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Cameroon PRAMS I Project

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PROPOSED AGRIBUSINESS STRATEGY FOR USAID/CAMEROON

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I. RATIONALE

For Cameroon to be able to achieve broad-based and sustainable development in the coming years, the leading role needs to be assumed by the private sector. The USAID/Cameroon agribusiness strategy is therefore designed to contribute to the fulfillment of its private sector strategic objective, namely "to improve the conditions for private sector trade." Wording of the objective deliberately identifies improvement of conditions for trade, rather than trade itself, as the immediate goal because under the current political and economic climate in the country it is not likely that real economic activity will significantly pick up during the designated three-year planning time framework.

One of the fundamental lessons from Cameroon's experience in the past decade is the futility of promoting sustainable growth through direct involvement in state-owned enterprises and highly intrusive regulatory policies. Government's limited human and financial resources are best used in those areas where governments are most effective — in maintaining roads and public education — rather than in growing bananas and selling coffee, activities that the private sector does well. The Government can also contribute by creating the nurturing environment for private initiative to prosper. This includes setting appropriate policies, providing certain public goods such as infrastructure and market information.

At this juncture, the issue in Cameroon is no longer whether future agribusiness growth should be market and private sector driven, but rather what international donors in concert with the Government of the Republic of Cameroon (GRC) can do to bring about the necessary incentive structure for producers, processors, traders, and exporters.

II. PROPOSED STRATEGY

USAID/Cameroon takes a broad approach regarding what is encompassed into agribusiness for the purposes of this strategy. Sometimes the term is narrowly used to include only large manufacturing or processing plants, plantation-like agriculture, and high value exports of agricultural products.

Agribusiness is here defined as the network of individuals and enterprises engaged in delivering inputs to farmers, collecting output from farmers, transporting and transforming commodities, and then delivering final products to consumers. During this marketing process, value is added to farm commodities. Agribusiness enterprises are thus engaged in marketing activities including buying and selling, transport, storage, pricing, financing, promotion, and distribution. Competitive agricultural marketing systems provide the linkage of the farm sector with the rest of the economy, and carry the potential to increase productivity, incomes, and employment in rural and urban areas alike.

A. FOUR TARGET AREAS

USAID's proposed strategy in Cameroon is to support private sector development in agribusiness through a series of discrete interventions in four major target areas:

Target 1: Improved policy and regulatory environment;
Target 2: Improved market information;
Target 3: Increased investment services; and
Target 4: Improved technical and managerial skills.

These four target areas are designed to address the principal constraints identified as precluding Cameroon from realizing its obvious potential to be a major producer and exporter of agricultural and agribusiness products. Among the key constraints are the high costs of production, Cameroon's deteriorating competitiveness in the world market, dysfunctional pricing policies, non-existence of market information, and the excessive government involvement in business and agribusiness. There are of course many other constraints, particularly in areas like infrastructure, institutional rigidities, international and macroeconomic factors, inadequate function of the judicial system, and the tenuous political situation. The latter category of constraints are, however, beyond the mandate of the agribusiness strategy to affect, and some are probably beyond the Mission's manageable influence as well.

B. THREE INVESTMENT CLIMATE SCENARIOS

The strategy proposed below is articulated on the basis of three investment climate scenarios. These scenarios are derived from sets of economic and political circumstances expected to prevail during the time when the agribusiness strategy is in effect.

1. Low Investment Climate

The present situation is considered for the purposes of this strategy both the most pessimistic option and the most likely to persist in the immediate future. This scenario is characterized by lack of progress in reducing the Government's fiscal deficit, failure to make payments on the outstanding arrears with the World Bank, persistence of real overvaluation of the currency, and on the political side, continuation of the current political impasse, possibly leading to an increasingly repressive regime.

Of course, the situation could grow worse both in the political sphere and in further economic deterioration. Worsening conditions could realistically lead to the Government regressing on some of the advances made in recent years in terms of economic liberalization policies. The backtrack scenario is not considered an option in this agribusiness strategy for there would be no point in remaining involved in the sector under those circumstances. It is assumed implicitly that recent policy reform accomplishments exemplified by the new labor code, investment code, cooperative law, tax code, industrial free zone regime, and reduced foreign trade barriers will remain in place or continue progressing.

Under a poor investment climate USAID's funding commitment to the private sector must perforce remain low. Attention will be focused on preventing back-sliding in policy and regulatory progress made so far. Local currency revolving funds will be maintained and reprogrammed. Main areas of action will be in improving market information systems and technical and managerial skills. In a few selected issues, such as deregulation of cocoa and robusta coffee, USAID could continue pressing for reform in concert with other donors.

2. Medium Investment Climate

This scenario represents a substantial improvement over the present situation. It presumes that the central government has found the means of cutting the fiscal deficit by a combination of payroll reduction, civil service layoffs, and sale of assets through privatization of some state enterprises. It also assumes that Cameroon manages to come up with sufficient funds to cover the arrears to the World Bank and thus becomes eligible once again to infusion of resources. The UDEAC tariff regime becomes operational and the appropriate regulations to implement the new labor code are issued. Real wages and prices decline sufficiently to alleviate the burden on competitiveness imposed by the high value of the CFA franc. In the political arena, the Government has established a modus vivendi with the opposition, including perhaps plans for a constitutional reform.

Under these improved circumstances it becomes possible for USAID to actively begin promoting investment in Cameroon, and to commit real resources to nurture private entrepreneurship. The industrial free zone code could then become an effective vehicle to attract investments in agribusinesses. Emphasis could then shift towards satisfying the needs of export oriented businesses.

3. High Investment Climate

The critical requirement to achieve this stage is a radical depreciation of the real value of the CFA franc to restore competitiveness to production possibilities in Cameroon's agricultural and industrial sectors. This can be accomplished through a severe drop in prices, incomes, and standards of living in urban areas, or a drop in the nominal exchange rate with other currencies, or a combination of the two. At the same time, the high investment climate presupposes that the Government has effectively cut its fiscal deficit to manageable proportions, and is also able to resist pressures to negate the effects of devaluation through mandatory wage increases for public and private workers. Privatization of agribusiness parastatals has opened new areas for private sector activity, and government services are becoming more effective and responsive to the needs of the citizenry. On the political side, the legitimacy of the Government is restored and public confidence in the political system provides sufficient assurances to investors for long- term stability.

When that happens, USAID and other donors would surely rush to increase levels of funding for private sector investment. The focus then would shift to increasing real resources and services to foreign and domestic investors, and to responding to rising demand for information and advice regarding new market opportunities, new products, and new technologies.

C. SEQUENTIAL OPTIONS STRATEGY

It is well to recognize that the current underlying economic conditions prevailing at the end of 1992 are not conducive to investment confidence, i.e., the low option is the current situation. Moreover, the political situation is fraught with uncertainty. On the other hand, the investment climate could improve rapidly in coming months if adequate measures are taken by the GRC in both the political and economic arenas. The likelihood of that happening is at the moment impossible to foretell. It could well happen that the current set of conditions will continue for several years, as it has happened in the past despite expectations to the contrary.

USAID/Cameroon needs, therefore, to adopt a flexible strategy that allows it to accomplish basic minimum objectives while at the same time positioning itself to take advantage of possible future improvement in the investment climate.

III. LOW INVESTMENT CLIMATE AGENDA

A. PRESERVE GAINS

Much progress has been made in improving the policy environment for conducting business in the agricultural and other sectors of the economy. USAID and other donors have over recent years sought to create an economic climate more nurturing of private initiative and in which market forces rather than administrative fiat determine the direction of commercial activity. Cameroon has in the past few years adopted most of the measures necessary under structural adjustment, at great economic, social, and political cost to the Government. Unfortunately, the benefits of those changes have been prevented by the critical remaining constraints discussed at length before.

It should be a priority concern for USAID to maintain the movement toward increasing economic liberalization, and prevent back-sliding in the reforms already achieved. Privatization and liberalization of the marketing of fertilizers and arabica coffee exemplify policy advances that might become irreversible given sufficient time to become institutionalized.

Under the current poor investment climate, when more proactive interventions might not be successful, USAID could concentrate its efforts in strengthening private sector organizations and in improving the legal and regulatory climate.

B. PROMOTE FURTHER REFORM IN THE COCOA AND ROBUSTA MARKETS

In the policy arena, USAID should continue its long-standing effort to privatize and liberalize the marketing of cocoa and robusta coffee. The current ineffectiveness of the price fixing and price support system could be propitious to pursue the further disengagement of the Government from responsibility to set producers and reference prices for those products. Non-project assistance could well be used to induce the Government to implement the appropriate reforms.

It is unfortunate that some other donors are supportive of discredited schemes to "organize the market" for cocoa and robusta coffee, and to subsidize "price stabilization schemes" that in the past have been used to legitimize government intervention in the market. USAID needs, therefore, to engage in policy dialogue with other donors on the subject. Moreover, it should continue to ensure that adequate competition is encouraged among market participants, and oppose measures designed to limit entry into the trade and price collusion among traders and exporters.

In 1989, the GRC had already reached broad agreement with the World Bank under the terms of the structural adjustment program to take measures to liberalize the coffee and cocoa marketing systems. On arabica coffee this has become nearly a reality thanks to the USAID Program of Reform of the Agricultural Marketing Sector (PRAMS-I). Unfortunately, the current suspension of World Bank and IMF disbursements to Cameroon has removed one of the most influential voices advancing those reforms for robusta and cocoa. Failure to move forward risks exposing arabica to being subsumed within the larger and more controlled robusta and cocoa marketing systems. It is therefore up to USAID/Cameroon to take leadership on this issue, for it is among the donor agencies most experienced in the realm of policy reform in agricultural marketing system.

The core objective of USAID/Cameroon's intervention should be to encourage a competitive, efficient, and sustainable marketing structure for robusta and cocoa that result in higher producer prices. The major thrust must be to liberalize the regulatory and procedural environment on a permanent basis, to remove barriers to entry into the exporting business, and to promote active competition by new buyers and exporters. A separate memorandum on specific measures that such an intervention might adopt has been prepared for discussion.

C. PROMOTE COMPETITIVE MARKETS BY EXPANDING TRADER LICENSING

Healthy competition among private traders and exporters is the best insurance policy that the interest of producers will be protected. Entry of new market participants and expansion of operations by smaller operators should be welcome. If the conditions are right, USAID might directly support efforts by farmer organizations or cooperatives to participate in processing and exporting directly.

D. BREAK BAG MONOPOLY

There are repeated references to the supposed monopoly that SCS, the parastatal company making bags for coffee, cocoa, and other products, enjoys in production and imports of bags, and the expected high costs and costly delays that such a monopoly would entail. This constraint has not yet been fully analyzed, but if it were, the removal of such an anachronism should receive priority attention.

E. PROMOTE FURTHER PRIVATIZATION OF AGRIBUSINESSES

In view of the poor financial performance of state-owned agribusiness enterprises, and the potential some of them offer for foreign and domestic investors, this would seem a good time to encourage the Government to disengage from being so directly involved in the agribusiness sector. USAID could support the ongoing program of privatization by lending technical or financial support to audit and evaluate potential divestitures, to conduct competitive bidding for these companies, to help identify potentially interested American agribusiness companies to invest in Cameroon, and to compensate groups of workers that might be affected by privatization.

F. PRIVATIZE MARKETING OF AGROCHEMICALS

Following the experience with the liberalization of the fertilizer marketing system through the fertilizer subsector reform project (FSSRP), it should be possible to pursue the obvious extension of such a program to include other agricultural inputs. Private sector seed production and distribution is already taking place with Pioneer taking over cereal production and export in northern Cameroon. These experiences should be thoroughly examined to identify the main successes and shortcomings in the transition to a private delivery system. USAID has the institutional experience and comparative advantage in this area. Both the GRC and other donors anticipate USAID to take the lead advancing this front.

G. SET UP ALTERNATIVE CONFLICT RESOLUTION SYSTEMS

The growth in the number of participants and transactions in private sector agribusiness will require the settling of dispute among participants. Standards of business conduct will be needed to prevent opportunistic behavior by unscrupulous operators. Trade associations are well suited to develop adequate business codes of behavior and self-enforcing mechanisms to eliminate abuses. USAID could assist trade associations in anticipating problem areas and formulating adequate conflict resolution mechanisms outside the cumbersome judicial system.

