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A PROGRAM OF REFORM IN THE AGRICULTURAL MARKETING SECTOR, PHASE I
(631-0068)

A PROGRAM ASSISTANCE INITIAL DOCUMENT (PAIP)
FOR A FY 1990 NON-PROJECT ASSISTANCE INITIATIVE

NOVEMBER 1989

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TABLE OF CONTENTS

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LIST OF ACRONYMS

BEAC	Banc des Etats d'Afrique Centrale
CAPP	Cameroon Agriculture Policy and Planning Project
CCCE	Caisse Centrale de Cooperation Economique
CDC	Commonwealth Development Corporation
CDSS	County Development Strategy Statement
CENADEC	Centre Nationale de Developpement des Entreprises Cooperatifs
CIF	Cost, Insurance and Freight
EAPRI	Office of Economic Analysis and Policy Reform Implementation
FOB	Free On Board
FSN	Foreign Service National
FSSRP	Fertilizer Sub-Sector Reform Program
IAD	Institutional Analysis and Design
NCRE	National Cereals Research and Extension Project
NPA	Non-Project Assistance
NPMB	National Produce Marketing Board
NWCA	North West Cooperatives Association
ONCPB	Office National de Commercialisation des Produits de Base
PAAD	Program Assistance Approval Document
PAIP	Program Assistance Initial Document
PSC	Personal Services Contractor
RAMS	Reform of the Agricultural Marketing Sector
SAL	Structural Adjustment Loan
SAP	Structural Adjustment Plan
SODECOTON	Société de Developpement du Coton
TSC	Technical Supervisory Committee of the FSSRP
UCCAO	Union Centrale des Cooperatives Agricoles de l'Ouest

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SECTION I
OVERVIEW

Consistent with the Mission's CDSS, USAID/Cameroon has targeted the agricultural marketing sector as a critical area for reform in support of the goal of long-term, sustainable economic growth. The Mission is in the process of designing a two-part, Non-Project Assistance (NPA) intervention, to be called A Program of Reform in the Agricultural Marketing Sector or PRAMS, in support of the liberalization of the internal and external marketing of arabica coffee, robusta coffee, cocoa and possibly agricultural inputs (in addition to fertilizer). This PAIP proposes a five-year, $20 million NPA intervention to be funded out of the Development Fund for Africa called PRAMS I which will: (a) provide for the full liberalization and the internal and external marketing of arabica coffee in the two provinces where this variety of coffee is presently grown, (b) establish the framework for the liberalization of robusta coffee and cocoa marketing (to be pursued in PRAMS II). In addition, the Government of the Republic of Cameroon (GRC) has requested that the Mission expand its assistance in the liberalization of the importation and distribution of agricultural inputs to include pesticides. During PRAMS I a study will commissioned to determine how best to respond to this request.

PRAMS I will be divided into three stages. The first stage will lay the foundation for subsequent reform by establishing a policy liberalization regime for arabica coffee. The objective is to replace the existing regime with one that provides the foundation for establishing a fully liberalized market structure in the North West and West provinces by late 1992. Key components will include the reform of producer pricing policy, reform of the overextended and inefficient role of the national produce marketing board, reform of the legal status of marketing cooperatives, and government agreement on the reforms to be taken in Stage Two and Stage Three of the Mission's intervention. Based on the successful attainment of the above four components, the first tranche of dollars ($7 million) will be disbursed.

The objective of Stage Two of PRAMS I is to establish a quasi-liberalized marketing structure in the North West Province analogous to that which presently exists in the West Province. The transition to this new structure will require reform of key institutional arrangements involving the legal ownership, financing and physical flow of arabica coffee. An additional objective will be to complete two comprehensive studies that could serve as the basis for the policy liberalization regime in robusta coffee, cocoa and pesticide input marketing. Successful implementation of the above-mentioned institutional arrangements would result in the disbursement of the second tranche of dollars ($7 million).

The objective of Stage Three of PRAMS I is to move from the quasi-liberalized market structure to a single, fully liberalized market structure in both the North West and West provinces. This will entail further modification of the institutional arrangements regarding the ownership, financial and commodity flows. Successful transition to this new structure will result in the disbursement of the third tranche of dollars ($6 million). For two years thereafter, PRAMS I will continue to monitor the impact of the liberalization on farmers and on the efficiency of the marketing process.

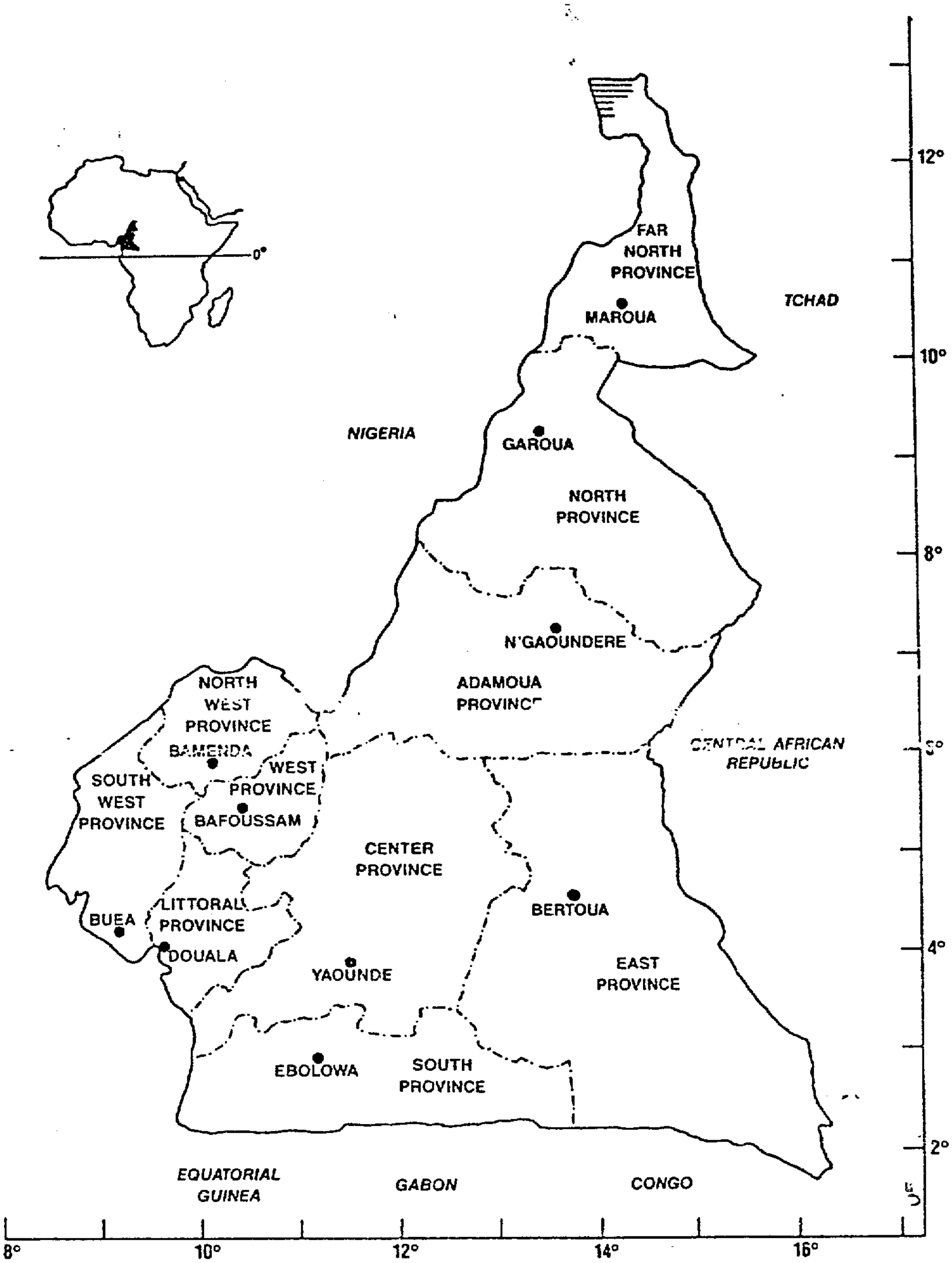


Figure I-1. Administrative Division of Cameroon.

