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FIELD ASSESSMENT

CAISSE COMMUNE D'EPARGNE ET D'INVESTISSEMENT

CCEI
CAMEROON

PREPARED BY
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UNDER THE
NATIONAL ASSOCIATION OF INVESTMENT COMPANIES
AFRICAN VENTURE CAPITAL PROJECT

AFRICA VENTURE CAPITAL PROJECT (AVCP)

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT (AFR/ONI/PSD)

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I. PURPOSE:

The purpose of the trip to Cameroon was to review the overall performance of the existing Caisse Commune d'Epargne et d'Investissement (CCEI) investment fund, including a review of its investment portfolio, deal flow and general management ability. The objective of the trip was to determine if the manager Boniface Kacyem has the capacity to manage a substantial venture capital fund. The trip also allowed for a general overview of the business, political and economic environment in which the CCEI fund operates within Cameroon. Originally scheduled from Tuesday, October 8, to Tuesday, October 15, a total of 8 days in country of which 6 were working days, the trip was reduced by the consultant to 6 days, of which 5 were working as explained below.

II. SUMMARY

A. Trip Context

Syncom Capital Corporation (SYNCOM) is a member of the National Association Of Investment Companies (NAIC). NAIC is a subcontractor to Harvey & Company and has entered into an agreement with Harvey & Company to provide backup support for the training component of its African Venture Capital Project. In that context, Syncom agreed in June 1991 to provide training to one of the venture capital fund managers who would come to the US from Africa. Syncom's willingness to participate in this program with NAIC was expressly conditioned upon a commitment from Harvey and Company that USAID was serious about the CCEI venture capital project and was willing to commit significant resources to it.

B. Conclusion and Recommendation

At the conclusion of the field assessment trip, it was obvious to Syncom that USAID was not serious about the CCEI venture capital project. Syncom's representative for this assessment, Herbert P. Wilkins, Sr. was informed upon his arrival in the Cameroon that USAID had decided to direct its attention away from the CCEI venture capital project and to focus its scarce time and resources on the development and funding of a free trade zone project in Douala, Cameroon.

Moreover, Mr. Wilkins was informed by Amin Pakzad a contract employee for USAID, that the Mission was dissatisfied with the work of Harvey & Company and did not expect to renew its contract in the future. Moreover, Mr. Pakzad, stated that the Mission, if it did continue in the venture capital area in the future was willing only to provide training and not capital.

As can be seen in the report that follows, the investment skill level of the CCEI management team was every bit as good as the skill level one would find in a US based venture fund management team. In short, it was Mr. Wilkins observation that training was not needed but instead, capital.

C. <u>Coordination with USAID - Cameroon</u>

Mr. Wilkins met upon arrival with Amin Pakzad at USAID. The original trip was scheduled for eight days. Mr. Wilkins was forced to cut his trip short by two days because of illness. Upon his arrival in Yaounde he developed a severe stomach illness. Although he was able to get medicine to treat the problem, Mr. Wilkins had to reduce his food consumption. Mr. Wilkins is a diabetic and takes insulin. His insulin dosage is tied closely to his level of food consumption and both insulin and food are closely regulated by his doctor and dietician. The reduced food intake necessitated by his illness caused an insulin imbalance. Mr. Wilkins' doctor advised him return to the states early to take care of the problem.

Before departing Cameroon, Mr. Wilkins contacted the Mission by phone and left a message for Mr. Pakzad, who was out of Yaounde, that the objectives had been complicated, that Harvey & Company in Washington, DC would be debriefed. The verbal debriefing took place in November 1991. The Draft report was submitted on January 27, 1992.

III. MANAGEMENT TRAINING:

A. <u>Syncom</u>

During the summer of 1991, Boniface Kacyem spent six weeks working with the staff of Syncom in Washington, DC to get a general understanding of how Syncom conducts its investment activities.