Many commercial disputes involving enterprises are honest disagreements about specific understandings or misunderstandings on what constitutes proper commercial procedures. The judicial system in Cameroon is poorly equipped to settle these disputes. Most enterprises prefer an amicable settlement to prolonged, acrimonious, and costly legal battles. Alternative dispute settlements can be devised in which the arbitrators are jointly selected by the parties involved. They also agree in advance to reasonable sets of conditions regarding the judgement, including, for example, sharing the cost of the arbitrator.

H. COLLECT AND DISSEMINATE MARKET PRICES

One of the major shortcomings in doing economic policy analysis in Cameroon at present is the complete lack of reliable market information. Government agencies normally expected to fulfill this public function have ceased to perform it. There is at the moment no established system for collecting market price information, even in the main urban centers of Cameroon. Lack of operating funds, and low morale within the public sector are the major factors in this neglect. The only market prices regularly collected and broadcast are by the FAO post-harvest management project in the Northwest province that reports on nine small rural markets. Another FAO project, the famine early warning, hopes to collect market price data for regional centers in four pilot provinces. None of the major urban centers are included in these projects.

Market performance and efficiency are hampered by the absence of simple market information. Those operators with private access to market information can thus benefit at the expense of others who do not have access. USAID could help fill an appalling gap and provide this critical component of a well-functioning marketing system, by sponsoring the creation of and supporting a market information system covering the principal markets in the country — Douala, Yaounde, Bafoussam, Bamenda, and Garoua to start. Wholesale and retail prices for the major traded commodities should receive priority until more complete systems are developed. The modest costs of collecting and disseminating market price information are well justified in terms of improved market efficiency if adequate steps are taken to ensure prompt diffusion of price information among market participants.

In view of the dysfunctional state of government ministries, it will be advisable for USAID to explore the possibility of contracting the market news activities to some private organization (either for-profit or non-profit). Once tested and established, this responsibility might be transferred to the appropriate Ministry or retained as a private operation, depending on future circumstances. On the other hand, USAID might face the real possibility that the undertaking is not sustainable for lack of commitment by the GRC, but nevertheless accept it as worthwhile to pursue based on the immediate and future benefits perceived and the low cost of the operation.

I. BREAK WIRE NEWS MONOPOLY

Independent attempts at subscribing to international market wire news services to keep track of developments in the markets of primary commodities have uncovered the existence of a legally sanctioned monopoly for reception and dissemination of such services to SOPECAM, the press agency. Inability to access up-to-date information on the coffee and cacao markets can severely impair the ability of Cameroonian private exporters and operators to perform their business profitably. This monopoly should be removed. USAID should use its influence with the Government towards that goal.

J. CARRY OUT CONSUMPTION STUDY

Another serious limitation to carrying out impact analyses of possible policy reforms and other interventions is the absence of reliable data on the consumption patterns of Cameroonian households of various income levels. Data from other countries in similar stages of development have been used in the absence of Cameroonian data in, for example, the multi-market analysis of the agricultural market made by the World Bank in 1989. A household food consumption and expenditure survey, at least for the main urban centers, is badly needed to estimate better the social dimension of the structural adjustment process. The consumption survey would also complement the market price information system, by providing more up-to-date estimates of the composition of the diet, needed to update the consumer price index for Cameroon.

K. WORK WITH CREDIT UNIONS

USAID/Yaounde has worked for many years with the World Council of Credit Unions in developing a strong and viable network of credit unions in Cameroon, particularly in the western regions. Continuation and expansion of this work to other regions will provide USAID an opportunity to continue working with the private sector at a grassroots level. Credit unions also provide the only bridge between the traditional savings schemes, the tontines, and the formal financial system. The real possibility of a collapse of the formal banking system puts the credit unions at high risk because some of their capital is tied up in the commercial financial sector.

USAID could provide some advisors to design appropriate protective strategies for the credit unions to reduce their exposure in the event of such a financial system failure. The credit unions remain viable financial organizations to intermediate savings and credit at the local and regional levels. USAID could provide the means and technical resources to enable credit unions to become more active as sources of credit to their members and to the business community. In a period of severe economic uncertainty such as the one we are in, credit unions are worthwhile target organizations to protect and reinforce.

L. WORK WITH COOPERATIVES

A new cooperative law for Cameroon was signed by the president in August 1992. This culminates a long-standing effort by USAID, other donors, and the GRC to adopt new legislation to liberalize and privatize the cooperative sector. The principal difference of the new law from the cooperative legislation from 1973 is that a cooperative now is a private business organization serving its members, and it is managed and controlled by them. A cooperative now works independently of the Government, and membership in cooperatives is now strictly voluntary. Managers are now controlled by the elected board members rather than being appointed by the supervisory ministry. Moreover, cooperatives are now supposed to be self-financing, and members are financially liable for their cooperative.

The 1992 cooperative law has important effects on several USAID programs. For example, PRAMS-I, which focuses on the liberalization and privatization of arabica coffee marketing, incorporates a strong involvement by the Northwest Cooperative Association (NWCA), and submission of the new law was condition precedent for the fourth disbursement under that project. The new law provides the legal framework for pursuing the further liberalization and privatization of agricultural output and input markets.

The cooperative reform is an ongoing process. The next stage is having the law implemented through the appropriate decree and regulations to be issued by the Prime Minister in the near future. Another decree will be needed from the Ministry of Agriculture to modify the relation between the Ministry and rural farmers cooperatives. USAID/Cameroon will continue to be involved in the further development of the cooperative law. Moreover, when appropriate, USAID will explore how the new privately controlled cooperatives can be strengthened to enable them to identify viable economic domains and to compete successfully in the agribusiness sector.

Under the new law, cooperatives are expected to be self-financing and to operate like private businesses. Unfortunately, the existing leadership is probably ill equipped to act accordingly, and the new elected leadership might also lack experience and be poorly prepared to become overnight entrepreneurs. Since USAID and other donors have been instrumental in engendering the new cooperative law it is only fair to expect that they would also be prepared to provide the means for the new cooperative leadership to learn basic business survival skills. American cooperatives organizations and NGOs have long experience in providing such assistance to nascent cooperatives in the world over.

M. MANAGE LOCAL CURRENCY REFLOWS

USAID/Cameroon has found it effective and convenient to set up two revolving local currency funds to channel short-term credit for agricultural product and factor marketing. Under PRAMS-I a fund was established to enable the NWCA to purchase, process, and export arabica coffee. This fund currently amounts to about $3 million, and further disbursements are scheduled as the conditionality clauses are fulfilled.

On the other hand, the FSSRP has a separate revolving fund, now standing at about $5 million, to provide short-term credit to private sector fertilizer importers. (No additional funds are projected for the FSSRP revolving fund). At the expiration of the project, it is up to the GRC to agree on how the remainder of the fund will be used in the future. The fertilizer import fund has been wisely managed through the banking system, and so far all its loans have been repaid. It provides badly needed funding to fertilizer importers at subsidized rates and using standard loan criteria.

The FSSRP program assists the import and sale of fertilizer, but it can only be imported in bags. The price of fertilizer to farmers might possibly be reduced by importing in bulk and doing blending and bagging in country. A third USAID revolving fund might emerge to provide medium-term loans to establish blending and bagging facilities, if the commercial viability of such undertakings is verified.

The experience gained with these two revolving funds is very useful for USAID/Cameroon in deciding how best to encourage competitive marketing systems. The fertilizer fund is especially appropriate for it is purely private sector oriented and it retains well its original value. Similar revolving funds could be set up, such as one that enables new traders in cocoa or robusta coffee to enter the export business.

N. SUPPORT TRADE ASSOCIATIONS

Apart from the few Groupement Interprofessionnels there are few trade associations operating in the agribusiness sector of Cameroon. In other countries, however, they can play a critical role in providing common services required by homogeneous groups of people. To some extent the cooperatives are supposed to fulfill those functions, but in the past, cooperatives have been instruments of control by the Government rather than entities responsive to the needs of their members.

In view of the foreseeable impact of the new law on cooperatives, and the growth in private sector trade in agribusiness, the next few years will probably witness the appearance of trade organizations comprising groups of entrepreneurs with similar interests and needs. They provide effective vehicles for USAID to interact with these business segments, and to channel resources and services to their enterprises. USAID could promote the creation of private voluntary trade associations through, for example, observation tours of how these organizations work in the United States and in other countries.

O. OFFER NEW-LEGISLATION WORKSHOPS FOR ENTREPRENEURS

The deluge of new business related legislation in the past few years has also led to a large degree of confusion regarding the actual regulations applicable in many business situations. Some of the new laws are not enforceable until the appropriate decrees and regulations are issued. In the meantime, the old rules apply. Some of the new laws can actually conflict with one another, such as the new investment legislation and the UDEAC agreement on uniform tariffs and taxes for business.

Entrepreneurs often complain of the uncertainty created by the new laws, particularly during the transition period while new regulations are published. There is a demonstrated need to offer informational seminars to the business community on the significance and impact of the new legislation. These seminars can be organized and offered by the private sector itself, and should be self-financing as much as possible, though initially there might be a need for USAID funding to provide the catalyst or seed money.

P. SUPPORT THE PROFESSIONAL DEVELOPMENT CENTER AT DSCHANG

This is a semi-autonomous center at Dschang University that is able to call upon the faculty at the University to carry out sponsored research or training at the request of outside institutions. For example, it can offer short courses on export banking or other topics relevant to the agribusiness community. It is also expected to carry out research projects such as product testing, or trial of new varieties, using the well equipped facilities at the University. USAID/Cameroon could usefully direct some of the analytical work that it requires domestically to the Dschang Professional Development Center, as a way to both support the University and induce its faculty to be more responsive to the needs of the agribusiness community.

IV. MEDIUM INVESTMENT CLIMATE AGENDA

Under an investment climate more favorable than the present one, USAID's agribusiness strategy would shift in favor of greater direct involvement with business enterprises in identifying and promoting investment opportunities.

A. PROMOTE INDUSTRIAL FREE ZONE INVESTMENTS

Recent passage of the Industrial Free Zone (IFZ) implementation regulations and the opening of the National Office for Industrial Free Zones (NOIFZ) has finally unlocked new opportunities for foreign and domestic investors to set up operations aimed at export markets. The new IFZ law provides very attractive advantages to investors in terms of tax holidays, exemption from duties and foreign exchange controls, and unhindered imports and exports.

A feature of great benefit for agribusiness firms is that IFZ status can be conferred to individual enterprises; that is, the plant does not need to be located in an industrial park. This feature enables agricultural processing plants, for example, to be located near the sources of supply. As of November 1992 nine applications had been received, three of them approved already for a plywood manufacturer, a pulp and paper plant, and a green beans packing plant. Pending approval are applications for avocado oil extraction and cocoa-butter production. Unfortunately, firms engaged in agricultural production for export are not eligible for IFZ status, though other provisions of the new investment code may be advantageous to them.

USAID PREPS project is already actively sponsoring the establishment of the NOIFZ, including provision of a technical advisor to the Office. The setting up of an Investment Promotion Center linked with the NOIFZ was also envisaged. Unfortunately, the degree of support that USAID/Cameroon might be able to provide in the future is now clouded by recent Congressional proscriptions against use of A.I.D. funds to support export processing zones that might result in loss of U.S. jobs or exports. It is possible that a special dispensation could be obtained for Cameroon's IFZs since it is unlikely to result in loss of U.S. jobs.

The potential for attracting foreign and domestic investment to Cameroon for export production would be greatly enhanced by a more favorable investment climate.

B. ASSIST IN PRIVATIZATION OF STATE-OWNED AGRIBUSINESSES

Under the poor investment climate, the pace of privatization of state-owned enterprises has slowed down to a halt, partly because potential buyers are reluctant to invest when future business conditions are uncertain. At the same time, prices offered for enterprises that are currently losing large sums per year are necessarily very low, and the Government has therefore refused to accept such low bids. Under a more favorable set of expectations about the future, it will be easier to attract investors. USAID/Cameroon could then go beyond mere technical assistance to actively identify and seek potential companies interested in buying or leasing the state-owned agribusinesses.

C. DEREGULATE CROSS-BORDER TRADE

It is well accepted by everyone that cross-border trade in food and other agricultural products is taking place between Cameroon and Nigeria, Gabon, Chad, and the Central African Republic. Actual data are not available, partly because this trade is considered illegal on one or both sides of the border. Vegetables from Foumbot, for example, are often trucked to Gabon, but traders find it expedient to obtain permits and certificates as if the shipments were made by the local cooperative in order to avoid hassles with the authorities and payment of export taxes at the border. It is also reported that Nigeria has banned all imports of food products, even though there is evidence that both imports and exports are taking place unofficially.