Local currency generated by PRAMS I dollar disbursements will be used to further the reform in the agricultural marketing sector by: (a) supporting the establishment of a loan guarantee fund to facilitate cooperative's access to crop pre-financing from commercial sources; (b) contributing toward the payment of accumulated arrears to arabica producers/processors, if necessary; (c) providing severance payments related to reducing public sector involvement in agricultural marketing or cooperative control; and (d) financing readjustment costs for cooperatives, including severance payments (if necessary) and training.

The logic for this intervention is provided in the detailed economic and sectoral analysis provided in Section II. It begins with a brief description of recent economic developments leading up to the present economic crisis and highlights the important contribution of the agriculture sector in general and the export crop subsector in particular for economic growth. The section continues by discussing the government's objectives and policies in the export crop subsector, particularly with regard to producer price policy, crop marketing policy and crop credit policy. Details are subsequently provided on the effect of these misguided policies on the current economic and liquidity crisis. The section concludes by discussing the need for structural reform in the agricultural export crop pricing and marketing system, as stressed by the World Bank and others, as well as by discussing the particular role that USAID/Cameroon can play in support of this reform.

Section III provides a detailed description of the PRAMS I NPA intervention. In addition to discussing the objectives and conditionality of each of the three stages envisaged under this intervention, it highlights the intended uses of the dollar disbursement and local currency generated from these disbursements. A brief review is also provided of an exciting project in support of PRAMS I to be implemented by the Commonwealth Development Cooperation. The section concludes by discussing the impact of PRAMS I on individual farmers, on the cooperative movement and on the Cameroonian economy in general, as well as by analyzing the social, organizational and political feasibility of the proposed intervention.

Section IV discusses the implementation issues pertinent to PRAMS I. With regard to programming modalities, the section provides the justification for the using a Non-Project Assistance and Sector Cash Grant mode for this intervention. The relationship between PRAMS I and the Mission's existing portfolio is discussed in detail, as is the implications of PRAMS I for the Mission's management strategy, particularly with regard to monitoring policy reform. The section concludes by highlighting the need for coordinating the design and implementation of PRAMS I with both the GRC and with other donors.

Section V provides the final design strategy and proposed PAAD development schedule for PRAMS I.

There are six annexes provided in support of the main report.

SECTION II
BACKGROUND AND DESCRIPTION OF THE EXPORT CROP MARKETING SYSTEM IN CAMEROON

A. Recent Economic Developments

Economic growth in Cameroon has historically been based upon the agricultural sector. Prior to the expansion in oil production in 1978, agriculture accounted for 30 percent of gross domestic product, 80 percent of total exports and over 75 percent of total employment. In real terms, GDP grew at an average annual rate of 5.2 percent during the period 1971 to 1981, with agricultural GDP growing by 5.1 percent. Moreover, the country has been self-sufficient in food and the agricultural sector has served as the main source of raw materials for the yet-to-be fully exploited agro-industrial subsector. Following the expansion of oil production in 1978, economic growth in Cameroon increased dramatically and averaged 9 percent in real terms during the period 1980-85. During this same period, oil production as a share of GDP increased from less than 3 percent to 19 percent. As oil exports became more important, the share of agricultural exports declined dramatically from about 87 percent of total exports in 1977/78 to a low of 27 percent in 1984/85.

The period of rapid economic growth came to a sudden halt in 1986 due to the sharp reduction in the world price for petroleum followed by similar dramatic declines in the world price for cocoa and coffee. Between 1984/85 and 1987/88, the world prices for these commodities in terms of CFA francs declined at an average annual rate of 30, 19 and 14 percent, respectively (see Table II-1). In turn, real GDP declined by 2 percent in 1986/87 and by 15 percent in 1987/88. Agricultural exports have regained their importance in recent years, however, accounting for about half of total exports in 1987/88. With oil reserves and revenues projected to decline, the economy will once again have to depend on the agriculture sector to provide the major impetus for economic growth.

The decline in world commodity prices have had a severe effect on the public finance situation in Cameroon. During the period 1985/86 to 1987/88, total government revenues declined by one-third from CFAF 911 billion to CFAF 625 billion. This sharp decline in public revenues had two major effects on the economy. First, funds available for public sector investments and subsidies to support the large, inefficient parastatal sector virtually dried up. Second, faced with the financial squeeze, the GRC chose to finance most of the public sector deficits by not paying local suppliers. In turn, these arrears to local suppliers forced these businesses to default on loans provided by the domestic banking sector. Similarly, the reduction in government subsidies forced money-losing parastatals to draw down their deposits and default on their loans to the domestic banking sector. The end result has been a liquidity crisis which has made it virtually impossible for the commercial banking system to finance economic activity.

Agricultural producers have only recently begun to feel the brunt of the decline in agricultural export prices and the liquidity crisis facing Cameroon. This is because up until the current crop year the GRC chose not to reduce domestic producer prices in line with the decline in world prices. As a result,

Table II-1. Macroeconomic Indicators

	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89
Real GDP growth	9.2	12.9	5.7	-1.7	-14.8	
Agriculture GDP as a share of total GDP	22.5	20.1	22.2	25.6	33.2	
Agriculture exports as a share of total exports	30.3	26.6	35.5	42.0	47.7	
Cocoa exports as a share of total agric. exports	30.2	36.7	34.4	38.0	29.7	
Coffee exports as a share of total agric. exports	31.2	38.3	40.3	35.8	25.1	
	(---------------- billion CFAF --------------------)					
Government Revenue	722.7	736.5	911.4	765.0	625.5	600.0
o/w Oil	266.2	350.0	382.0	252.0	207.0	163.0
o/w Export crops	16.9	19.5	17.0	16.3	12.0	16.0
o/w Other revenue	439.6	367.0	512.4	496.7	406.5	421.0
Government Expenditures	725.0	866.5	926.4	1,228.8	796.8	656.0
Government Deficit	-2.3	-130.0	-15.0	-463.8	-171.3	-56.0

the parastatals responsible for marketing agricultural export crops (Office National de Commercialisation des Produits de Base or ONCPB for coffee and cocoa; SODECOTON for cotton) were forced to incur large deficits. These deficits were financed through the accumulation of arrears of over CFAF 58 billion to exporters, commercial banks, cooperatives and farmers. Although the GRC has already significantly reduced producer prices for cocoa and coffee, the arrear-overhang has left farmers strapped for cash. Moreover, the financial squeeze on ONCPB has meant that very few resources are available for pre-financing of export crops. This, combined with the outstanding crop credit balances from the previous year, has virtually shut-down the crop financing system (to be discussed further in Section II.D).