Syncom is comprised of a group of venture capital funds all managed by a central management group, W&J Management Company, Incorporated. The funds comprising Syncom are Syndicated Communications, Inc., Syncom Capital Corporation, and Syndicated Communications Venture Partners II, L.P. ("Syncom II"). Syncom II is a new venture capital partnership whose Investors are all pension funds. Syncom II began its operations in December of 1990 and is capitalized at $35 million.

Collectively, the Syncom funds have approximately $58 million of investable funds under management. These funds target investments in minority owned concerns in the telecommunications industry. Its investment portfolio is disbursed geographically around the U.S. and is diversified among several different segments of the communications industry. Syncom has, over the years, invested in 65 (sixty-five) minority owned communications concerns. Most of these investments have been exited from successfully and Syncom has been able to maintain an average internal rate of return annually since inception of 21% per annum.

B. Training Program

During his visit, Mr. Kacyem was exposed to all aspects of the management and operations of Syncom's funds. He was assigned several specific venture capital deals to work on and, in addition, he attended a number of meetings with portfolio company managers and several Board meetings of portfolio concerns. The purpose of these assignments was to ascertain the level of understanding Mr. Kacyem had for deal structuring and investment analysis. It was the conclusion of Syncom's staff that Mr. Kacyem had a superior understanding of the technical aspects of deal analysis. Considerable time was spent with Mr. Kacyem reviewing the significance of the interaction of the venture capitalist and the people who become investees. In that regard, we found Mr. Kacyem to have grasped the dynamics of the peculiar nature of the relationship between venture capitalist and investees.

C. Outcome

At the completion of his stay with Syncom, it was clear that Mr. Kacyem understood fully the venture capital process, as well as the mechanics of the American free enterprise system which helps make the process work. More importantly, it was clear that he also had the capacity to manage, subject to environmental factors, a traditional type venture capital fund.

IV. CCEI BANKING OPERATIONS:

A. Service To Entrepreneurs

Upon his visit to Cameroon, Mr. Wilkins was not provided any financial information on the performance of the bank fund. He was informed that the bank had grown substantially in size over the past few years and that it had been able to maintain a reasonable level of profitability in relation to asset size.

Mr. Wilkins was, however, impressed with the general level of commercial activity at the bank. He was particularly impressed with apparent deposit and lending activity in the main office and one of its branches in Yaounde, which he had a chance to visit. The bank has initiated several programs to expand service to entrepreneurs and small business investors who are depositors.

One program allows customers to purchase a coupon which has the same characteristics as a bank check. The coupon has a denomination on its face, representing the amount the bank would redeem it for. The customer pays the bank the face amount for the coupon. The coupons are being used by the purchasers to fund their periodic payment requirements to numerous investment clubs located throughout Cameroon. Use of the coupons eliminates the problems associated with carrying large sums of cash. It also insures that amounts paid to these small investment funds will remain deposited in CCEI.

B. Lending Activities

It appears from observation and discussion that the lending activities of the bank are very limited. Because the bank has no place to go to get liquidity, the bank has been forced to be a short term lender, holding large cash reserves to meet withdrawal demands if the need should arise. Accordingly, the bank has been unable to provide loans on a long term basis. Therefore, the bank is not able to provide capital for growth oriented projects.

Mr. Wilkins was able to visit several small private companies that the bank made loans to. The most impressive enterprise is a small furniture manufacturing shop with some 12 employees. The bank loaned the owner the equivalent of $5,000. The funds were used to purchase inventory, hand tools and a sewing machine. Since the loan was made, production and sales and increased five fold and the loan was fully repaid in less than twelve months.

Mr. Kacyem indicated that there are a number of similar situations where the bank loaned a rather small amount for a short period of time to an entrepreneur with rather dramatic results. However, he indicates that without long term lendable funds, projects of scale could not be financed by the bank. The bank recognizes its role is to provide small short term loans to a large and growing class of small business people who have no other source of borrowing other than CCEI.