While the Naira is undervalued with regard to the FCFA the potential for Cameroon exports to Nigeria is restricted. However, if the Naira were to appreciate relative to the FCFA, export prospects in agricultural products to Nigeria would increase rapidly. It would then be advantageous to remove the cloud of illegality in the cross-border trade not only by removing the regulatory road blocks now in effect, but also by actively promoting trade through, for example, providing information on prices in Libreville and Nigeria.

D. REDUCE THE NUMBER OF ROAD CHECK-POINTS

Transport costs are the major complaint of traders engaged in domestic and cross-border trade, and a good portion of the costs is the aggravation caused by the frequent road blocks along the highways between agricultural centers like Foumbot and Douala. While the official justification for the check points is state security, the real effect is the collection of unrecorded fines to transporters and traders. Under the current delicate political situation it will be hard for international donors to insist on relaxation of controls on the highways. However, if the Government could reach an accommodation with the political opposition, perhaps the armed forces could then be persuaded to remove most of the road check points. The World Bank has in the past discussed the issue with the GRC. Given the importance that USAID attaches to increasing trade, it behooves the Mission to become involved in removing this source of costs, delays, and irritations. Greater national integration and lower food prices would be the main results of reducing road-blocks.

E. EXPAND MARKET NEWS INFORMATION

Under a more congenial investment atmosphere market information needs to go beyond prices for the main agricultural products in the major urban centers. Exporters and investors will require data on external market conditions, export and import volumes and values, trade and transport costs, and trade margins and price differentials with other competing markets. Collection and dissemination of such data is best performed by an institution whose mission is to respond to perceived needs of exporters and investors. USAID has experience in other countries in assisting (or creating) institutions to provide such services to the specialized clientele. Trade associations of exporters, processors, and growers in several countries have proven to be well placed to perform those functions.

F. ACTIVATE INTERNATIONAL EXECUTIVE SERVICE CORPS

The International Executive Service Corps (IESC) has a well deserved reputation for effective hands-on assistance to emerging enterprises in breaking into a new market. Under current conditions, few agribusiness enterprises could benefit from the presence of an IESC volunteer. Under the medium and high option agendas, however, IESC could provide the necessary impetus to a new or small enterprise to break through technical or managerial barriers.

G. OFFER PRIVATIZATION AND BUSINESS SEMINARS

If and when the investment climate improves in Cameroon, new opportunities will quickly begin to emerge. Entrepreneurs would need then rapid and no-nonsense access to basic information on many business topics, from export procedures to subtle issues in the new investment code. USAID/Cameroon has access to a variety of resources worldwide that could be used to respond to concrete requests for training and information on business topics. There are already several programs in place in Cameroon that could be expanded rapidly in response to growth in demand for training. Among them are the Entrepreneurs International program, the participant training program, and the Atlanta Management Institute program. Cameroon also has a good supply of well trained professionals that could provide the necessary training. Whenever possible, USAID needs to ensure that local resources are considered first and given the opportunity to demonstrate their capabilities.

V. HIGH INVESTMENT CLIMATE AGENDA

The essential conditions for achieving a highly attractive investment environment are a restoration of confidence in the political system and its consequent stability, and a substantial realignment of the currency or cost structure that enable Cameroon to regain its competitive strength vis-a-vis other producers of tropical-based products.

Were these conditions to develop in the course of the time framework designated for this strategy, there are several initiatives and interventions that USAID/Cameroon might take to contribute to restoring the health of the economy.

A. CONDUCT FEASIBILITY STUDIES

Good ideas seldom come cheap, and many new entrepreneurs find it often prohibitive to pursue their initiatives beyond the conceptual stage. USAID could contribute resources and technical assistance to carry out the necessary follow-up of potentially profitable ventures. This is best done by cost-sharing with the interested party for the appropriate exploratory work. To make it manageable to provide such services, USAID can either sponsor local organizations already engaged in this type of consultative work, or encourage the creation of a trade organization to do it. Once again, to the extent possible, Cameroonian talent already in place should be given first consideration.

B. OFFER EXPORT PROMOTION SERVICES

In view of the great potential Cameroon has for exporting many tropical products to European and regional markets, when the right export investment conditions appear, the limiting factor will become the lack of contacts with potential importers in these markets. USAID has approached this problem in other places by sponsoring the creation and operation of export promotion organizations not only to open markets by identifying and contacting potential clients, but also to respond to specific needs of individual entrepreneurs or exporters. Exporters associations are well placed to perform these functions.

C. ESTABLISH COMMODITY AND CAPITAL MARKETS

A dynamic market economy requires more agile mechanisms to exchange commodities and capital instruments than those currently available in Cameroon. Establishment of a commodity market, for example, will become necessary sometime in the future. Such mechanisms could initially be associated with a system of warehouse financing whereby transactions are carried out using receipts from bonded warehouses instead of physical products. These and similar systems can already be envisaged on the horizon. USAID could also use its experience in setting up agricultural commodity markets in several countries to explore the applicability to Cameroonian conditions.

D. CREATE A VENTURE CAPITAL FUND

The commercial banking system in Cameroon has little tradition of lending to entrepreneurs for long-term and medium-term investment, especially in the agribusiness sector. One possible approach to making capital funds available to promising undertakings is to create a venture capital fund able to evaluate the commercial viability of projects and to provide equity capital to help bring it about. The case of Fundacion Chile has become the classical example of this type of intervention, and it has been tried in several other countries since then.

E. KEEP IN MIND THE FOREST AND WOOD INDUSTRY

Cameroon's wealth in forest resources, especially tropical hardwoods, makes the forestry sector a major source of income and foreign exchange for the country. This sector has been neglected so far in the design of the agribusiness strategy for two reasons. First of all, it will be part of the natural resources strategy that USAID/Cameroon is developing in parallel. Secondly, the U.S. Congress has recently attached to the Foreign Assistance Act specific prohibitions on spending A.I.D. monies on activities that redound in deforestation of tropical forests. Moreover, the structure of the industry in Cameroon is such that most operators are large, highly capitalized foreign firms. Finally, Canada's CIDA has accumulated vast knowledge and experience over a decade in the forest sector in Cameroon. It is worth pointing out, however, that several of the applications for IFZ status have come from firms interested in wood processing ventures.

Private Sector Strategic Objective: Alternative Scenarios

<table>
<tr><th></th><th>Low Investment Climate</th><th>Medium Investment Climate</th><th>High Investment Climate</th></tr>
<tr><td>Strategic Objective 2: Improved Conditions for Private Sector Trade</td><td>Low level of funding commitment to private sector; action to prevent back-sliding in policy and regulatory progress made so far; main emphasis on improving market information systems and technical and managerial skills; continue pressing for regulatory reform in few target issues (cocoa, coffee); emphasis on indicators 1 and 2.</td><td>Begin actively promoting investment in Cameroon, especially using IFZs; shift investment services towards needs of export oriented business; supporting roles for Targets 2 and 4; continue monitoring on regulatory environment; expand focus to include indicators 3 and 4.</td><td>High level of funding commitment to private sector; main emphasis on increasing services to foreign and domestic investors; supporting roles for Targets 1, 2 and 4; expand focus to include all indicators.</td></tr>
<tr><td colspan="4">Indicators:
1. Percent of FOB price received by farmers for the main traditional agricultural exports
2. Value of exports of traditional and non-traditional export products, by major product
3. List of agribusiness firms registered under the IFZ code
4. Number of men and women employed in agribusiness firms
5. Value of non-traditional agricultural exports, by major product category
6. List of different non-traditional agricultural products exported above $100,000 FOB per year</td></tr>
<tr><td>Target 2.1: Improved Regulatory Environment</td><td>Become actively involved in codifying, implementing, and monitoring recently revised laws; further liberalize cocoa and robusta exports; explore potential for alternative dispute resolution system; expand number of licensed traders in commodity exports; end state monopoly on imports of sacks and bags; privatize state-owned agribusiness; conduct constraints analysis.</td><td>Assist in identifying and formulating regulatory reforms to alleviate business constraint; assist in development of alternative dispute resolution system; deregulate and promote cross-border trade with UDEAC countries and Nigeria; reduce number of check points in highways.</td><td>Expand medium options activities; expand role of trade associations.</td></tr>
<tr><td colspan="4">Indicators:
1. List of exporters of robusta coffee and cocoa, exporting over 1,000 tons per year
2. List of Ministerial decrees issued to implement new legislation on labor, cooperatives, investment
3. List of SNI parastatal enterprises still operating, under liquidation, and dissolved
4. Numbers of licensed buyers, processors and exporters certified to operate on cocoa and coffee
5. Official notice removing quantitative restrictions on imports of sacks and bags
6. List of potential judges (arbitrators) available for parallel dispute resolution
7. List of regulatory reform achievements during the year
8. List of trade associations involved in agribusiness and structure of their memberships
9. Value and composition of trade with Nigeria and UDEAC countries
10. Average duration of truck trip from Foumbot to Douala</td></tr>
</table>

	Low Investment Climate	Medium Investment Climate	High Investment Climate
Target 2.2: Improved Market Information	Support collection and dissemination of wholesale/retail prices of farm products in main markets; sponsor consumption surveys to provide baseline data on impact of adjustment; ensure relaxation of state monopoly on international market news information; continue support for CAPP project.	Support dissemination of data on export/import volumes and values, trade and transport costs, external market conditions, trade margins, internal trade flows; develop information packages for national and foreign investors by economic sector; assist trade groups to develop effective market information systems.	Help identify potential markets and importers for selected product lines.

Indicators:
1. Number of organizations having direct access to international market news wire services
2. Minutes of radio broadcast per week devoted to prices and market information
3. List of major markets for agricultural products covered by market news system (international, regional, and domestic)
4. Updated household consumption patterns by income strata for main urban centers made available
5. Correlation among price series in major surplus and deficit markets

	Low Investment Climate	Medium Investment Climate	High Investment Climate
Target 2.3: Increased Investment Services	Continue assistance to CamCCUL and credit unions; reprogram local currency reflows from PRAMS I and FSSRP to support private sector business activity; support trade associations to improve services to members; provide short-term marketing credit for private exporters of coffee and cocoa.	Enhance savings mobilization in informal financial sector (tontines); provide assistance on privatization of state enterprises: valuation, leasing, divestiture, etc.; explore creation of commodity markets; explore creation of capital market; encourage investment in IFZs.	Support establishment of financial services in Free Trade Zone; provide technical assistance for creation of a commodities market; set up investment promotion center; carry out export promotion activities; contract feasibility studies on cost-sharing basis; set up venture capital fund.

Indicators:
1. Value and structure of credit union savings and lendings
2. Current value of revolving funds for commodity marketing and fertilizer marketing (PRAMS & FSSRP)
3. List of SNI parastatal enterprises still operating, under liquidation, and dissolved
4. Size and structure of membership in voluntary private sector trade associations
5. Number of loans, users, and volume of short-term lending to commodity exporters under revolving fund
6. Size and composition of credit union membership, gender disaggregated
7. List of enterprises registered under the IFZ system
8. Employment of men and women in firms registered under new investment code
9. Volume of short-term, medium-term, and long-term lending by the banking sector to the private sector

	Low Investment Climate	Medium Investment Climate	High Investment Climate
<u>Target 2.4</u>: Improved Technical and Managerial Skills	Help strengthen cooperative management; promote Professional Development Center at University Center of Dschang; continue support for occupational and participant training through Entrepreneurs International and Atlanta Management Institute.	Activate International Executive Service Corps (IESC); offer business oriented seminars on banking, privatization, new labor code, new investment code, etc.; renew support for Dschang University.	Provide training in public management; provide training in legal and management techniques; set up endowment for private foundation to conduct economic and business analysis.
<u>Indicators</u>: 1. Number of trainees in the various training programs (gender disaggregated) 2. List of business oriented workshops and seminars held 3. Placement rate in occupational training programs 4. Registration fees collected from participants in business oriented workshops and seminars 5. Months of participant training, by field of study, gender disaggregated			

ANNEX 1
CONSTRAINT: HIGH COST OF PRODUCTION FOR AGRIBUSINESS

Cameroon is often referred to as a high-cost producer country for tropical agricultural products.

Example: A box of Del Monte bananas that costs $12 to produce in Cameroon can reportedly be produced for $5 in Costa Rica and for $9 in Togo. Banana exports to France are competitive only thanks to the quota granted under the Lome agreement.

Reasons for high production costs can be traced to factors affecting the cost of labor, infrastructure, and doing business in Cameroon.

