a middle class who are buying consumer goods other than food products. The products are light consumer goods such as radios, stereos, and appliances. Thirty percent of Cameroon's population are in the cash economy and the number is growing. Radios, for

example, are assembled and in part manufactured locally. The market is already sufficiently large to warrant the successful operation of a local GC dealer, a Cameroonian.

f. Industrial Services

Cameroon's business and government sectors lack basic industrial and maintenance services (janitorial, plant and equipment repair and maintenance, security), office building operations and maintenance, etc. This is virgin territory and with sufficient study, planning and effort could be extremely lucrative.

g. Business Information

Cameroon has no central clearinghouse of business information. Neither internal nor external markets are well-researched or known to the Cameroonian businessman, nor are overseas sources of supply well-known, especially U.S. sources. Cameroonian businessmen have little knowledge of foreign investors, who they are and what their resources/requirements are. Economic data is hard to come by and statistics are largely non-existent. Cameroon has done more investment and trade promotion by way of trade fairs overseas than many African countries and has an active organization, ONCE (The National Office of Export Promotion), doing this activity.

5. RECOMMENDATIONS

To conclude this report, a series of recommendations have been prepared which deal with current major expressed interests of the Cameroonian government, and with certain industries and lines of business which the consultants believe do have potential. The latter have been briefly described in the preceding section, and are detailed in this section.

A broad strategy for improving the investment climate in Cameroon for the private sector would seem to consist of lowering Cameroonian expectations, pointing out in detail the realities of the current business climate, and then beginning to identify areas where U.S. expertise can assist to turn things around, and even where the U.S. private sector could eventually be induced to invest in the future. The strategy would be more one of identifying broad areas of mutual interest than one of trying to define specific investment targets. The recent trade and investment mission from Cameroon to the U.S.A. was a start at implementing this strategy, and the OPIC mission set for March 1986 can continue the process.

a. Intensify and Focus Policy Dialogue

An ideal springboard for intensifying and focusing policy dialogue to stress the benefits of improving the private sector and urging privatization of State-run enterprises has been provided by President Biya's speech to Parliament on June 15th, 1985, at the time of presenting the Government's budget. The speech is strongly supportive of a liberal economy, not one completely free, but one in which liberalism is somehow constrained by the overall needs of the community, which is defined as communal liberalism.

Discussions between U.S. and Cameroon Government officials can point out how private sector development can be the keystone to achieving political and demographic goals. For instance, a vigorous private sector in the countryside is the surest way to curtail rural-urban population drift. In the same way, the private sector, in the long run, not public administration, is the surest provider of jobs to the vast and increasing numbers of Cameroonian youth who look for someplace to use their energy and drive. A number of areas of likely mutual interest have been identified as "investment project ideas" by the team and are described in summary briefs on pages 24-28. Two require special mention as they can be acted on immediately and can be vehicles for immediate, modest, but significant, offers of assistance from the U.S. Government. They concern liberalizing the Cameroon financial system and improving business education and are described below.

The functioning of the U.S. money market, the operation of a small stock exchange, and the way business education is done would be very relevant to Cameroonian needs. Visits to these and other places would also show the visitors how far the situation in Cameroon needs to be improved before it will be able to accommodate such modern aids to business and the economy. USIAD's 30-day visitor program would be a suitable vehicle to expose Cameroonians to the workings of U.S. financial institutions.

b. Financial System Liberalization

The idea of setting up a specialized bank to cater to the investment needs of small and medium-sized Cameroonian businessmen deserves special attention. Ideally such a bank would be private, would have U.S. as well as Cameroonian owners, and would provide project identification, preparation and supervision services in addition to normal banking services.

Funds for the initial technical assistance work would best come from AID/Washington's Africa Bureau, Private Sector Office as a follow-up to the team's work. Starter funds for a specialized investment bank - whose viability would need to be investigated -- could be considered on a loan basis from the Economic Initiative Funds which were especially established by Congress to encourage Third World countries to liberate their economies.

c. Assistance for Improving Cameroon Business Education

Cameroonian businessmen who had received foreign business training impressed the team with their basic understanding of modern business practices and their ability to adapt them to the situation in Cameroon. The lack of good business and managerial skills was cited by most observers as a basic problem of promoting private sector development in Cameroon. Business education, too, is an area of U.S. pre-eminence and one in which suitable arrangements could be made to provide initial U.S. technical assistance to be followed by U.S. involvement without the need for large scale U.S. financial assistance.