B. The Export Crop Sector

As mentioned above, agricultural exports presently account for about half of the country's total exports. Relative to other countries in Africa, Cameroon has a very diversified export base, including cocoa, coffee, cotton, timber, tobacco, rubber, bananas, palm oil and palm kernels. Nonetheless, the country has concentrated on the production and export of cocoa, coffee and cotton, which account for over 80 percent of total agricultural exports.

Cocoa is the most important export crop and accounts for 30 to 40 percent of the country's agricultural exports (see Table II-2 and Figure II-1). Cameroon is the world's sixth largest producer of cocoa, has a market share of about 8 percent and exports beans primarily to cocoa processors in the Netherlands and West Germany. Cameroonian cocoa is more suited for processing into intermediate products (such as cocoa butter and cocoa cake/powder) rather than into a final product (such as chocolate) because of its high fat content and deep red color. The country's cocoa is exported as beans rather than processed locally because consumer countries prefer to retain the control and flexibility to manufacture intermediate products in country according to their particular tastes and preferences.

Cocoa is grown primarily in the Center (35.8 percent), South West (28.1 percent) and South (15.7 percent) provinces, with about 60 percent of total production being produced by farmers with holdings of one hectare or less. Factors adversely affecting cocoa production in Cameroon include inadequate investments in roads, erratic input supply, inadequate research, poor institutional support to farmers, and problems with blackpod disease as well as with capsid and other pests. Moreover, world market conditions for cocoa appear to be unfavorable, with world production growing at a faster pace than consumption. A surplus in world production of 315,000 metric tons was recorded during the 1988/89 crop year and a surplus of approximately 200,000 metric tons is currently being projected for the ongoing 1989/90 crop year. In turn, world cocoa prices have continued to plummet from a high of CFAF 812 per kilogram in 1984/85 to CFAF 553 per kilogram in 1988/89 and the World Bank projects a continuing decline throughout the medium term.

Table II-2

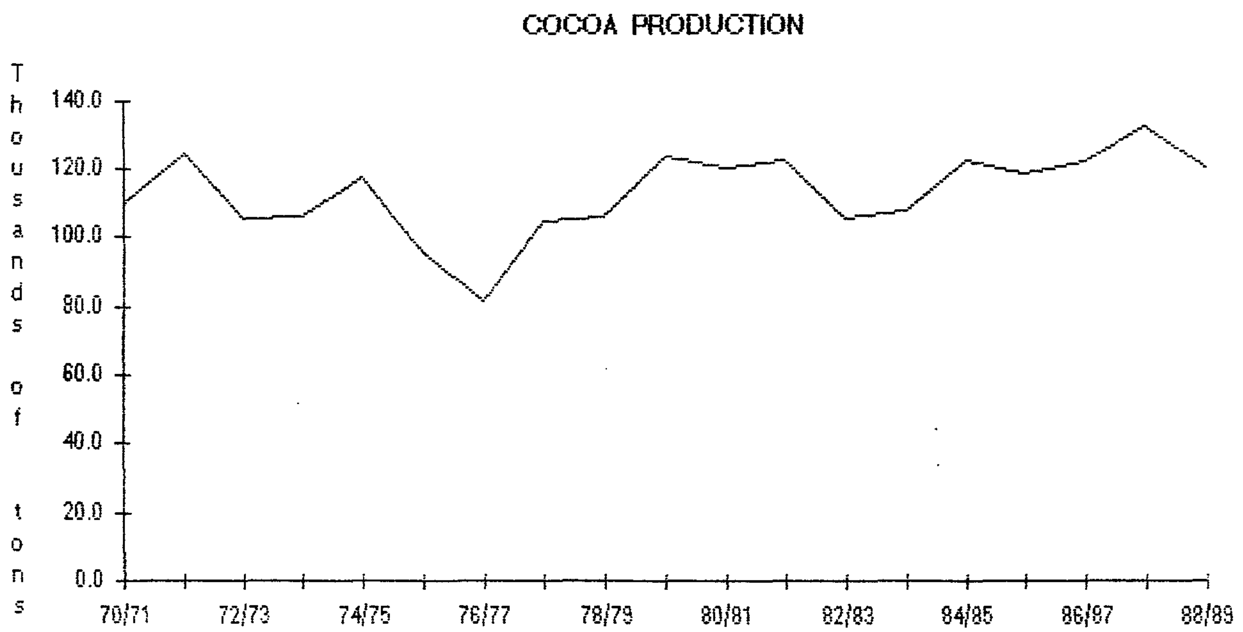
COCOA PRODUCTION AND PRICES

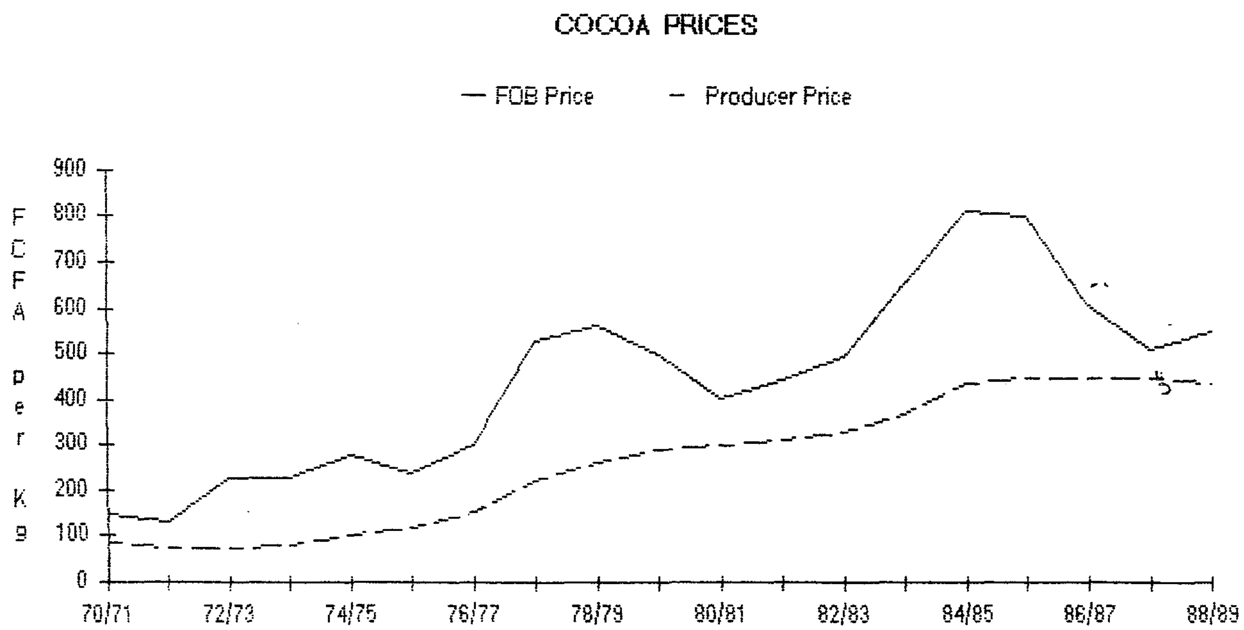
Year	Production	Price		
		Producer	FOB	Prod % FOB
	('000 mt)	(FCFA/kg)		(%)
70/71	110.2	85	144	59.0
71/72	124.9	75	128	58.6
72/73	105.3	75	224	33.5
73/74	106.0	80	227	35.2
74/75	117.8	100	277	36.1
75/76	96.0	120	236	50.8
76/77	82.0	150	303	49.5
77/78	105.0	220	527	41.7
78/79	106.6	260	563	46.2
79/80	123.7	290	498	58.2
80/81	120.8	300	401	74.8
81/82	123.2	310	446	69.5
82/83	106.3	330	493	66.9
83/84	108.9	370	657	56.3
84/85	122.7	440	812	54.2
85/86	119.0	450	804	56.0
86/87	123.0	450	606	74.3
87/88	132.8	450	513	87.7
* 88/89	121.6	435	553	78.7
89/90		250		