A. HIGH LABOR COSTS

Labor costs are viewed as particularly high by many employers in comparison with equivalent levels of skills in other countries.

The new labor code has introduced badly needed flexibility in the wage structure. Under the old labor code, wage levels for both private and public sectors were mandated according to a scale dependent on years of schooling of the employee.

Employers are also discouraged by the practical difficulties in trimming their labor force in attempting to downsize. Firing and hiring decisions of private employees are made very difficult, and entail the payment of sizeable severance settlements.

The new labor code relaxes some of the excessive rigidity of the earlier code, and also makes it easier for employers to lay off or dismiss workers, but older employees are still protected by the previous labor regulations. Government employees, however, remain nearly as well protected as before, thus preventing adjustment of the budget for salaries in the public sector, including those in state and parastatal enterprises in the agribusiness sector.

Unable to reduce their labor force, many companies has been driven into bankruptcy. Nearly one third of the agribusiness companies registered in the 1990 Enterprise Yearbook have either gone out of business or changed names and management.

There is at the moment an abundance of well trained manpower available to the industrial and service sector in Cameroon as a result of the cumulative effects of company bankruptcies and lack of new employment opportunities in the private and public sectors. Desperate for jobs, some former highly paid technicians and officials are now accepting positions with salary levels far below their previous ones.

B. HIGH INFRASTRUCTURE COSTS

Transport costs in Cameroon were calculated at five times the cost in Pakistan and above those of other countries.

Rates are often set officially to make it possible for parastatal firms to survive. For example, the need to support Cameroonian Airlines requires regulated passenger and cargo rates higher than those that would prevail if they were competitive (though it is known that airlines do in fact offer quietly unrecorded discounts to regular shippers). For ocean shipment similarly high cartelized rates exist.

Communications are also very costly, especially for international phone calls and cable linkages. A monopoly granted for the reception of wire news networks has made it nearly unfeasible for exporters to subscribe to international market news. The cost of electricity is also a major source of complaints by processing enterprises.

C. HIGH COSTS OF DOING BUSINESS

The costs and hassles of doing business in Cameroon are also exceptionally large. Government taxes, and a large assortment of permits, licenses, exonerations, fees, and informal charges add complexity to simple business operations above those for comparable countries.

Example: The regular tariffs on equipment is 58 percent of the CIF value. On the other hand, a totally new enterprise might apply for exoneration from that rate, and pay only the 18 percent tariff, if MINDIC grants it status under the new investment code. One potential investor who tried applying for such an exoneration has been waiting over 10 months for it.

Example: A tax of 11 percent is levied on sales every time a product changes hands. After going from producer to processor to distributor, a large component of the value added in an agribusiness product consists of accumulated sales tax. In addition, there exists addition a long lists of other assorted taxes: on payroll, on stocks, on profits, etc.

1. EXTRA-OFFICIAL TAXES

There are many informal taxes whenever bureaucratic procedures are necessary. Customs clearance is often cited by business people as a mine field of hidden delays and corresponding gratuities to remove them.

The most flagrant example of informal costs is the widespread practice of road blocks by the police and armed forces to extract voluntary contributions from transporters. In addition to the payments themselves, the time and inefficiencies caused by these roadblocks add significantly to the cost of moving merchandise inside the country.

2. PROTECTION IN THE INFORMAL SECTOR

The excessive complexity of living within the legal structure affecting businesses as well as the high payments required to the Government by enterprises operating within the legal framework discourage upcoming entrepreneurs from registering officially, thus escaping the attention of the authorities. Many firms in Cameroon thus operate outside the formal sector, which consists predominantly of large establishments, often those with government and foreign participation.

The new tax code and investment codes have granted enterprises certain tariff and tax concessions provided they fulfill certain conditions. Unfortunately, these new codes have raised the concern that the tax base for the Government is being reduced at a time when the Government is making desperate attempts to raise revenues. Enforcement of the new investment codes has therefore been slowed down or stopped.

3. REGULATORY GRIDLOCK

Cameroon's willingness to introduce many of the measures advocated under structural adjustment programs has resulted in a dizzying avalanche of new laws, decrees, organizations, and regulations: new labor code, new tariff structure, new investment code, new IFZs, new forestry policy, new cooperative law, restructuring of marketing for fertilizers and major export commodities, deregulation of prices, new import and export regulations, etc.

Business people might welcome the rapid restructuring of the rules of the game, but they also complain about the enormous confusion that exists today regarding the status of business operations.

USAID and other donors who have been instrumental in promoting the adoption of the new laws and regulations could contribute to alleviating the existing confusing state by sponsoring informational forums for the business community to discuss the implications of the new systems.

4. SEEKING GOVERNMENT PARTNERSHIP

Faced with the legal gridlock that businessmen and women must navigate, many investors, particularly foreign, find it very attractive to enroll the Government itself as a partner in their ventures. This not only ensures that the administrative procedures required to begin operations will not encounter the usual stumbling blocks, but also opens the door to special concessions and exonerations tailor-made to the needs of the new enterprise. An unusual feature of the agribusiness sector in Cameroon is the ubiquitous presence of firms with varying degrees of government participation.

The down side of having the Government as a partner is that it comes with a degree of influence far greater than its equity participation and thus affects the management's decisions often for the worse. Nearly all agribusinesses with state equity participation are experiencing financial difficulties at the moment.

Business decisions in those concerns involving Government partnership inevitably become politicized, even when the State is a minority shareholder. On the plus side, the investor finds some protection and hopes that if something goes wrong, the State will come to the rescue. On the minus side, some officials overseeing these quasi-state companies have, in the past, occasionally used them to provide free products and services to the Government.

Example: A small dairy products company with financial problems has been moribund for quite some time, having missed its payroll for several months in a row. Nevertheless, it cannot simply declare bankruptcy and reorganize under new management as a private company would, because one of its partners, the Societe National d'Investissement (SNI), one of the state holding companies, finds it politically unacceptable to close the place down. Instead, SNI has assumed command in the hope of reviving it. In the meantime, losses accumulate daily.

5. HINDERING PRIVATIZATION

Privatization of agribusinesses with partial state ownership has proven difficult, partly because it is not feasible for a new private management to reduce the labor force sufficiently to make it profitable to operate.

Management contracts are one possible way to privatize in these situations, for it allows for private management of over-staffed state businesses. The management company can make a profit based on performance while the State absorbs the residual profits or, more likely, losses.

Example: The Banana exports contract with Del Monte is a good example of the management contract arrangement, where a private company, Del Monte, takes care of marketing in Europe, while the production company in Cameroon, remains under Government ownership. The outcome has been a mixed blessing: Del Monte has succeeded rather well in selling the bananas in Europe while production in Cameroon continues making losses due to the high production costs for bananas, attributed largely to its inability to reduce labor costs.

D. PROPOSED USAID ACTIVITIES

USAID and other donors should sponsor seminars and workshops designed to inform the business community about the implications of the new laws and regulations that have been introduced in the past three to four years. Those workshops should focus on the private sector but also include participation by the corresponding implementing agencies of the Government. Cost-sharing or performance contracting for those seminars could be arranged with private organizations, NGOs or educational institutions.

USAID could also find it advantageous at this point to provide technical assistance to selected state and parastatal agribusiness enterprises in facilitating their privatization. Finding appropriate potential new owners for those enterprises requires external contacts that USAID could furnish. Actual resources could also be made available to compensate labor cutoffs or alleviate the social costs of the transition to private ownership and management.

ANNEX 2
CONSTRAINT: DYSFUNCTIONAL PRICING POLICIES

Much progress has been done in the past few years in deregulating prices and licensing requirements for imports and exports. USAID in particular has been instrumental in advancing the privatization and liberalization of fertilizer marketing and exports of arabica coffee.

Nevertheless, the Government remains very much engaged in the export of the two principal export crops from Cameroon, robusta coffee and cocoa, despite the disbandment of ONCPB, the former marketing board, and the actual privatization of exports to licensed operators.

A. CARTELIZATION OF PRICES

Privatization has not led to liberalization of prices. ONCC, the state agency created to replace ONCPB in its functions to provide quality control and to monitor the trade, has also assumed the role of setting prices for each annual crop. CICC, the private sector trade organization of cocoa and coffee market operators, is charged with licensing established and new participants in the trade, and enforcing certain standards of conduct. Together with the Ministry of Commerce and Industry, ONCC and CICC announce official producer prices and set margins to apply between different levels of the marketing chain -- producers, buyers, processors, and exporters. MINDIC's participation provides an official imprimatur and legal sanction to what is basically a private agreement to limit competition and price fixing. Farmers are the least likely to benefit from this marketing scheme.

B. DONOR COORDINATION

The French Government's foreign assistance agency, Caisse Francaise de Developpement (CFD; formerly Caisse Centrale de Coopération Economique -- CCCE), is providing technical assistance to the GRC on how to restructure the cocoa and robusta coffee market. A recent mission recommended lending support to the price fixing scheme by ONCC and CICC.

C. PRICE GUARANTEES

There is also a strong possibility that the Stabex fund, set up by the European Community to stabilize the price of primary commodities imported into the community, will be used to support the proposed price fixing scheme, at least for the coming 92-93 cycle. At the end of the campaign, exporters would receive a supplement for the difference between the export price and the reference price agreed upon at the start of the season.

On the other hand, the CFD-sanctioned price fixing arrangement will likely go ahead even without the subsidy component from the European Community. Supposedly, the reference price will be selected so as to come out in financial equilibrium for the season.

D. JUSTIFICATION

The proposed price scheme is justified by the CFD commission on the basis of its presumed advantages in maintaining an orderly market. They argue that unchecked competition among cocoa and robusta coffee buyers will result in fewer and fewer traders and the ultimate victims would be the farmers. Unscrupulous operators ("adventurers") could ruin the reputation of Cameroonian coffee and cocoa in the world market. Price fixing is then needed to protect the farmer and to "ensure the survival of a maximum number of serious operators."

E. HOW TO OVERCOME

Price fixing schemes are very difficult to enforce. Farmers rarely get the official producer price, as was amply demonstrated in last year's campaign. The subsidy paid went basically into the exporters' pockets. There are few illusions that it will be much different this year.

A.I.D.'s strategy could be centered on encouraging competition as much as possible by both ensuring easy entry and promoting price competition among buyers and operators.

F. PROPOSED USAID ACTIVITIES

- Ensure that the European Community's Stabex Fund is not used to support and subsidize the price fixing scheme for robusta coffee and cocoa.

- Encourage competition in the trade by ensuring that no unreasonable restrictions are placed to prevent entry into the coffee and cocoa exporting business, and that smaller operators have even opportunities to compete against the larger exporters.

- Actively encourage competition by supporting directly a few selected operators, including possibly some of the producer cooperatives already operating in the sector, either with technical assistance, training, or rotational operating resources.

- Donors need to continue efforts at persuading the Government to abandon price stabilization schemes for cocoa and robusta, as it has already done for arabica coffee. The failure of the previous system should suffice to demonstrate the futility and cost of these schemes.

- Collect, disseminate, and provide open access to market information to ensure transparency in the system.

ANNEX 3
CONSTRAINT: NON-EXISTING MARKET INFORMATION

Potential exporters of non-traditional agricultural crops readily identify their dire need for market information concerning prices, import requirements, quality standards, and marketing contacts for those products. There are no public or private organizations in Cameroon furnishing such needed information.

A. ACCESS TO INTERNATIONAL MARKETS INFORMATION

The above market information is publicly available in Europe and the United States to potential users, either freely or for modest charges. Accessibility to such information from Cameroon is limited to a few companies and agencies. Those who have information tend to guard it, rather than disseminate it to the general public.

A monopoly granted SOPECAM for the reception of international market news wire services such as Reuters has effectively prevented other businesses from becoming subscribers. In-country dissemination of the same information is also severely restricted by the monopoly privilege.

A few years ago, when the principal agricultural exports were a state monopoly and prices were determined by government decree, there probably was not much need to have ready access to market news. Now, however, private exporters of traditional as well as non-traditional agricultural products, operating basically with unregulated world prices (with a few exceptions), need continuous access to world market news for the products of interest. The wire news monopoly is an anachronism in Cameroon's presently liberalized and privatized trading world.