The first step would be to get general agreement from the Cameroonian government that this was an area worthy of U.S. assistance. That would be followed up by an investigative team which would explore the complete range of possibilities from sending capable Cameroonian students to U.S. business schools, through conducting seminars and short course programs in Cameroon to the establishment of a more permanent educational institution for evening and part-time courses and even,

eventually, full-time BBA and MBA courses. There is a branch of the University of Cameroon, the Ecole Superieure des Sciences Economiques et Commerciales (ESSEC), which has work/study programs in accounting, corporate law, taxation, personnel and general business skills. The yearly work phases with local businesses are of one to two months duration. ESSEC would be an appropriate vehicle to launch a business education improvement program. In investigating these items, the underlying concept would be that the training should rapidly become self-supporting with individuals, their families and their employers paying for the program through fees. Further financial support for permanent programs to be established in Cameroon could be considered from such sources as levies on members of Chambers of Commerce and other groupings of businesses.

d. Other Investment Project Ideas

The following suggestions are at the concept stage only, are futuristic and would require a most favorable turn of events to become do-able, but they are all within the realm of possibility and with significant changes in the Cameroonian business climate and in business and government practices. The list is clearly not exclusive. It is merely the list of initial ideas that struck the team as most appropriate for initial investigations of joint ventures between Cameroonians and Americans.

(i) Food Chain Potential: Improve and Increase Food Processing and Marketing

Background

Cameroon has the good fortune to be largely self-sufficient in food supply but much of that is lost between producer and consumer because of inefficient systems. Shortages occur at various seasons and in various areas. On the other hand, surpluses also occur. There is a need at all points of the "food chain" to improve the systems and that is best done through many individual private schemes. Food production and marketing is entirely private now and there is no reason to change that. U.S. expertise in this area is the best in the world and disaggregated enough to be able to handle smaller scale situations like those that exist in Cameroon. The Jamaica Agricultural Marketing Project (USAID) addresses successfully many of the same problems facing Cameroon and would be good groundwork for a similar Cameroonian effort.

Constraints

1. Agricultural Production is spread over hundreds of thousands -- if not millions -- of small holders. Gathering and standardizing to established quality levels in such a heterogeneity of product will be difficult.
2. The current inefficient markets provide considerable -- if inefficient -- employment, as well as opportunities to socialize. Displacing them will cause strains.
3. It will be difficult at first to identify a single, large enough and attractive enough venture to bring in Americans on a long-term basis.

Improve Meat Production and Marketing

Background

Cameroon has a small national beef herd, few pigs, and only a rudimentary poultry industry. Better quality meats and meat products are largely imported at high costs and sold beyond the means of ordinary wage earners. Although there is some truck transport of cattle to consumption centers, most are walked to market with considerable weight loss. Well-organized meat production and marketing of meat and meat products appear to offer good chances of success. American expertise in this area would seem to fit well.

Constraints

1. This would be a pioneer effort requiring a long-term effort and considerable initial outlays.
2. The physical environment, sanitary conditions, and veterinarian capacities could be limiting factors.
3. Traditional herders and meat supply chains will likely resist change unless the effort concentrates initially only on the up-scale market.
4. Brazil is a potential competitor once the Douala/Yaoundé markets become of sufficient size to attract attention. Brazil exports heavily to Abidjan in the Ivory Coast.

Establish a Dairy Industry

Background

Little or no milk or milk products from local cows move into Cameroonian markets or homes. All milk products are either imported as such or based on imported powdered milk. Dairy herds and dairying would need to be built "from the ground up," but distribution systems for products are reasonably well-developed. There is growing refrigerated transport and storage capacity. The higher elevations of the northwest province appear to be suited for dairying. There is a paved highway from this area to Douala and Limbé.

The U.S. dairy surplus would seem to provide an excellent catalyst to build up and expand the Cameroonian industry and eventually make it self-sufficient. An AID project based on PL 480 food aid is doing exactly this in Jamaica and is performing reasonably well. That experience could be adapted to Cameroon.

Constraints

1. Current suppliers of imported milk powder and dairy products would resist such moves.
2. Considerable patience would be needed to establish and build up local dairy herds.
3. The ability of Cameroonians as dairymen is untried.