C. Other Financing Options

To help meet the need associated with the lack of long term lendable funds, Mr. Kacyem indicated the bank is reviewing the possibility of establishing a leasing subsidiary. He expects the subsidiary would be able to provide capital for longer term loans to purchase equipment and manufacturing machinery. These loans would have a term significantly longer than the bank loans presently being made.

Funds needed for such a subsidiary would not have to rely on bank deposits to generate lendable funds. However, Mr. Kacyem does not believe that a leasing company could attract sufficient capital to be viable near term. Discussions have been held with several European capital sources about funding such a leasing subsidiary.

Another solution to the problem of the bank's inability to provide term loans would be to allow for a substantial increase in the capital of the bank. If it could be accomplished, the bank could then lend on a longer term basis and finance on a much larger scale small and medium size companies. The near term prospect for increasing substantially the capital base of the bank does not appear good.

D. Ownership Structure

The ownership structure of the bank is divided among three separate shareholder groups. The Dutch government owns approximately 20% the bank and the German government owns an additional 15% of the equity of the bank. The remaining 65% of the equity capital of the bank is owned by a number of local shareholders.

The local shareholders continuously invest in the capital of the bank through an investment club with some 150 members. The members each contribute an amount equal to $1,500 per month which is added to the capital of the bank supporting the growth and acquisition efforts of the bank investment company.

On an annual basis, CCEI local shareholders' investments generate approximately $2.5 million in new holding company capital. The majority of this capital is used to support acquisitions now being made by the investment fund. The balance of the capital is injected into the bank and has allowed the bank to continue its tremendous growth.

Based upon discussions with Mr. Kacyem, the bank has the equivalent of $48 million in assets after three years of operation. It is anticipated that the bank will be able to continue the present rapid level of growth over the next few years. However, Mr. Kacyem also indicated that to the extent there is a continued constraint on capital accumulation, the bank will have to slow or moderate its growth so that it does not outgrow what is believed to be a prudent level of capital assets for the bank.

E. Competition

The bank's main competition is three subsidiaries of major French Commercial Banks, in which the Cameroon Government is also a shareholder. There are also three small, foreign-owned, banks. These banks do not provide the same level of service nor do they provide the kind of direct loans to consumers and small entrepreneurs that CCEI is able to provide. Because they have been in existence for a much longer period of time, they have a much more extensive branch operation and hence, deposit gathering capability than does CCEI.

To some extent, the lack of a large deposit gathering capability will act as a limiting factor on a growth of CCEI in the future. Because of CCEI's willingness to be aggressive in the provision of services to its depositors, it has been able to garner a significant percentage of the deposit base in its local operating area. At the present time, CCEI's branch operations are not spread throughout the Cameroon. It is anticipated that if the bank is to grow its capital base in the future, it must be able to expand significantly its branch operations to all areas of the country.

In the interim, the coupon process that was outlined earlier has been initiated and made available to people in outlying areas of the Cameroon. In that way it is hoped by the bank's management that they will be able to attract deposits from distances substantially away from the heart of the bank's operation in Yaounde and Douala.

F. Management

Mr. Wilkins met with a number of the bank's staff individually and sat in on several meetings with the bank's employees as well attending the weekly bank managers meeting. It is clear that the calibre of the bank's managers is above average. They seem to have a good handle on the problems that confronted them on a day to day basis.

Mr. Wilkins also met with Dr. Focum, the chairman of the board of the bank holding company. During those meetings, Mr. Wilkins was able to discuss with both Dr. Focum and Mr. Kacyem the long term strategy for the development of both the bank and the investment fund. It is clear that a considerable amount of thought has gone into what appears to be a very well developed strategy. Both believe that in the near term, the bank and the investment fund can not afford to accept too much risk. Hence, the bank is kept very liquid. There are almost no start-up investments of any consequence in the portfolio of the investment fund.