B. ACCESS TO NEIGHBORING MARKETS INFORMATION

A similar absence of market information exists for potentially promising markets in neighboring countries. Already there is a lively cross-border export trade in food products from Cameroon. Gabon is the principal market for those exports, but Nigeria, Chad and the Central African Republic are also mentioned often. Data on such trade are practically non-existent, and the few data that become available are several years obsolete. The main products exported are plantain, fresh cassava, gari, potatoes, tomatoes, onions, cabbage, and carrots.

Information regarding prices of exported food products to neighboring countries is non-existent. Anecdotal information indicates that price differentials can be so large that occasional some exporters have shipped staple products by air to Libreville at sizeable profits. Unfortunately, the absence of timely information on price levels makes this market also very risky for most traders.

C. NON-EXISTENT INTERNAL MARKET INFORMATION

It is not only exporters who lack market information. Cameroon's marketing of agricultural commodities is done in total absence of a public market information system. To be sure, trade has taken and is taking place anyway, and under the circumstances it is probably working reasonably well. There is a sufficient number of traders to ensure working competition and transportation, and communications between the principal markets and production zones is sufficiently fluid to maintain reasonable flows of price information.

Nevertheless, a recurrent complaint from farmers producing all major crops is their ignorance about the price conditions in the final markets, and their suspicions that traders are taking advantage of them. Since farmers have little capability to transport their products beyond walking distance, their lack of market information puts them at a great bargaining disadvantage.

Official price collection services maintained by the Government have never been of much usefulness to farmers in Cameroon. These prices have been collected for archival and analytical purposes, rather than to be disseminated immediately to aid market participants in their decisions.

Unfortunately, even the traditional market price collection maintained by the Government at the Statistical Division of the Ministry of Planning has stopped functioning for lack of operational funds. There is at the moment no functioning market price collection system in Cameroon for basic foodstuffs.

D. DONOR COORDINATION

Apart from the Food and Agricultural Organization (FAO) of the United Nations, few other donors are showing interest in remedying the lack of availability and accessibility of market information. FAO has two projects working on this matter. The Postharvest Development Project is collecting weekly prices and volume in nine village markets in the North West Province. Once a week they have a 10-minute broadcast on Radio Bamenda. Another FAO project, the Famine Early Warning System, is planing to introduce a price collection system in four provinces (Center, South, North, and Extreme North), also with the intent of using radio broadcast to disseminate the results. Conspicuously absent from these two projects are the principal agricultural markets in the country: Douala, Yaounde, Bafousam, and Bamenda.

E. PROPOSED USAID ACTIVITIES

USAID is to some extent already active in obtaining price information in the context of the agricultural surveys carried three times a year by the CAPP project with the Ministry of Agriculture. Farmers provide information of the prices at which they sold produce from the previous harvest. Unfortunately, farm gate prices are difficult to translate into market prices because of the their great variability according to season, distance to transport, and markets.

USAID can move quickly to fill the current void in market price information. In addition to helping markets function more efficiently, market prices are needed to perform the necessary analyses of effects of further policy adjustments, and to assess the social impact of the structural adjustment process. Potential investors also need basic information on the structure and evolution of prices to be able to assess the viability of their undertakings. This concept paper would be greatly improved had there been available basic information on relative prices of major export and domestic commodities. Collecting and disseminating simple price information for the major markets in Cameroon would be a great contribution to improving market performance, government policies, and donor strategies.

A separate issue for USAID to consider is whether market news should be collected and disseminated under the existing government system or through an alternative private sector outfit. Given the current dismal state of government operations in 1992, it is unlikely that an official system will be agile enough to carry out these operations. Moreover, the potential for political considerations entering into the release and dissemination of market news is a concern. USAID could try to locate a suitable organization capable to establish and introduce a basic market information system. A suitable performance contract linking disbursements to timeliness, coverage, and accuracy of the information could be negotiated to ensure businesslike responsiveness.

USAID could also be instrumental in setting up a system to obtain market information on potential export targets in neighboring countries such as Libreville, N'Djamena, and a couple of selected cities in Nigeria. A private contractor will be more likely to arrange for access to these markets, and to obviate the cumbersome government-to-government negotiations that official channels would entail.

USAID and other donors should also use their influence with the GRC to eliminate the current monopoly and restriction in accessing and disseminating international market wire service information.

Moreover, USAID could more actively support a private sector organization to collect, digest, and publicize international market developments of interest to potential Cameroonian exporters. The Investment Propocion Center or similar outfit could be engaged in bridging the gap between the external market opportunities and the production potential in Cameroon.

Finally, the possibility of a single contractor being responsible for consolidating all the above activities involving market information from internal, neighboring, and world markets should be seriously examined.

ANNEX 4
CONSTRAINT: CAMEROON'S DETERIORATING COMPETITIVENESS IN AGRIBUSINESS

Cameroon's economic difficulties in the second half of the 1980s can be attributed in part to the worldwide recession and the severe drop in world market prices for its principal exports — oil, coffee, and cocoa. Other countries facing the same conditions, however, have not been affected as badly as Cameroon.

At the root of the problem is the deteriorating competitiveness of Cameroon in the world market for the production of its traditional export crops, but also for the production of non-traditional export crops. The case of cocoa illustrates how badly the prospects of this basic crop have soured in Cameroon.

A. DECLINE IN REAL COCOA PRICES

Figure 1 illustrates the deterioration in real prices and incomes of cocoa producers in Cameroon in comparison to similar losses of producers in other countries. Three factors are taken into account here for deterioration of real prices: (a) the drop of world market prices of cocoa; (b) the drop in the value of the U.S. dollar in relation to the FCFA; and (c) the rise in consumer prices in Cameroon.

The continuing collapse of commodity prices in the world market that started in the mid-1980s badly affected Cameroon producers. The New York price for cocoa in 1985 was just over $1 per pound while in December 1992 the price is only 44¢ per pound. Moreover, while in 1985 Cameroon could get 449 FCFA per dollar, in October 1992 it only got 263. In terms of FCFA, the price of cocoa for Cameroon has therefore declined from 1,008 FCFA per kilogram in 1985 to merely 252 FCFA in October 1992. Finally, the consumer price index in Cameroon has risen by 24 percent in the same period. In terms of real purchasing power, the 1992 price only commands the equivalent of 204 FCFA of 1985. This is only 20 percent of the purchasing power in 1985.

Cameroonian cocoa producers, however, were not getting the world price for cocoa. The marketing board (ONCPB) that had the monopoly for marketing Cameroon cocoa in the world market only transferred a portion of the price to producers. The difference was used to pay for administration and marketing costs, and to set up a "stabilization fund" to be used when world prices declined. Unfortunately, the stabilization fund was so badly mismanaged that when it was needed it was nowhere to be found. In the past couple of years, producers have only been partially paid for most of the crop they have surrendered to the marketing board.

The graph in Figure 1 traces the evolution of real prices for cocoa in the intervening years. For Cameroon the picture is one of progressive deterioration. However, producers in two other countries also known as cocoa producers, Ghana and Ecuador, have fared much better during the same period. Note also that the paths of those two distinct and distant countries are so close together that they appear nearly identical. On the other hand, from the limited available data, it seems that Ivory Coast follows hand-in-hand the Cameroon path. Cocoa prices for producers in Ecuador and Ghana actually improved through most of the 1985-92 period; it is only in later years that real price has declined below the 1985 levels. For Ecuador, for example, the real decline was less than 20 percent by 1991.

The contrast between the paths followed by Cameroon and Ivory Coast and those of Ecuador and Ghana can be principally attributed to the ability of the latter two countries to devalue their currencies in response to the evolving international situation, the result being enhancement of real prices for producers of export crops, even in the presence of very high inflation rates. By contrast, Ivory Coast and Cameroon, by virtue of their being tied to the French franc, have witnessed their currency become more and more appreciated vis-a-vis the U.S. dollar. Cocoa prices in national currency declined both because world prices in dollars dropped and because the lower exchange rate yielded fewer FCFAs. Stable consumer prices provide little consolation to this loss.

A similar pattern to the one described above is observed for coffee, but the drop in real purchasing power is more pronounced because the drop in world prices has been even steeper than for cocoa. Figure 2 traces the evolution of real prices for Cameroon, Ivory Coast, Ghana and Ecuador. Once again, Cameroon and Ivory Coast producers suffered the greatest drop, 80 percent, in real prices, while producers in Ecuador and Ghana managed to retain over 60 percent of the 1985 purchasing power.

B. COMPETITIVENESS IN NON-TRADITIONAL EXPORT CROPS

The loss of competitiveness in the past seven years vis-a-vis other competing countries has affected all export crops from Cameroon, non-traditional as well as traditional. Had cocoa maintained the same price it had in 1985, Cameroon still would have lost ground when compared to Ghana and Ecuador. In dollar terms, costs in Cameroon have increased by 50 percent while Ecuador's have declined by 40 percent between 1985 and 1992.

C. IMPLICATIONS FOR USAID

Cameroon's drop in competitiveness with respect to other countries makes it more difficult in 1992 to expand agricultural exports of non-traditional as well as traditional products than it was a few years ago.

However, the current depression in Cameroon and the consequent reduction in prices and incomes is already realigning the real exchange rates, thus recovering some of the lost competitiveness in international markets for both traditional and non-traditional export crops. Moreover, the possible appreciation of the U.S. dollar with respect to the French franc will accelerate this process. When and if this takes place, the prospects for export expansion of traditional and non-traditional exports will improve rapidly.

USAID strategy could then focus in the immediate term on laying the groundwork for a potential rapid improvement of prospects for export crops.

Specifically, the prospects of exporting non-traditional products should be cautiously explored over a reasonable range of price relationships. At the same time, USAID should maintain its commitment to further the privatization and liberalization of the cocoa and coffee markets, despite the currently depressed market conditions in those crops. In fact, the poor conditions might be more conducive to real restructural changes than more favorable conditions. When and if better times come for these traditional crops, a free market regime stands to benefit a large number of smallholder farmers.