Sources: (1) up to 1977/78, Michael P. Lindon, Dr. Anthony Wawa Ngenge and Timothee Ayssi, collected from various sources and reported on pages 58.a and 58.b in "Cocoa in Cameroon: Policy and the Economics of Production", DEP/MINAGRI, August 1983.
(2) 1978/79 onwards, ONCPB.

* Production figure for 88/89 is preliminary

Figure II-1


COCOA PRODUCTION
Thousands of tons
140.0
120.0
100.0
80.0
60.0
40.0
20.0
0.0
70/71
72/73
74/75
76/77
78/79
80/81
82/83
84/85
86/87
88/89


COCOA PRICES
— FOB Price
– Producer Price
FCFA per Kg
900
800
700
600
500
400
300
200
100
0
70/71
72/73
74/75
76/77
78/79
80/81
82/83
84/85
86/87
88/89

Robusta coffee is the country's second most important export crop, accounting for about 30 percent of total agricultural exports (see Table II-3 and Figure II-2). It is exported primarily in the form of beans to a relatively diversified market, with France, the Netherlands, West Germany and Italy accounting for about 75 percent of the total. The prospects for exporting processed robusta coffee have been limited because of the poor flavor and quality of Cameroonian robusta beans and because of consuming countries' preference to process and mix various varieties of coffee to local market conditions.

Robusta is produced throughout southern Cameroon with the Littoral (31.3 percent; with the Moungo Division accounting for 90 percent of this amount) and West (19.8 percent) provinces producing over half of the national total. It is grown on over 200,000 farms, with over 75 percent of total production coming from farms with holdings of one hectare or less. As can be seen in Figure II-2, robusta production has varied over the last several years between 75,000 metric tons to 124,000 metric tons. During this same period of time, the world market price for robusta has dropped from CFAF 1,174 in 1984/85 to CFAF 555 in 1988/89. Robusta beans usually fetch lower prices than do arabica beans; currently robusta is selling for 28 percent less than arabica in the world market. This market signal has not carried through to domestic producer prices, however, where the differential is less than 10 percent. Given that world demand for coffee is projected to decline for the foreseeable future, and given that arabica is a higher quality, more expensive, more profitable and preferred variety, the outlook for Cameroonian robusta is not encouraging.

Arabica coffee is the third most important export crop, accounting for less than 5 percent of total agricultural exports (see Table II-3 and Figure II-2). It is exported in the form of beans, primarily to Western Europe. In spite of the projected overall decline in world demand for coffee, demand for arabica coffee is expected to be increasing at the expense of that for robusta, particularly in the North American market. Moreover, prices for arabica will likely continue to be higher than that for robusta, given consumers willingness to pay a premium for quality and the limited scope for expansion of producing areas.

Arabica is produced almost entirely in the West (51 percent) and North West (43 percent) provinces, with over 85 percent being produced by farmers with holdings of one hectare or less. Arabica production has averaged 18,000 metric tons per year over the past six years, although it has declined from a recent high of 22,562 metric tons in 1986/87 to 14,950 metric tons in 1988/89. As in the case of robusta, world arabica prices have declined dramatically, from a high of CFAF 1,412 in 1985/86 to CFAF 767 per kilogram in 1989/90 (see Table II-3). Cameroonian arabica, however, has sold at well below the world arabica price due to its poor and inconsistent bean quality resulting from inadequate husbandry practices and general disincentives to farmers to produce good quality beans. These disincentives are a function of both the overall producer price (in comparison to the cost of production and relative to robusta coffee prices) and the absence of adequate price differentials between good and mediocre quality beans. Production and yields of Cameroonian arabica have also been declining over the past several years due to ageing trees, late crop payments, lack of effective disease control programs and the increasing revenue possible from commercial food crops such as corn and potatoes.

Table II-3

COFFEE PRODUCTION AND PRICE TRENDS

Year	Production		Arabica Price			Robusta Price			Ara/Rob Price Difference	
	Arabica	Robusta	Fob	Prod	Prod/ FOB	Fob	Prod	Prod/ FOB	Fob	Prod
	mt	mt	FCFA	FCFA	(%)	FCFA	FCFA	(%)	FCFA	FCFA
71/72	30,451	63,427	248	175	70.6	231	114	49.4	17	61
72/73	31,341	62,935	284	175	61.6	231	119	51.5	53	56
73/74	24,668	66,974	296	200	67.6	229	119	52.0	67	81
74/75	31,123	80,025	324	190	58.6	244	123	50.4	80	67
75/76	21,990	57,185	660	245	37.1	570	132	23.2	90	113
76/77	18,877	62,192	1113	305	27.4	1025	195	19.0	88	110
77/78	21,466	64,352	681	325	47.7	599	250	41.7	82	75
78/79	24,803	80,661	613	360	58.7	608	280	46.1	6	80
79/80	24,401	71,624	786	350	29.7	706	310	43.9	80	40
80/81	24,122	88,256	573	350	61.1	521	320	61.4	52	30
81/82	25,417	78,626	737	360	48.9	602	330	54.9	135	30
82/83	21,838	103,154	928	370	39.9	695	350	50.3	233	20
83/84	16,832	105,000	1,177	430	36.5	1,142	390	34.2	35	40
84/85	18,932	117,854	1,350	495	36.7	1,174	460	39.2	176	35
85/86	18,967	76,829	1,412	520	36.8	1,013	470	46.4	398	50
86/87	22,562	123,988	765	520	68.0	847	470	55.5	-82	50
87/88	13,027	74,566	727	520	71.5	576	470	81.6	151	50
88/89	14,950	118,954	767	520	67.8	555	470	84.6	212	50

Sources:

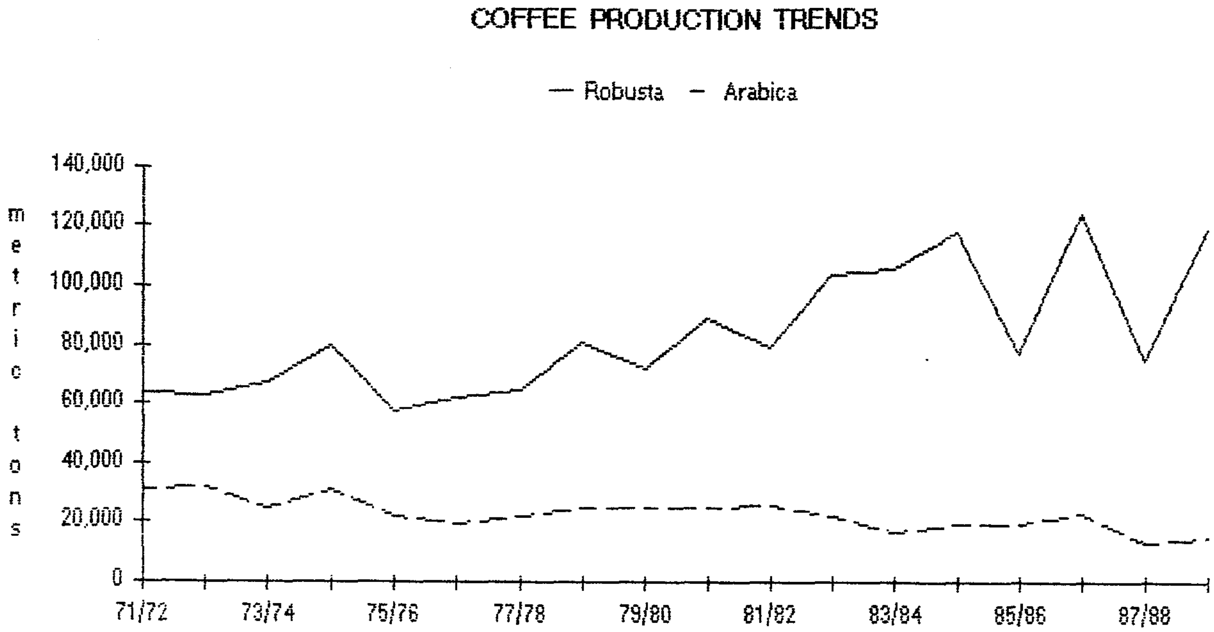
Production: ONCPB

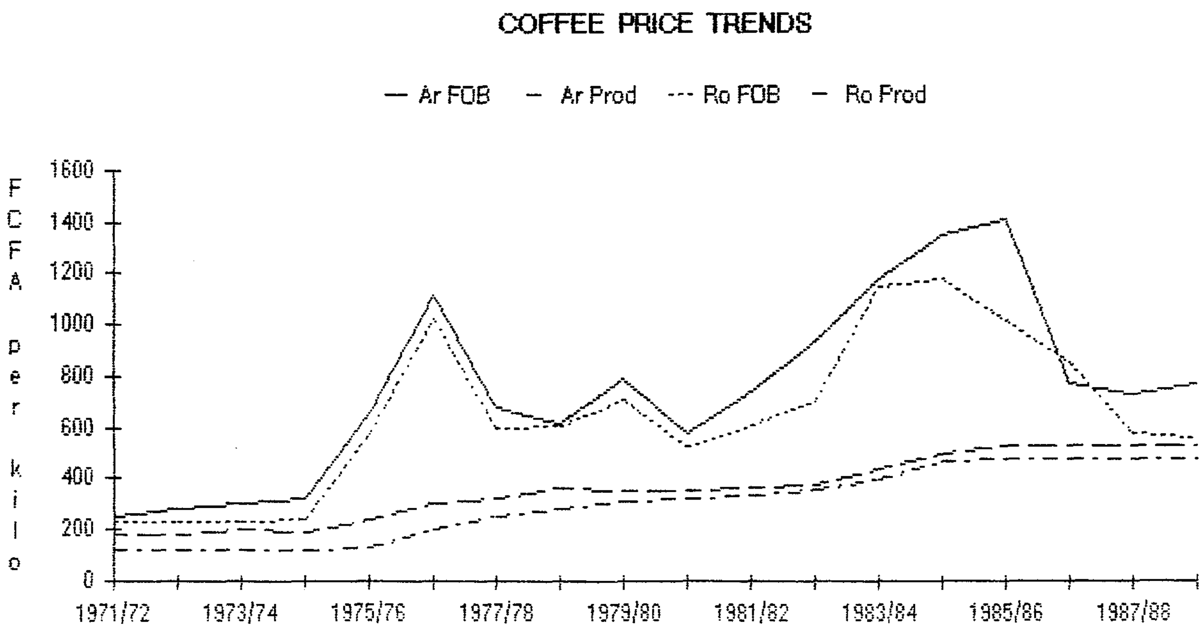
Figure for 1983/84 estimated from database kept by DEAPA on ONCPB purchases and stocks

Producer Prices: 1971/72 - 1977/78, ONCPB quoted in Agland study, p. 7, 1978/79 on, ONCPB

FOB prices: 1971/72 - 1977/78, ONCPB quoted in Agland study, Annex Table 20, 1978/79 on, ONC

Figure II-2


COFFEE PRODUCTION TRENDS
— Robusta — Arabica
140,000
120,000
100,000
80,000
60,000
40,000
20,000
0
m e t r i c t o n s
71/72
73/74
75/76
77/78
79/80
81/82
83/84
85/86
87/88


COFFEE PRICE TRENDS
— Ar FOB — Ar Prod --- Ro FOB — Ro Prod
1600
1400
1200
1000
800
600
400
200
0
F C F A per kilo
1971/72
1973/74
1975/76
1977/78
1979/80
1981/82
1983/84
1985/86
1987/88

<u>Cotton</u> exports account for less than 5 percent of total agricultural exports. Nonetheless, they have served as an important source of income to the population residing in the northern part of the country. Cameroon currently pays the highest producer price in Africa for cotton and provides a large subsidy in order to encourage the production of this crop. The overall financial situation for the cotton sector is therefore bleak, with over one-half of the production being sold to local textile firms at below world prices and exports being sold at prices which generate significant losses.

C. Government Objectives and Policies for Export Crops

The Government has pursued the following five policy objectives with respect to export crops: (1) to ensure balanced rural incomes across all regions, (2) to minimize the instability of farmer income, (3) to channel surplus revenue into productive investment within the sector, (4) to ensure high quality control, and (5) to ensure the availability of adequate crop financing. The GRC pursued these objectives in the following manner:

1. To ensure balanced incomes across regions, the Government kept the variation in producer prices for cocoa, robusta and arabica at minimum. For example, in 1987/88, producer prices were CFAF 450 per kilogram (cocoa), CFAF 470 per kilogram (robusta) and CFAF 520 per kilogram (arabica) despite the fact that world prices were CFAF 513 per kilogram (cocoa), CFAF 576 per kilogram (robusta) and CFAF 727 per kilogram (arabica).

2. To minimize instability in farmer incomes, the GRC created a system of administratively determined producer prices supported by a stabilization fund. The producer prices were to remain relatively stable while the stabilization fund was to absorb the shock of changes in world market prices by extracting a portion of the surplus revenue generated during periods of high world prices and supporting producer prices during periods of low world prices.

3. To channel surplus export crop revenue into the agriculture sector, the Government created a parastatal administrative apparatus (ONCPB) which was to regulate intermediate costs (i.e., washing, bagging, transportation, etc.), extract surplus export crop revenue and reinvest within the sector.