V. CCEI INVESTMENT FUND OPERATIONS:

A. Investment Strategy

According to Mr. Kacyem, the near term investment strategy involves investment in concerns where little or no risk would be assumed by the CCEI investment fund.

It is believed that start-up investments are too risky for the current level of capitalization of the investment fund. To generate early investment successes, CCEI has targeted the privatization program of the Cameroon government as the source of most of its acquisitions. It is believed that many of the government owned firms that are being spun-off are not well managed; and by just providing good managers, many of these concerns can be made profitable immediately after acquiring them. CCEI will attempt to prove this concept with its first acquisition of a company, SOCAMAC, which is more fully described below.

He believes the fund should concentrate its efforts on the acquisition of companies which could, through internal restructuring regenerate substantial near-term profits. He expects that as CCEI is able to acquire these concerns and bring them to profitability, it will improve the overall capital strength of CCEI and the investment fund.

After achieving profitability, CCEI would then begin to pursue start-up type investments again as it had during its first two years of operations.

B. Profitability

Mr. Kacyem believes the bank can not now afford to absorb losses that might be associated with start-up ventures. In addition, he feels that psychologically it is very important for the investment group that provided the capital for the CCEi investment fund to experience continued positive operating results, profitability as opposed to losses associated with start-up ventures.

Through the generation of profits Mr. Kacyem believes a positive benefit would be the strengthening of the feeling among

C. <u>Operating Subsidiaries</u>

SAAR Insurance Company

Through its investment activities, CCEI has been able to establish a number of separate operating subsidiaries in different businesses. One such subsidiary is SAAR Insurance Company which provides re-insurance and insurance to the local business community in Yaounde and Douala. The insurance company was started recently. It's managing general director, Simon Ningahi, was formerly with one of the state owned re-insurance companies. He was attracted with the offer of an equity participation position in SAAR, which it is understood, if earned, could equal approximately 10% of the equity of the company.

The capital to fund the insurance company came from CCEI investment fund. SAAR is a start-up venture and will take, based upon comments from Mr. Kacyem, several years before it is fully developed and is a substantial competitor to the government owned insurance entities. The company operates offices in Yaounde and Douala. The Yaounde office is run by Mme Wouatsa and the office in Douala is run be Mr. Ningahi. These two offices, will be able to produce substantial business revenue over time.

SOCAMAC

The CCEI investment fund recently acquired a significant equity stake, in Societe Camerounaisse De Manutention Et D' Acconage (SOCAMAC). SOCAMAC is a ship stevedoring company located in Douala. The company is responsible for loading and unloading substantially all ship traffic in the port of Douala. CCEI investment fund owns 65%, Camship, a German company, owns 30% and 5% is owned by local investors.

It is anticipated the operations of SOCAMAC will be restructured in the coming year, primarily by reducing the number of employees substantially. As a result, SOCAMAC will become profitable, generating about $1.5 million during the first year with substantial increases expected each year thereafter.

Mr. Kacyem provided an extensive restructuring and reorganization plan prepared by Mr. Kacyem and outside consultants for CCEI and Camship. The plan addresses the viability of the SOCAMAC operations and alternatives to improve its profitability.

D. Other Investments

CCEI has invested in several other operating companies One company is a chicken processing farm in western Cameroon. Camship is also an investor with CCEI in that project. CCEI is also constructing a resort hotel on the cost of Cameroon in which they are the sole stockholder with the construction financing provided by a European investment company. It is expected that the hotel will be in operation shortly.

E. Project Management

All of the projects outlined above are being managed by the CCEI holding company, under the direct responsibility of Mr. Kacyem. He has spent a considerable amount of time identifying managers for each of these projects and feels confident that CCEI has chosen their management talent well. He also indicated that there did not appear to be a shortage of management talent need to develop the various projects now being acquired or being contemplated for acquisition in the future. In short, Mr. Kacyem believes that there is enough management talent around to allow CCEI's investment fund to achieve all of its growth and management objectives.