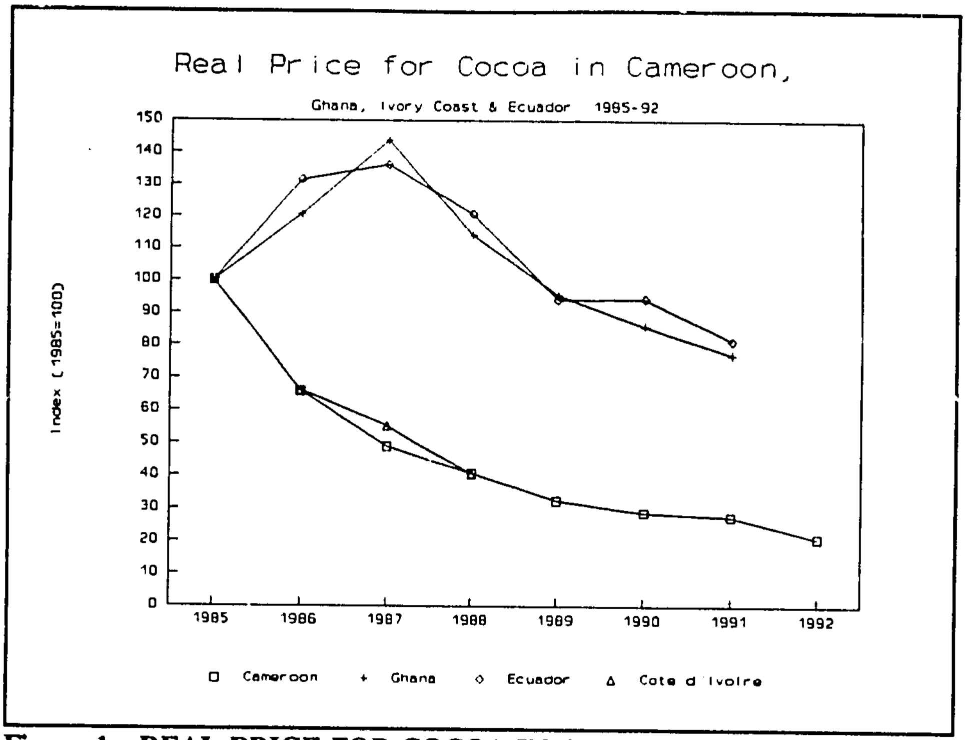

Figure 1. REAL PRICE FOR COCOA IN CAMEROON

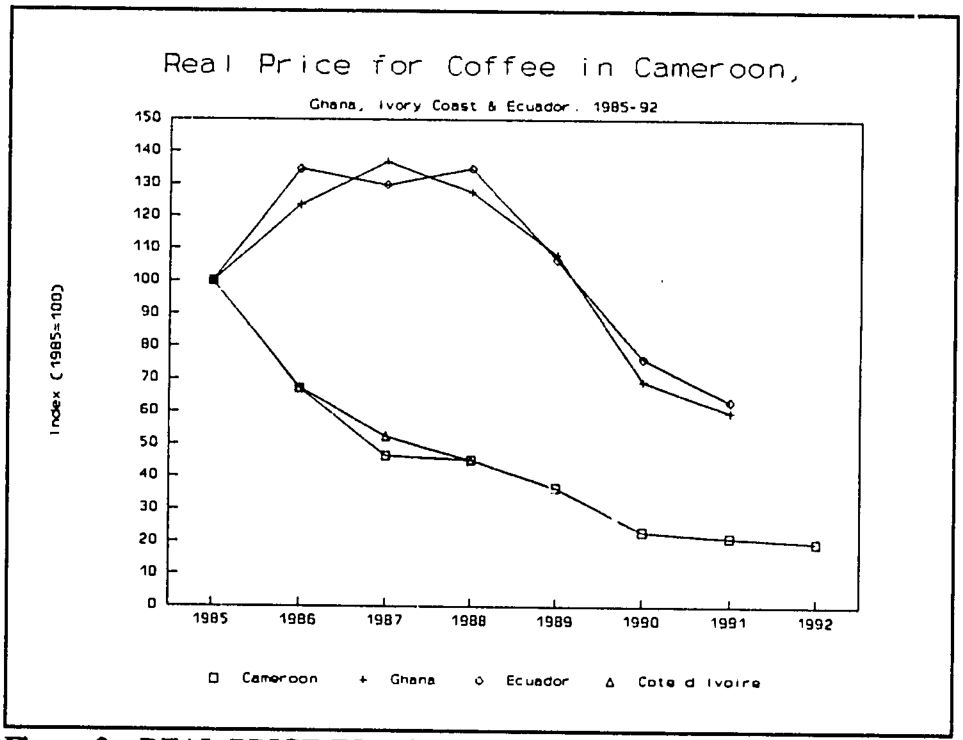

Figure 2. REAL PRICE FOR COFFEE IN CAMEROON

ANNEX 5
CONSTRAINT: GOVERNMENT INVOLVEMENT IN AGRIBUSINESS

One striking feature of the agribusiness sector in Cameroon is the widespread presence of government-owned enterprises. The best known were the marketing boards for export crops, wholly owned and operated by the State. There are in addition a sizeable number of agribusiness enterprises with mixed ownership and management.

Two holding companies coordinate the Government's participation in agribusiness enterprises: the Cameroon Development Corporation (CDC), which owns and manages plantations of rubber, oil palms, bananas, and tea; and SNI, with interests in processing and manufacturing.

State agribusiness enterprises have become a major drag on the economy and a burden on the Government's treasury. With very few exceptions, these enterprises have been making massive losses, especially since the late 1980s.

The following table provides the financial performance of SNI companies for the 1990-1991 year: CAMSUCO (sugar production) lost 3.5 billion FCFA, or 1.4 million per worker; SCT (tobacco) lost 1.2 billion FCFA, or 3.7 million per worker; SPFS (palm oil) lost 635 million FCFA, or 1.25 million per worker; SOFIBEL (wood) lost 1.02 billion FCFA, or 1.5 million per worker; HEVECAM (rubber) lost 3.0 billion FCFA, or .7 million per worker.

In the food industry subsector the SNI Brewery (SABC) made a sizeable profit of 2.9 million FCFA, and CHOCOCAM (chocolates) made 253 million FCFA. However, Milky Way (dairy products) lost 540 million FCFA, SRL (vegetable oils) lost 444 million, and SCI-CACAOS (chocolate) lost 66 million.

The table only applies to the 54 SNI companies still operating in 1991, down from 84 a couple of years earlier. Nine companies had been dissolved, and 20 others were in the process of liquidation.

Restructuring of enterprises under CDC and SNI has been a regular feature of the World Bank and IMF conditionality clauses for disbursements of their loans. A special unit has been set up to coordinate and monitor privatization operations, the Mission de Rehabilitation des Entreprises du Secteur Public et Para-Public.

Notable progress has been made in privatizing and restructuring some of the state-owned agribusinesses, notably SOCAPALM, SEMRY (rice), and SODECOTON. Improvement in performance of these companies in the past couple of years has been reported by several observers (IMF report). At least two enterprises have been privatized, SCM (wheat flour) and OCB (banana production and export). Four other enterprises have been advertised for sale (CHOCOCAM, SEPBC, SCDM, SOCACAM), and eight others are being audited for sale, including CAMSUCO, SOFIBEL, and COCAM. Unfortunately, the break up of negotiations with the World Bank and IMF has slowed down the movement towards divestiture and restructuring of parastatal enterprises, including those in the agribusiness sector.

Efforts at privatizing are also slowed down and hindered by other factors such as the need to disentangle many legal issues regarding ownership of land, unclear titles, government arrears, pending taxes, foreign debt, severance settlements, and responsibility for earlier mismanagement. Moreover, the obvious fact that companies are making losses and the uncertain economic and political situation of the country discourage both domestic and foreign potential investors.

Two American companies have become involved recently in the restructuring of the agribusiness sector by taking over operations formerly run by parastatals. Pioneer Seeds took over the seed production scheme started by a USAID project in northern Cameroon. Del Monte negotiated directly a management contract with the Government to market bananas in Europe and improve the production and quality in Cameroon. Both contracts clearly illustrate the potential for U.S. agribusinesses to become involved in Cameroon, and their ability to compete in both the European and the regional Central African market for agricultural inputs.

Much of the financial difficulties experienced by the agribusiness sector in recent years can be attributed to the reduction of protection and consequent increase in competition from imported products. Companies that were set up primarily for import substitution are especially vulnerable. Enterprises like CHOCOCAM have seen their market shares shrink against imported products. Milky Way witnessed a reduction of revenues by 37 percent in 1991 in the face of importation of cheaper and high-quality dairy products. Even a seemingly successful enterprise like MAISCAM is finding it advantageous to import corn to satisfy the demand from breweries, rather than produce the grain themselves or procure it from domestic growers. Of course, prices of imports are also made more attractive by the overvaluation of the CFA franc.

PROPOSED USAID ACTIVITIES

The demise of so many parastatal agribusiness enterprises offers both challenges and opportunities. The size of the Government deficit and the continued burden of money-losing companies should make the Government now more willing than ever to privatize and restructure these companies.

USAID could offer and provide needed assistance in carrying out the necessary audits and valuation studies needed before a company can be offered for privatization. Price Waterhouse, the international accounting firm, already has an A.I.D. worldwide contract on privatization. Until now, the demand for these services have been for Eastern Europe and the new CIS republics. Their contract could be tapped to provide assistance to SNI or CDC on how best to proceed on a company-by-company basis. The World Bank is not likely to provide the needed support in the coming months; USAID could offer to fill this gap temporarily or on a longer-term basis.

U.S. agribusiness companies could be well placed to getting involved in Cameroon, as vehicles to access the European market, or for tapping the national and regional markets. In addition to the technological know-how, U.S. agribusiness has a comparative advantage in marketing in international markets worldwide. These factors, perhaps more than actual capital investment, make U.S. companies serious contenders for joint ventures or acquisitions in Cameroon of export oriented agribusinesses. USAID could actively encourage the interest of U.S. agribusiness in Cameroon. Del Monte and Pioneer Seeds are excellent bases to build on.

USAID and other donors could also contribute to alleviating some of the social costs associated with privatization and restructuring. Acceptable severance settlements to the existing work force could reduce the political repercussions of privatization. USAID has established early retirement schemes oriented to the public sector in other countries in Africa. Adaptations to the particular circumstances of Cameroon could be made.

FINANCIAL PERFORMANCE OF STATE-OWNED ENTERPRISES UNDER SOCIETE NATIONALE D'INVESTISSEMENT (SNI)

1990-1991 (million FCFA)

ENTERPRISE	% SNI	PROFIT/LOSS	REVENUES	EMPLOYEES	ACTIVITY
SCT	67	-1244	911	338	Tobacco
SOSUCAM	8	187	8564	1960	Sugar
CAMSUCO	36	-3506	4669	2588	Sugar
SAFACAM	18	17	2543	1794	Forestry, Rubber
SPFS	27	-635	1424	506	Palm oil
MAISCAM	15	nd	nd	nd	Maize
SODEPA	33	5	1019	680	Animal Production
COCAM	49	-60	845	417	Lumber, Plywood
SOFIBEL	40	-1023	2718	672	Forestry, Wood
ECAM-PLACAGES	45	89	3120	357	Plywood
SOCAPALM	5	73	8505	4295	Oil Palm
SODECAO	12	nd	nd	nd	Cocoa
SODECOTON	25	779	29592	2028	Cotton
HEVECAM	8	-3041	3488	4348	Rubber
SIC-CACAOS	15	-66	8421	194	Chocolates
CHOCOCAM	15	253	5157	308	Chocolates
SABC	17	2859	276144	3602	Brewery
SEMC	37	28	967	31	Mineral Water
MILKY WAY	34	-540	1030	122	Dairy Products
SRL	11	-444	2154	70	Cooking Oil
CICAM	27	-3078	8585	1120	Textiles
SOLICAM	14	-130	2077	197	Textiles
STT	3	573	2421	578	Textiles
SCS	27	-294	2048	309	Bags for Coffee, etc.
CIMENCAM	63	1051	21485	640	Cement
TANICAM	10	-549	505	133	Tannery
SCDM	87	-685	5087	417	Metalurgy
SOCATRAL	25	143	14415	188	Aluminum
ALUBASSA	17	61	1368	79	Aluminum

CAMELCAR	40	-280	888	70	Electric Wire
SOCAVER	35	-141	3306	224	Glass Works
SATC	25	26	937	28	Manufacturing
ALUMCAM	7	-470	40182	1073	Aluminum
GETRAN	2	-1334	498	170	Metal Works
SONARA	17	7215	80671	487	Oil Refinery
SONEL	0	6240	61639	3743	Electricity
S.G.B.C.	90	-649	1066	164	Hotels
S.B.N.C	58	-245	388	114	Hotels - North
S.O.H.L.I.	80	-862	1112	140	Hotels - Coast
S.H.E.	24	-21		16	Hotels - East
CHC	30	nd			Hotel - Hilton
C.P.E.	60	-238	980	88	Advertising
SOCATUR	10	nd			Tourism
SOTUC	4	-4721	2672	1822	Urban Transport
CAMSHIP	36	-1811	17857	302	Shipping
SOCAMAC	15	98	3454	293	Warehousing
SCDP	11	391	4286	318	Oil Storage
SEPBC	16	190	1824	218	Logging
CNIC	15	104	1077	59	Ship Building
BCCC	8				Banking
IBAC	10	-1017	348	31	Banking
GEACAM	10	112	1221	40	Insurance
CAC	41	-273	895	456	Agr. Credit
SEDA	20	nd			Development

Source: Activity Report, 1990-1991.

Enterprises being liquidated: SONAC, SOCAMCO, CERICAM, CFGG, SOCAME, STPC, NORCAMTOUR, L'EE CELLUCAM, CAMBANK, NOBRA, CTMC, SODENKAM, BATA, PARIBAS, SEAC, L'AIC, SEBACAM, ZAPI-EST, CREVCAM.

Enterprises Dissolved: AGRILAGDO, CAVIC, NOUMAO, TRAITEBOIS, ANANAS DE NTUI, SIPHAC, SOCARHAVE, SAPICAM, WESTCORN.

ANNEX 6
AGRIBUSINESS DEVELOPMENT AND THE INDUSTRIAL FREE ZONE CODE

Passage of the IFZ legislation introduces a potentially very effective mechanism for attracting investment in the agribusiness sector.

The IFZ code offers potential investors a series of special measures to counteract the effect of the regular legislation that under ordinary conditions discourages enterprises from establishing in Cameroon. The financial incentives, for example, are:

(a) A 10-year tax holiday;
(b) Exemption from duties on all imports of equipment and raw materials;
(c) Exemption from some labor legislation features;
(d) Unhindered repatriation of profits; and
(e) No-problem export arrangements.

There are two types of IFZ status contemplated under the law. Industrial parks can be granted IFZ status that covers enterprises located within it. Individual enterprises can also be granted site-specific IFZ status, an arrangement similar to the "maquiladoras" in some Latin American countries.

There are both potentials and limitations on how much the IFZ code will contribute to increasing investment in the agribusiness sector.