4. To assure high quality control, ONCPB was charged with certifying the quality of exported produce.

5. To insure adequate crop credit, the Government put in place a system of Central Bank rediscounting (discussed in greater detail in Section II.D).

As will be discussed in Section II.D, the problems facing the Cameroon export crop sector do not rest with the Government's policy objectives, which are in fact quite reasonable. Rather, they evolve from the misguided policies that the Government has chosen to implement these and other policy objectives. The following section provides a brief, descriptive overview of the main components of agricultural pricing, marketing and credit policy in Cameroon.

1. Producer pricing policy

Producer prices for cocoa and coffee are set annually by Government decree. These producer prices are announced at the beginning of the relevant crop year (september for cocoa; December for coffee) and are maintained throughout the entire period. Purchasers of these crops from farmers (i.e., cooperatives, traders, licensed buying agents or parastatals) are obliged to pay the officially announced price, although the farmer could sell at below the announced price if he so chooses. Producer prices within crops vary according to grade (i.e., first quality, second quality and residual), although the differential between first and second quality has not been substantial enough to induce farmers to be quality conscious. Producer prices have generally been a low percentage of the FOB prices with the averages for the 1971/72 to 1988/89 period being 57.1 percent for cocoa, 51.5 percent for arabica coffee and 49.2 percent for robusta coffee. This reflects the Government's policy of extracting surplus revenue to support the stabilization fund and to channel investment into the sector. As will be discussed in greater detail below, the problem in Cameroon is that producer prices have been set without taking into consideration the trends and developments in the world prices for the commodities and quality involved.

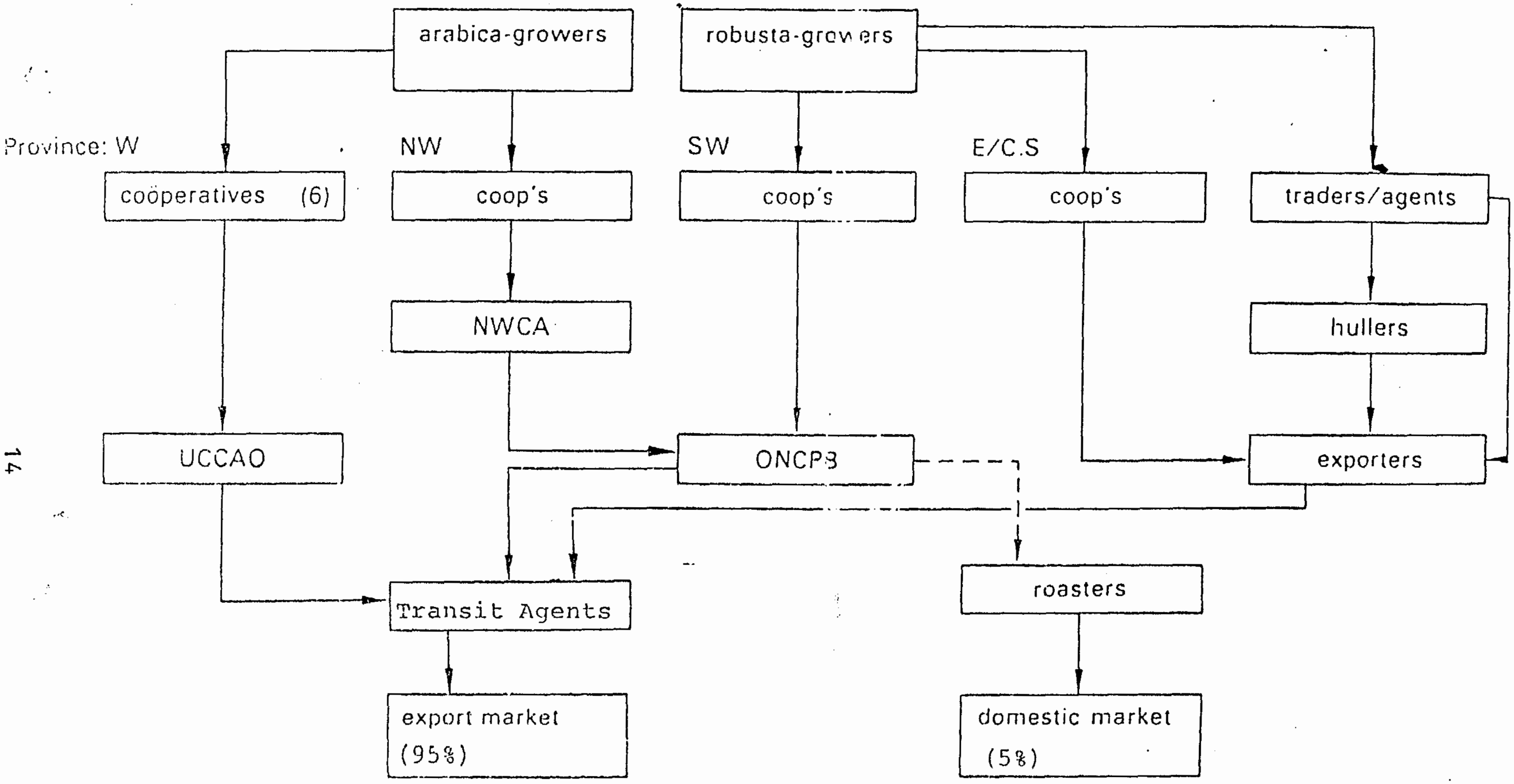
ONCPB establishes an annual price schedule called the "bareme", which sets the remuneration margins for each stage of the marketing process for cocoa and coffee. The bareme begins with the guaranteed producer price and adds to it the intermediate costs involved up to the so called "equilibrium price" representing it value at the point when the commodity is delivered to the final market. These intermediate costs include such items as local transportation, hulling, storage, insurance, grading, sorting, waste, taxes, finance costs, port fees, freight and insurance (see Annex B for a sample bareme). If the world price exceeds the equilibrium price, then ONCPB imposes a tax on the exporter equal to the difference between these two prices. These resources have been used for a variety of purposes, including the subsidization of fertilizer and pesticides, the support of rural development agencies that provide extension services, the supply of inputs, the construction of feeder roads, and the maintenance of a stabilization fund. If the world price is less than the equilibrium price, then ONCPB draws down from the stabilization fund and pays the exporter a subsidy representing the differences between these two prices. As in the case of producer prices, the international price of cocoa and coffee has up until this year played only a minor role in the determination of the bareme.

2. Crop marketing policy

ONCPB has a monopoly in the marketing of cocoa and coffee, except in the case of arabica coffee produced in the West Province. ONCPB subsequently delegates internal marketing activities to cooperatives, traders or parastatals, and in certain cases external marketing to private traders. The marketing network for cocoa and coffee is extremely complex and varies by product and by region (see Figure II- 3). In general, there are four primary schemes: (1) arabica coffee in the West Province, (2) arabica coffee in the North West Province, (3) robusta coffee and cocoa in the South West Provinces, and (4) robusta coffee and cocoa in the other provinces.

Figure II-3

Production and marketing



PARTICIPANTS IN THE COFFEE SECTOR AND MAIN MARKETING CHANNELS IN CAMEROON IN 1987. SOLID LINE, MAIN CHANNEL: BROKEN LINE, SECONDARY CHANNEL.