(ii) Development of Natural Gas Reserves

Background

Cameroon has discovered delineated natural gas reserves said to be some 100 billion cubic meters (3.2 trillion cubic feet) offshore in the south near Kribi. In addition, a large amount of associated gas is flared during the production of oil from the offshore fields near Ramusso about 200 km away. There is no use for this gas as yet. An LNG project was explored by the French but has been put on the back burner. The Government would like to use the gas and is inclined to disallow flaring of associated gas, though this could mean a drop in oil production. There have been new technological developments which make it economical to process natural gas to diesel fuel and gasoline which could be applicable in Cameroon. Application of this technology will require detailed studies which American firms are wellplaced to do. These firms would also be well-placed to construct the major facilities required and to arrange the financing for them. The gas reserves appear more than adequate.

Spin-off industries from the natural gas such as bottled gas for cooking, associated hardware for the gas bottles, the gas bottles themselves, and gas stoves (cookers) offer possibilities. Longer-term opportunities include running gas into residential and industrial areas in Douala.

Constraints

1. The capital cost of a plant to convert gas to diesel and gasoline is very high -- about \$0.5-1.0 billion for a minimum size, which could supply Cameroon's current needs.
2. Installation of such a plant would be done in conjunction with changes to the refinery which could make part of the refinery investment obsolete.
3. The gas production, gathering and transmission system would also be very costly, also in the \$0.5-1.0 billion range.
4. The technology is very advanced and would require large numbers of expatriate technicians and managers for a decade or more to ensure the success of the project.

(iii) Develop Middle-Class and Low Cost Housing Estates

Background

There is real need in Douala, Yaoundé and the other major cities for good, affordable housing for middle class salary earners and also for low cost mass-produced housing. Little housing development is done on an estate or tract basis. Most houses are built one-by-one. With rising prosperity among the urban people a market might be developing for someone able to carry out housing tract development, as in the U.S.A. A total package of land and infrastructure development, housing construction and construction and ownership financing would be required. At the low cost end of the scale, factory-produced pre-fabricated units might be

able to be sold, especially through industrial firms needing to accommodate their workers. An additional benefit is the employment generated along the "housing chain," as this chain is largely labor-intensive, from the forest to the house.

Constraints

1. This is a pioneer idea which has been quite successful in parts of Latin America, although it has failed in other locales.
2. The poor record of loan repayment by Cameroonians will pose problems and ways will have to be sought to improve repayment such as through payroll deductions.
3. Cameroon is not well-established in supplying building needs on a mass production scale. Backward integration into builder's supplies may be needed.
4. The scope for Cameroonian SMEs is at present limited because of lack of capital, scale and expertise to move into "mass produced" housing.

(iv) Improvement of the urban business infrastructure in Douala

Background

Traffic congestion, inadequate telephone service, and poor building maintenance in Douala impede the easy flow of communication and interaction so necessary for modern business. They would have to be improved markedly if far-reaching ideas like the establishment of a money market or stock exchange are to be realized, let alone allow for the pace of normal business activity to increase. U.S. companies have excellent credentials in such matters as traffic engineering, installation and operation of parking facilities (badly needed for downtown Douala) and installation and operation of phone, and other communications activities. Under the proper circumstances, U.S. firms might even be persuaded to invest in these operations.

Constraints

1. The operation, planning and funding of such urban improvements presently lie in the hands of central, provincial and municipal government authorities, who would find it difficult to give up concessions in these areas to private enterprise.
2. There are current studies, tenders, and in the case of the telephone system, an international tender already out.
3. Funding for private enterprise ventures in these fields would require some sort of user fees, which users are not now accustomed to pay -- but which they might pay if they were assured of good service.

(v) Improve, Expand and Privatize Cameroon Airlines

Background

Cameroon Airlines is a small local carrier with a few international routes mostly to Europe and West Africa. It wishes to expand and intensify its local routes as part of the political desire to improve communications within the nation. In addition, Douala is ideally suited to be the hub in West Africa for a regional network connecting West, East and Southern Africa as Addis Ababa is in East Africa. Cameroon Airlines would do well to emulate the successful performance of Ethiopian Airlines as the foremost African carrier with the longtime assistance of TWA. A similar arrangement with a U.S. carrier, or airline management group, could be successful in the right circumstances.

Constraints

1. Cameroon Airlines apparently has operating assistance arrangements with the French who might well resent an American-backed carrier in their sphere of influence.
2. It has little autonomy and is facing financial difficulties.
3. Most African countries have their own small national airlines and would be reluctant to give access to Camair. Air Afrique and UTA would be reluctant to see its market entered by yet another competitor.