IFZ legislation was explicitly written to encourage industrial enterprises. This excludes both investments in agricultural production and in trading activities. Some examples of how the IFZ legislation is being interpreted and applied will illustrate these effects.

Example 1: Green Beans. Green beans production, processing, and export has been a long-standing item in Cameroon's export sector. A foreign concern in concert with some Cameroonian investors would like to obtain IFZ site-specific status for an enterprise that will produce, process, and export green beans to France. The NOIFZ, the agency charged with implementation of the code, approved IFZ status for the processing and export components of the operation but not for the green beans production component. It was then necessary to set up two separate companies, one to produce the beans, another to process and export.

The green beans production company could not be eligible for IFZ privileges because agricultural ventures are excluded from the IFZ code. It will then have to pay taxes on a regular basis, pay duties on imported seed and other imported inputs, and be subject to the ordinary labor and investment regulations. Moreover, IFZ companies are not allowed to sell finished products in the local market. This prohibition is not absolute, and it is possible to request special dispensation allowing them to sell up to 20 percent of the previous month's production.

At any rate, the NOIFZ wants to separate as much as possible IFZ firms from the local market because it would open the gates for possible evasion of the existing commercial regulations, and might also erode the tax base for the Government. Few companies producing now for both the export and the domestic market will then be able to profit from gaining IFZ status.

Example 2: Forestry Industry. There are some forestry enterprises producing exclusively for export that have applied for special site IFZ certification. The request has been granted to those firms that can demonstrate doing some processing of the wood such as making plywood, planks, or cutting veneer. But export of logs has not been approved for IFZ certification, the rationale being that some industrial processing must take place in-country, beyond simple resource extraction.

Example 3: Cocoa Butter. Site-specific IFZ status has been granted to SIC-CACAOS to extract and export cocoa butter, but not to export cocoa beans. The company is two-thirds owned by Sucres Denrees, a French concern, and the remaining third is held by the SNI, a government holding company. The residue from the extraction of butter is sold by SIC-CACAOS to Chococam, another parastatal, to make chocolates for local consumption. A peculiar feature of the IFZ status for SIC-CACAOS is that it is an existing company, already doing exporting of cocoa butter, and with extensive linkages to the domestic economy.

Example 4: Bananas. A few years ago Cameroon's banana exports were in decline to the point where it could not even fill its European Community quota. Del Monte and CDC (a government holding company and owner of the plantation) agreed to establish a joint venture arrangement whereby CDC retains ownership of the plantation while Del Monte does the management, packaging, and marketing in Europe. The turnaround has been a great success and now Cameroon more than fulfills its quota. It could in fact export more were it not for the opposition of other quota exporters under the ACP and Lome conventions. The Del Monte deal with CDC on bananas predates the IFZ legislation, and it involves Cameroonian capital, public capital rather than private capital.

There are other systems of incentives offered to companies interested in investing in agricultural production for exports. The new investment code makes special provisions for foreign and domestic investments going for exports, though not necessarily those going into agriculture or agroindustry.

The basic regime of the investment code provides for some standard benefits. Among them is granting for the first three years of operation (a) a 50 percent reduction in company tax, (b) a flat 15 percent duty on capital goods and equipment imports, and (c) exoneration from a series of business related fees. During the five subsequent years, these exonerations are halved or removed.

To be eligible for the basic regime, a firm must create one job for every 10 million FCFA invested, export over 25 percent of its output, and acquire locally over 25 percent of its inputs.

One of the main benefits of the new investment code is the creation of the one-stop-shop, which will be empowered to provide all authorizations, visas, documents, permits, waivers, and information needed by prospective investors. This one-stop-shop, the CGCI (Cellule de Gestion du Code des Investissements), replaces the myriad of ministries, agencies, and offices that had to be involved depending on the type of economic activity.

The new investment code represents a great improvement over the previous one in that it simplifies greatly the administrative logjam in applying and implementing it. It also removes much of the administrative discretionary power of officials by making more transparent the eligibility criteria and rules of the game. Moreover, the benefits granted under the new code are directly tied to the performance of the enterprise in advancing well defined goals of the government such as generating employment, increasing exports and value added, manufacturing and technology transfer. The IFZ legislation is one of the investment regimes covered by the new investment code.

Implementation of all these improvements in legislation concerning investments and free zones are only now beginning. The NOIFZ only began activities in March 1992, and the CGCI has been active only for about one year and still must find an adequate and permanent office space. At present it is operating out of a temporary office space.

ANNEX 7
PROFILE: LES JARDINS DE FOUMBOT

The Jardins de Foumbot is an agro-industrial complex located in a 200 hectare concession some 12 kilometers from Foumbot, owned by a joint French-Cameroonian group for the production of green beans and other vegetables for export to France. The road from the plantation to the paved highway is in a bad state of disrepair. Jardins de Foumbot had planned to pave the road, but it has not so far.

We visited the Jardins de Foumbot complex, but were unable to see any of the installations or the farm. When we arrived at the plantation in the early afternoon their work day had ended and the entrance was barred by a gigantic caterpillar (tractor).

Only 120 hectares are suitable for cultivation, and not all are being used. Green beans are the only product being exported, though other vegetables were also originally planned. Tight secrecy and security about the installation is reported by a local observer, though it could well be attributed to phyto-sanitary considerations. The plantation started operations in 1989. Initially, it had intended to contract some of the production to local farmers but after a couple of trials this was abandoned because of lack of time for technical supervision and difficulties in enforcing contracts for delivery.

Contracts with the vegetable producers cooperative of the Noun Valley (Coprovinoun) do not work either because they have no means of enforcing the contracts by members' farmers, and the quality of production leaves much to be desired. Vegetable producer cooperatives should concentrate on the marketing, rather than the production, of vegetables in providing technical assistance to farmers through meetings to view and discuss demonstrations of proper methods. As it is, producers tend to be suspicious of the cooperative and view it more as taking advantage of them, rather than helping them.

Production at Jardins de Foumbot uses large amounts of labor. Most of the laborers are women from surrounding villages. Most are employed as casual laborers and paid by the piece, though there are some permanent workers also. There are five months of good production around the dry season (November through March) but the growing season can extend for seven to nine months overall. At any given week they might be harvesting on about 20 hectares. It takes about six weeks for green bean plants to start production.

Jardins de Foumbot has no plans of becoming involved with the local tomato paste processor installed in Foumbot (but not yet operational). They do not see the latter as a viable enterprise because there is not enough supply of tomato in the valley and the world market for tomato concentrate is already saturated. The state-owned holding company, SNI, is the main owner of the tomato paste factory.

A freezing factory in Douala allows the Jardins de Foumbot the option of exporting fresh or frozen. Having freezing capability is essential because the fresh market is too volatile and subject to unpredictable transport difficulties. The frozen market is steady. Moreover, the fresh market has a very restrictive market window; freezing allows them to take advantage of the capability to produce practically year-round (44 weeks during the year).

After some initial sorting and cooling are done in Foumbot, green beans are sent in refrigerated trucks to Douala for final sorting and freezing. Initially, it was intended that about one third would be shipped by air for the fresh market, and two-thirds shipped frozen by boat. The conditions so far this year have been such that all the production is being exported frozen.

Jardins de Foumbot is reportedly the only Cameroon based green beans exporter in operation as of November 1992. UCCAO had for some years exported fresh green beans, but is no longer doing so. The study by the Canadian consulting firm Geomar on export diversification cites reports that even Jardins de Foumbot is encountering financial problems. They hope that as a result of ongoing negotiations with the Government and local authorities their chances of success will improve.

Some lessons can be derived from the Jardins de Foumbot experience:

a. Vegetable export is a demand driven investment, i.e., one in which an enterprise already established in the final market assumes responsibility for marketing the product.

b. The success of Jardins de Foumbot and failure of other exporters can be attributed in great part to the emphasis placed in freezing as an alternative market. Production solely for fresh exports is extremely sensitive to weather, timing, price, and transport eventualities, and it has too short a duration. While the airplane shipments of fresh produce capture the imagination, it is the frozen shipment that basically determine commercial viability.

c. Cooling facilities and refrigerated transport are essential. One of the more notable experiences of UCCAO in trying to export green beans is having the airline load only a fraction of the shipment and leave the rest unprotected on the airport tarmac.

d. The climate and labor force available in the Foumbot areas are very suitable for producing export quality green beans under proper supervision.

e. As currently structured and run, producer cooperatives are not well suited organizations to undertake producing, marketing, and exporting high-value vegetables to European markets.

ANNEX 8
PROFILE: THE TOMATO CONCENTRATE FACTORY IN FOUMBOT

One of the major investments in agribusiness made in the Foumbot area in the past decade has been the construction of the tomato paste factory in a hillside overlooking the town. Unfortunately, although the plant has been nearly completed for over three years, it has not yet been put into operation.

Inception of the tomato paste plant dates back to sometime in the mid-1980s, when the local vegetable producers cooperative (Coprovinoun) was promoting a rapid increase in tomato production. Good growing conditions and increased area planting resulted in a harvest that exceeded the best expectations. The resulting collapse of prices and large quantities of tomatoes left to waste inspired the Coprovinoun to lobby the Government and foreign donors to install in the area a tomato concentrate plant, and a system of cold chambers for local vegetables. Both these wishes have been granted.

The government-owned holding company, SNI, decided to fund the installation of the tomato concentrate plant not only to process surplus production, but also to substitute for increasing imports coming into the country, imports that now reach nearly 6,000 tons per year. Moreover, once the UDEAC agreement comes into effect, Cameroon will stand a good chance of having the market of the community for tomato concentrate all for itself.

An Italian food processing equipment manufacturing company was awarded the international bidding for construction of the plant. Construction of the main building, offices, parking lot, and unloading and loading areas, is all finished. All the equipment has been installed. The plant has seemingly been finished since 1990. It is an impressive sight, a gleaming stainless steel marvel. However, installation of the electrical system connecting all the equipment was subcontracted to another company, and has not yet been done. Fuel tanks, fuel lines, and water connections also are scheduled for installation sometime in the future. The equipment has never been tested or otherwise put to use.

SNI has apparently found it difficult to identify a suitable partner company to manage and operate the tomato paste factory. Technically, the plant was built for the local cooperative, Coprovinoun, but the latter does not have the technical or managerial capability to operate such a sophisticated plant. SNI is a holding company with investments in parastatal in all branches of the economy, and it does not have the capabilities or resources to operate the plant by itself.

One of the problems with the plant is its sheer size. Its initial investment is estimated at about U.S. $12 million, and it was built with sufficient capacity to produce 320 tons of tomato concentrate per day, working one shift per day. It is big, and the size of the equipment is such that it is not economical to operate at a low fraction of its design capacity. In less than 20 days of operation at capacity it could produce the annual 6,000 tons of tomato paste consumption in Cameroon. It would be difficult to hire and train a skilled group of employees for such a short period of time per year. It would be even harder to amortize such a large investment on 20 working days per year.

Exports do not offer much hope for solving the overcapacity problem. There is at present a glut in the world market for tomato concentrate and canned tomatoes. This glut is a result of the long-term trend towards declining demand for canned food products in Europe, the U.S., and other industrialized countries, combined with the excess of new capacity in tomato processing in developing countries from Mexico to Malaysia to Morocco. Well established food canning companies are getting out of the tomato business in California and across the U.S. Italy and Spain have the European Community market, but are finding it hard to compete outside it against new suppliers from the developing world. Growth in demand is only occurring in developing countries, particularly in Africa, but here exporters such as Morocco, Thailand and Malaysia are well established. UDEAC country members are the only likely countries where the Foumbot tomato concentrate factory could be competitive against those suppliers, and even that is not certain.

Lack of tomatoes is another problem. Tomatoes are produced in the Noun valley by many small farmers, mainly for the fresh market in Douala and other cities in Cameroon. At peak harvest periods there are some surpluses that could be used for processing. But a factory of this size cannot be operated simply as a residual use of episodic supply surpluses. It requires steady and large volume supplies for a long season. No effort has been made to determine how the plant will procure such supplies of fresh ripe tomatoes. This will be one of the first problems facing the management company that assumes responsibility for the Foumbot tomato paste factory.

Coprovinoun is fully aware of the potential difficulties of supplying its plant with raw tomatoes, if it were to count on the willingness and abilities of the independent-minded smallholder producers that predominate in the Noun valley. The cooperative leadership is therefore thinking about creating the needed production capacity for fresh processing tomatoes from scratch. Clearing new *bas-fonds* land for cultivation and assigning it to farmers willing to follow the instructions of the tomato technical extension agents is one option being explored. Coprovinoun has approached an international donor agency for the needed bulldozers and technical assistance for land clearing.