SOURCE: The Economics of Coffee, J.de Graaff, updated to present

Arabica coffee in the West Province is harvested and washed by farmers who sell their output to one of six local cooperatives or their corresponding sections or centers. These six cooperatives belong to the Union Centrale des Cooperatives Agricoles de l'Ouest (UCCAO), which has a monopoly to both purchase and export Arabica coffee in the province. UCCAO pays the farmer the annual producer price set by the Government and is reimbursed for its marketing costs according to the bareme established by ONCPB. Unlike in the other three primary marketing schemes, UCCAO is the only example of an independent entity having the authority to sell directly to the world market and by-passing ONCPB altogether. UCCAO retains all profits and normally redistributes them to the farmers after making certain provisions for necessary investments and for stabilization purposes.

Arabica coffee in the North West Province is harvested and washed by farmers who sell their output to one of forty local cooperatives, called primary societies. These primary societies turn over the coffee to one of eleven cooperative unions which process the coffee and prepare it for export. The primary societies and the unions make up the North West Cooperative Association (NWCA). Unlike UCCAO, NWCA only serves as an agent for the National Produce Marketing Board (NPMB).[1] As such, the cooperatives buy unprocessed coffee from the farmers at the decreed price and then turn over the processed coffee to NPMB for export. NPMB pays NWCA a handling and processing commission (block buying allowance) for their services. Although the block buying allowance is supposed to be fully remunerate the cooperatives for their operating costs, in practice the allowance is inadequate. Moreover, the allowance is not intended to cover capital costs, so NWCA is dependent on NPMB for all its equipment.

Robusta coffee and cocoa in the South West Province is produced by farmers, and purchased by "licensed buying agents" which are cooperatives, except in one sub-division where they include private traders. These agents buy the coffee/cocoa and, in the case of robusta coffee, process the beans. The agents subsequently deliver the cocoa and coffee to ONCPB warehouses where the beans are stored until they are exported.

Robusta coffee and cocoa in the Francophone Provinces are produced by farmers and purchased by cooperatives or licensed buying agents of coffee and cocoa. The private agents, who are licensed annually by Presidential Decree, add the coffee/cocoa that they purchase from the cooperatives to the produce they have purchased directly and process and grade the crops for export. The buying agents are given specific quotas and, up until the present, were also given authorized buying areas. As of this crop year, these traders can purchase beans from any of the cooperatives although they are still subject to a ceiling specified by their quota. Some of the traders are authorized by ONCPB to export directly. In such cases, however, the traders "technically" repurchase the

[1] As can be seen from the description of the marketing arrangements in Anglophone provinces (North West and South West), the role of the marketing parastatal is much more intrusive than in the Francophone zone. As an aid in differentiating between the two systems, a convention has developed whereby the English "NPMB" is used when describing the role of the marketing parastatal in the North west and South West provinces and the French "ONCPB" is used to describe the marketing structure in the Francophone zones.

beans from ONCPB before exporting them. Most traders, however, export the beans under the terms and conditions negotiated by ONCPB.

3. Crop credit policy

Crop credit extended by commercial banks to exporters are rediscountable at the Central Bank (Banc des Etats d'Afrique Centrale or BEAC) at preferential rates of 6.5 percent. To this is added the commercial banks' margin of 3 percent and various commissions and taxes ranging from 3 to 5 percent, bringing the total cost of the export credit to the exporter to 12.5 to 14.5 percent. BEAC rediscounts advances to exporters for up to 15 percent of the total expected yearly purchases as determined by their quota.

There are three primary forms of crop credit. The product purchase advances (avances en blanc) are credits provided by the commercial banks to exporters to finance the purchase and transport of commodities from the farm to the warehouse. To receive this credit, the exporter must prepare a purchase plan (plan d'achat) breaking down his intended purchases by month over the entire marketing cycle. After receiving approval from the commercial bank, the exporter receives credit in the form of monthly overdraft limits which is based on the volume of product to be purchased, the producer price to be paid, a percentage of the intermediate costs to be incurred and an assumed period of 15 days between the collection of the product and its delivery to the storage facility. The exporter uses this credit to make advances to the dealers who in turn use these funds to pay the farmer for the purchase of the beans. BEAC determines the precise percentage of the crop credit that will be rediscountable based upon the financial position and credit-worthiness of the exporter involved.

The stock credit (avances sur stock) is a credit extended by commercial banks to exporters to finance the storage of cocoa and coffee before it is sent to the port for export. This credit is extended upon the arrival of the beans at the warehouse. The amount of credit extended is based on the volume of product and the warehouse price for the commodity as determined by the bareme. The exporter can then immediately pay down the product purchase advance against this stock and thereby replenish his liquidity. He can then subsequently purchase an additional amount of cocoa or coffee with a new product purchase advance and begin the process of shipping these goods to the warehouse. The normal duration of the stock credit is 1 to 3 months, although it can be renewed and fully rediscounted at the preferential rate if it is not exported within that period of time. BEAC requires that the physical existence of the stock be verified in order to prevent the financing of fictitious stocks. Moreover, BEAC sets a ceiling on the total amount of stock credit to be rediscounted by an exporter based on the exporter's quota as a share of total exports multiplied by the highest level of total stocks outstanding during the previous year. Any stock credit provided above this amount will therefore come from the commercial banks' own resources.

The export credit is a credit extended by commercial banks to exporters to finance the export of the product. As of this year, the export credit is based solely upon the FOB or CIF export price (in contrast to the equilibrium price set by the bareme) as specified in the contract involved. The maturity of these credits is normally equal to the time that elapses between shipment of the merchandise to foreign countries and the transfer of export receipts. As in the case of stock credits, the cocoa and coffee are still the property of the bank, but are released in exchange for the export documents which act as collateral to the bank once the merchandise is exported. Once the exporter receives the export credit, he can immediately pay down his outstanding stock credit and thereby free up additional credit to finance the storage of the next wave of coffee and cocoa beans waiting for export.

D. Experience of Export Crop Pricing, Marketing and Credit Policy to Date

Although the problems facing the export crop sector in Cameroon have been spurred on by the overall reduction in world prices for cocoa and coffee, they have been exacerbated by poor and ineffective Government policies both within and outside of this sector.

The problem with the Government's producer price policy has been that producer prices have been set without taking into consideration trends in world market prices. This policy was sustainable during periods of high world prices and when the stabilization fund had adequate resources to support occasional downturns. However, since 1985/86 the world price for cocoa, robusta and arabica has declined from CFAF 804, CFAF 1,013 and CFAF 1,412 per kilogram, respectively, to CFAF 553, CFAF 555 and CFAF 767 per kilogram, respectively. During this same period, the producer price for these export crops remained stable at about CFAF 450, CFAF 470 and CFAF 520 per kilogram, respectively. Hence, the stabilization fund was rapidly depleted and ONCPB was forced to incur arrears on its obligations. Given that world price projections for cocoa and coffee do not foresee any turnaround in export prices for these commodities in the immediate future, the Government's existing producer price policy is unsustainable.