(vi) Revise the Cameroonian Tax System

Background

Cameroon has inherited a complex system from France which is good at gathering revenues for the state but seem to be counter-productive in encouraging enterprise and economic growth. Tax rates are onerous. The President has instituted a "tax break policy" to give "impetus to our policy of industrialization and to maintain the purchasing power of households". He has urged that more be done in this light. The U.S. is going through the biggest examination of its tax system in its history and has developed many kinds of political and technical expertise in coming up with a simpler, fairer, and more responsive system. It would seem that expertise could be "packaged" and made available to Cameroon -- and other third world countries. U.S. private sector experts could find a fertile field for long-term investments to set up facilities to investigate and help implement changes in the Cameroon tax system.

Constraints

1. This is probably the most sensitive and highly-charged area of Cameroonian politics and public administration.

ANNEX I

LIST OF PEOPLE MET

William Berlin
World Bank

William Faulkner
AID/W

Louis G. Guadagnoli
Senior Loan Officer
Export-Import Bank

Donal I Hertsmark
Price Waterhouse

Peter Ludvig
World Bank

Geroge Masters
African American Labor Center

Binaventure M'Bida-Essama
Investment Officer
International Finance Corporation

Van McCutcheone
Trade and Development Program

Philip Micheline
Department of Commerce

Michael Nightingale
West African Projects
World Bank

T. Dennis Reece
Office of Central African Affairs
U.S. Department of State

Daniel W. Riordan
Insurance Analyst
OPIC

Meryl I. Zeibenberg
Manager
Equator Advisory Services Ltd.

Yaounde

Adam Bernard
Consultant

Michael Brunu
Unified Systems of Cameroon

Theodore Eyeffa
Deputy Director, SNI

Mark Faguy
Ambassador of Canada

Jacques Faure
Secretary General, GICAM

Lue on Fosso
Secretary General, UNTC

Tapisi Ghogomu
Director of External Trade
Ministry of Commerce and Industry

James Houston
Resident Representative
World Bank

Emmanuel Kaane
UNTC

Mr. Mandeng
Director of Industry
Ministry of Commerce & Industry

H. Yaya Marofa
Manager-Exploration/Production
SNH

Douglas Martin
Commercial Officer, U.S. Embassy

Ze Bayard Nna
Ministry of Finance

Benjamin N. Ntonga
Director, FOGAPE

Heinz Oermann
Ministry of Commerce & Industry

Joseph Tefoue
Assistant Director-Finance
Ministry of Commerce & Industry

Sylvestre Teh
Assistant Controller
Cameroon Bank

Douala

Raymond Arrey
Commercial Manager
SOCARTO

Thomas Baba-A Fiab
General Manager
SOCARTO

Mr. Bateni
Secretary General
Chamber of Commerce

Samuel J. Bernstein
Rosch International Trading Co.

Mr. Biwole
Director of Inspection
Services/Sales
National Produce Marketing Board

Jean Baptiste Bonda
Chief of Service
Cellucam

Jean Mani Cezard
Director, Paribas

Robert E. Deessen
Deputy General Manager
Chase Bank Cameroon

W.M. Duckworth
Manager-Finance
Pecten Cameroon Co.

J.L. Greciet
General Manager
SJAEM

Mr. Guillot
Managing Director, SCI

Michel Hoffman, Director
Macrorner/Gallup International

Carl R. Jackson
Commercial Attache
U.S. Consulate

Samuel Kondo, President
Syndustucan

Albert Lincoln
Price Waterhouse

Andrew Lynn
Development Manager
Guinness Cameroon

Alain Marcheroni
General Manager
Group Socoba

Louis Ngounou
Secretary General
Alb

Valentin Njoya
Assistant General Manager
National Port Authority

Mr. Novafo
Manager, Division of Studies
National Center for Export Marketing

Mme Maomo
Syndustucan

Antoine L. Ntsioni
Deputy Manager of Audi & Marketing
Boston Bank Cameroon

Ohio Trade Mission

Philippe Queyrane
Senior Consultant, SIFIDA

Paul Roels
General Manager
Bank of America

Charles Twining, U.S. Consul

Daniel Tchuidjang
CAONLAIT

Joseph Waffo
General Manager, Camelec

Dr. Armond Yongbang
Pediatrician - businessmen

OTHER

Chief Trokette
Kumba

Brian Schwimmer
Consultant/WOCCU
Bamenda

J.N. Ngu
Generam Manager
Cameroon Development Corporation
Limbe