From the preceding discussion, it is hard to evade the conclusion that the Foumbot tomato concentrate factory is not likely to begin operations anytime soon, if ever. Under current market conditions and even under optimistic expectations about the future, the plant is almost certain to generate large losses if put into operation. Unfortunately, SNI, being a state organization, might decide to run the plant at a loss anyway. Most SNI enterprises are so doing.

A few lessons should be extracted from the tomato paste experience:

- The first lesson is an old one: processing plants should never be built solely to provide an extra outlet for surpluses in time of oversupply of fresh produce.

- The developing world is littered with failed tomato canning factories, many of them secondhand factories that originally failed in the first world.

- Starting small with a pilot scale plant and hoping to expand as the business progresses is a better strategy than building a big plant and never getting it started.

- The designed capacity for a processing plant should bear some relationship to the realistic market potential in the country.

- SNI has a consistent history of selecting investments that stand very little chance of commercial success, regardless of their popularity among the local communities.

- Involving a profit-seeking private partner in the design and funding of the project would probably have avoided the most glaring mistakes.

- As a general principle, industries started with the intent of substituting for imported products are not likely to be commercially viable in the long run.

- Adding value to fresh farm products through industrial transformation can be a costly and money-losing undertaking if adequate account is not taken of its commercial viability.

IMPLICATIONS FOR USAID

In designing an agribusiness strategy for the coming years, USAID/Cameroon will do well keeping the Foumbot tomato paste factory experience in mind, for it illustrates some of the pitfalls of rushing industrialization of farm production before the appropriate combination of market conditions are in place.

Attention should be focused now on looking for ways to reduce the future cost of the Foumbot tomato paste plant. Alternative uses for the equipment and facilities are possible. Some of the equipment, for example, can be used for extraction and concentration of fruit juices.

SNI will be well advised to look for possible privatization of the plant. If it is not possible to find a willing buyer for the whole plant, it might be advisable to sell equipment and facilities separately. The equipment, being old but never used, might be saleable at a proper discount. USAID could assist SNI in organizing the divestiture and in locating potential bidders in a privatization option.

ANNEX 9
PROFILE: THE WHOLESALE PRODUCE MARKET IN FOUMBOT

A new wholesale market is being proposed for Foumbot, where farmers from the surrounding area can bring their produce for sale to traders who channel them to various destinations, but principally to Douala and Yaounde.

The current market occupies an inadequate empty space a block away from the main road, behind a row of buildings facing the highway. The road itself is a major market with permanent shops in locales and retail vendors of produce and other items spread out over the sidewalk area and the road itself. Access to the space is via a congested and unpaved driveway. There is nothing to indicate that this space is the main assembly market for vegetable products in the entire country. There is no building, no concrete floor, no shelter or shade, no cooling facilities, no trees, no water or electric outlets, no telephones. It is merely an open space where buyers negotiate with farmers coming since early morning. Nearly a dozen seven-ton open box trucks are parked along one side, slowly being loaded with produce. Truckers consistently overload these open trucks to the limit of available space; actual loads normally exceed eight tons.

The ground is dry, but it could turn to mud in rainy season. After buying some tomatoes from a farmer, a trader has an assistant sorting the tomatoes roughly according to size and color into separate containers. The sorting is done on the ground, for there are no tables or alternative structures.

All types of vegetables are packed by the traders into locally made baskets of wide and stiff grass-like leaves. The size of the baskets is fairly standardized, and hold 10 to 20 kilos depending on the type of vegetable. Layers of padding made of banana leaves or straw are placed at the bottom and top of the basket to protect the produce. Baskets are piled up to 10 deep in the truck. The weight of the baskets on top will inevitably damage the contents of the bottom baskets. Baskets costs 60 to 75 FCFA and are basically one-way disposable packaging. Attempts by Coprovinoun, the vegetable producers cooperative, to introduce alternative packing have failed mainly due to cost: A wooden crate of rustic construction for 5 kg of produce costs 450 FCFA, and a cardboard box for 2.7 kg of green beans costs 240 FCFA. The cost of local baskets makes them preferable to traders, despite the higher produce losses and the lack of recycling.

Each box is marked with the identification of the owner and boxes from several traders share the space in a truck. By noontime all purchasing has been completed, but traders and assistants continue sorting, repackaging, and loading the produce in the trucks. All these activities are done on the ground under the hot sun, and heat is further retained by the insulating padding in the baskets. Even after fully loaded, trucks remain in the market under the sun until past 4:00 pm, departing only just before sundown. Despite the dangers of travelling after dark on the road to Douala, drivers prefer to drive at night, mainly because the armed forces checkpoints along the way are unmanned. Arrival in Douala is scheduled for before 4:00 am the next day, in time to unload, distribute the baskets to the representatives of the traders, and begin preparations for the arrival of retailers in the city. The return trip is usually made loaded with construction materials, or any other load for which trucks are able to hustle. An advantage of open box trucks is their adaptability to carry nearly anything. Three round trips is a normal week for the truckers.

All market transactions are settled in cash. There are no banking facilities around the market, and farmers insist on cash transactions. There are no consignment deals with the farmers, but Foumbot traders have many types of arrangements in their counterparts in Douala, the principal destination for produce from the Noun valley. Ordinarily, if the trader himself (wholesalers are mostly male) does not accompany the load, someone of his confidence receives the product and sells it. The Mbopi market in Douala was cited as the main destination for all the trucks. Even though there are other markets in Douala, Mbopi serves as the main wholesale produce market for the city.

There is no formally organized association of traders or market operators for the Foumbot market. Decisions concerning the location and management of the market are perceived as the prerogative of the city authorities. For example, the market used to occupy a larger space, but the more valuable section, towards the highway, was declared private property. An attempt was made years ago by the town to build a shelter in a section of the market over a raised concrete floor. The roof was never installed and the space remains unused.

Despite these obvious problems, market operators do not express eagerness for organizing for action. The immediate reason is that the city is now in the process of relocating the market to a new site out of town. International donors have already made commitments to fund the construction of the appropriate facilities.

The designated new wholesale market will be about three miles from town, in a space presently not easily accessible by regular vehicles. At the moment the only installation in place is the impressive cold chamber facilities that the Japanese Government has donated to the city. A space of over half a hectare is covered by these structures, surrounded by ample parking area. Coprovinoun, the produce cooperative, is the designated operator of the cold chamber complex. As of November 1992 the cold chambers had not been put in operation, even though the inauguration took place several months ago with the presence of high dignitaries. Actually, the refrigeration equipment has not yet been installed and is reportedly on storage in crates in Bafousam. Exactly what is causing the delay was not ascertained. Apart from the cold chambers, no other signs of the potential market are apparent. No new ground has been broken for it.

ANNEX 10
FURTHER LIBERALIZATION OF THE MARKETING OF ROBUSTA COFFEE AND COCOA

Proposal for a USAID/Cameroon Initiative

A. BACKGROUND

The GRC has made progress in privatizing and liberalizing the marketing of coffee and cocoa. Starting this year, arabica coffee marketing will be fully privatized and liberalized. No official pricing will be announced for arabica coffee.

Nevertheless, there remains substantial government intervention in the marketing of robusta coffee and cocoa, through the fixation of prices to producers, margins for traders and exporters, and reference pricing for taxing and stabilization.

It is unfortunate that the technical mission from the CFD that recently completed its mission to Cameroon will be recommending that the system of price fixing be retained this year, and possibly for the indefinite future. Furthermore, the CFD is recommending that the Stabex fund set up by the European Community be used in Cameroon to subsidize the price of cocoa and robusta coffee.

USAID and the World Bank are opposed to the continuation of the price fixing arrangements. The European Community has also expressed reservations about it. Nonetheless, in the absence of USAID taking the initiative and action, the price fixing will likely go ahead. The GRC is receiving only the counsel from the CFD mission. The World Bank is currently in the sidelines due to the suspension of disbursements.

Nothing obligates the GRC to issue decrees fixing prices for cocoa and robusta coffee. Prices will be fixed jointly by ONCC and CICC, the two organizations charged with overseeing the exports of the two commodities. ONCC is a parastatal, but CICC is supposedly a private organization of exporters and processors.

CFD will work together with ONCC and CICC in determining the price and margins levels. Then they will ask the Minister for Commerce and Industry to issue decrees supporting what is basically a private pact. The weight of the law can then be applied to operators who do not abide by the official prices.

B. OBJECTIVES

- To make unsustainable the continued fixation of prices for robusta coffee and cocoa;

- To promote the entry of new brokers into the coffee and cocoa export business;

- To encourage effective competition among buyers, processors, and exporters in the coffee and cocoa business;

- To make it difficult for the price fixation and subsidy to function effectively;

- To ensure that farmers will receive competitive prices for their export crops; and

- To prevent any collusion on the part of established businesses to fix prices, with or without the sanction of the Government.

C. THE ISSUES

The main barrier to entry into the coffee and cocoa export businesses is the substantial amount of capital required to purchase the product from farmers before payment is received from the foreign customer.

The banking system in Cameroon is undergoing a critical shortage of loanable funds. Potential exporters are therefore unable to borrow the needed funds.

Lack of access to short-term capital is the principal impediment for small and medium-size operators to enter the export trade for coffee and cocoa.

Only four or five operators had the necessary financial backing to enter the robusta market in the past season, despite there being many other potential exporters that had been given licenses.

Because prices of both coffee and cocoa are so low, now is an ideal time for USAID to encourage the expansion of the number of exporters and operators by alleviating the capital shortage.

There are at the moment two tranches of U.S. $3.5 million from the PRAMS-I program waiting to be disbursed to the GRC, pending compliance with certain conditionalities. These funds could be reprogrammed, in agreement with the GRC, for purposes related to the marketing of coffee and cocoa.

Two conditionality clauses are holding disbursements of PRAMS-I tranches, namely, the transfer of assets from the defunct ONCPB to NWCA, and the setting of a "progressive export tax" on arabica coffee.

D. DANGERS

In the absence of a revolving fund for private exporters, there is a risk that only a few traders enter the market and they can take unjustified advantage of their position to offer lower than competitive prices to farmers.

In the Northwest Province, where the marketing for arabica coffee has been fully liberalized, traders are for the first time this year expected to operate in the province.

The NWCA cooperative that until last year had a monopoly on the purchase and export of arabica in the Northwest Province might not be able to purchase coffee this year for failure to repay the outstanding balance on the revolving fund set for it under the terms of PRAMS-I. If NWCA is not buying, and if private buyers are not able to get funding, arabica coffee farmers might have a hard time getting decent prices for their crop this year.

Failure in the Northwest Province in ensuring adequate marketing for arabica could give credence to the fears of the GRC and the CFD that market liberalization and privatization lead to monopoly and breakdown of the system to the detriment of farmers. The consequent discredit of marketing reform would be hard to correct later on.

E. RECOMMENDATIONS

- That USAID become actively involved in raising its concerns about the continued official fixing and subsidizing prices and trading margins for robusta coffee and cocoa;

- That to counteract the price fixing policies, USAID adopt a strategy of fomenting broad participation in the trade and competition among a large number of operators;

- That USAID voice its dismay at having Stabex funds used to support prices of robusta coffee and cocoa, thus legitimizing the "price stabilization tax" now imposed on those exports;

- That USAID/Cameroon take measures to provide a U.S. $5 million revolving fund for the purpose of short-term financing of the purchase and export of arabica, robusta, and cocoa;

- That the revolving fund be placed in a similar manner to the way the FSSRP fund is now operating: funds are initially entrusted to one or several fiduciary banks, who in turn make them available to commercial banks who make the appropriate arrangements with individual exporters;

- That a limit of $100,000 be set as the maximum amount that a single exporter can borrow from the fund at any one time. An exporter can borrow several times a year from the fund, providing the total borrowing does not exceed the $100,000 limit. This is roughly equivalent to the FOB value of 100 tons of coffee or cocoa. Of course, depending on their own resources, exporters would be able to buy more than 100 tons;

- That since it is for export funding, the revolving fund can be partly collateralized by the letter of credit opened in the name of the exporter by the foreign importer; and

- That interest rates used in lending revolving fund monies should be strictly commercial, and that commercial banks use strict criteria in obtaining loan collateral and guarantees to ensure repayment of the loans. Similarly, bank fees for handling the fund and loans should be within the standard ranges for commercial loans.