The financial problems facing ONCPB have been further complicated by conflicting government policies regarding the use of surplus revenues previously generated during periods of high world prices. In theory, ONCPB was to use these resources to subsidize farm inputs, build rural infrastructure and support the stabilization fund. In reality, pressure was imposed by the Government on ONCPB to hold sizeable amounts of the surplus revenue as deposits in the commercial banking system. Pressure was also imposed on ONCPB to make investments outside of the rural activities that it was managing. This came at the expense of placing adequate levels of resources in the stabilization fund. When the economic and financial crisis hit Cameroon, ONCPB found that its deposits were frozen in banks that were now illiquid. Moreover, the resources invested in activities outside of its official mandate had become irrecoverable. This, in addition to ONCPB's poor management of the stabilization fund and overall inefficient operations, resulted in the virtual insolvency of ONCPB.

Given the decline in world commodity prices, the maintenance of existing producer price levels and intermediary margins, the depletion of the stabilization fund, and the general insolvency of ONCPB, the export crop marketing system in Cameroon has become paralyzed. The continuing deficits being incurred by ONCPB have been financed through the accumulation of CFAF 58 billion in arrears to exporters, commercial banks and cooperatives (See Table II-4). With exporters not being paid by ONCPB, commercial banks have found that outstanding crop credit balances have not been drawn down and hence are

Table II-4. Arrears Incurred by ONCPB

	Arrears Outstanding as of November 1989 (in billions of CFA)
Arrears to Exporters [1]	22.0
Arrears to suppliers	5.0
Arrears to cooperatives	9.0
Arrears to Banks	22.4
	====
Total Outstanding Arrears	58.4

experiencing additional liquidity problems. In consequence, these banks are no longer willing to extend new crop credit rediscountable by BEAC to ONCPB or to many of the exporters, traders or licensed buying agents who depend on ONCPB for their payment. The cooperatives in the North West and South West have been unable to receive adequate levels of pre-financing from ONCPB for the purchase of this year's crops. Since these cooperatives act merely as agents of ONCPB, the commercial banks will not extend them credit. In turn, farmers in the North West and South West (who have yet to be paid for last year's crops) are presently selling this year's crops illegally to "private traders" who are selling produce to licenced buyers in other provinces.

It is important to draw a distinction between the "liquidity" crisis presently facing the export crop sector and the "structural" and "institutional" problems that exist. Even if a remedy is found to address the immediate liquidity crisis (i.e., a bail-out), the more fundamental problems facing the government producer price policy, marketing policy and credit policy must be addressed if the export crop sector is to be economically and financially self-sustaining. Given the economic and financial crisis facing Cameroon, the Government is no longer in a position to provide subsidies to ONCPB to keep the system afloat. Moreover, given current policies, ONCPB is unable to sustain the existing system for the purchase, marketing and export of cocoa, robusta and arabica. The GRC has therefore become increasingly aware that structural reform of the export crop sector is essential.

E. The Reform of the Export Crop Sector

The recently conducted World Bank Agricultural Sector Review (which was supported by financial and technical assistance from USAID/Cameroon) clearly articulates the major problems and the need for reform in the agricultural sector in Cameroon. Among its many findings, the Report noted that:

a. The constraints to allowing the agriculture sector to resume its role as the primary engine for growth in the economy lie in improving the policy environment, particularly with regard to the pricing and marketing of export crops, input subsidies and the state monopoly in the distribution of these goods.

b. Government intervention in pricing and marketing major export crops has resulted in heavy taxation on agricultural exports.

c. The present system of setting producer prices needs to be replace with a flexible price fixing mechanism with a floor price and a progressive tax system above the floor price. This needs to be accompanied by a more open marketing environment with greater competition.

d. Given the significant and existing spread in the world market price of robusta and arabica coffee, Cameroon could maximize its export revenues by expanding exports of Arabica coffee and cutting back on robusta coffee production.

e. A concerted effort must be made to improve the quality of exported coffee.

f. Cooperatives are vital for the promotion of a smallholder economy and serve as an important link between the administration, traders and small farmers. The legislative framework for the cooperative movement should be modified to enable cooperatives to be established, to develop and operate exclusively under the control of their members and their elected representatives, and to minimize government intervention in this area.

g. The illiquidity of the present banking system has dried up formal sources of finance for agriculture and new ways must be found to expand the credit union movement to other parts of the country and to increase commercial bank lending to agriculture once the liquidity problem is resolved.

Based on these findings, the report recommends marketing and price policy reforms aimed at eliminating the rigidity in prices, distributing more efficiently the gains and losses caused by fluctuations in world market prices, encouraging competition among marketing agents in order to increase efficiency, minimizing state intervention, maintaining production incentives, and encouraging efficient crop selection and husbandry by farmers to increase the quality of outputs.

These recommendations were embraced in the Government's Structural Adjustment Program (SAP) which is presently being supported by an IMF Stand-by Arrangement and a World Bank Structural Adjustment Loan (SAL). The primary reforms targeted under the World Bank SAL regarding the agriculture sector include:

a. Establishment of a price system which takes into account farmer incomes, fluctuations in world prices and the exchange rate, and the Government's fiscal situation. Proposed measures include:

- establishment of a floor price for producers at a level entailing a minimum risk of requiring budgetary support while taking into account rural minimum wages, costs of unsubsidized inputs and world prices;

- suspension of export duties and of parafiscal charges;

- redefinition of structure of and reduction in indirect marketing costs;

- reduction in direct marketing costs fixed by the bareme; and

- establishment of a system for distributing surpluses on basis of 40% for producer, 40% for the stabilization fund and 20% for the Government.

b. Improvement of management and efficiency of ONCPB. Proposed measures include:

   - establishment of a restructuring plan for ONCPB; and

   - signature of a performance contract between ONCPB and the Government.

c. Improvement of Arabica coffee quality by way of increasing the price differential between washed and unwashed coffee.

d. Reform of the crop credit system through the formulation of a comprehensive financing scheme covering each crop, taking into account BEAC's decision to limit the provision of crop credit to expected export receipts.

e. Revision of the policy on development of cooperatives by revising the legislation on cooperatives to liberalize their operation.

The GRC has already taken, or is in the process of undertaking, several measures in pursuit of the objectives set under the SAL. First, the GRC announced in September 1989 that the producer price for cocoa was reduced from CFAF 420 per kilogram during the 1988/89 cocoa campaign to CFAF 250 per kilogram for the 1989/90 campaign. The Government also allowed private traders for the first time to purchase cocoa in any region of the country as long as it was within their quota allocation. Second, the GRC announced on November 22, 1989 that the producer price for robusta and arabica coffee was reduced from CFAF 470 and CFAF 520 per kilogram, respectively, during the 1988/89 campaign to CFAF 175 and CFAF 250 per kilogram, respectively, for the 1989/90 campaign. Third, the GRC also announced on November 22, 1989 that CFAF 5.6 billion of ONCPB arrears to cooperatives would be paid immediately from the recent receipt of resources from STABEX. Fourth, the GRC is in the process of finalizing a performance contract with ONCPB which calls for a reduction in ONCPB staffing levels from 2,800 to 1,500. In addition, the performance contract is expected to call for a gradual reduction of ONCPB internal marketing operations in the North West and South West provinces and an expansion of private trader activities (Licensed

Buying Agents) in these regions. The performance contract is expected to be signed in January 1990.

It appears that the actions taken to date regarding the cocoa campaign have generally worked well for private traders, but have not addressed the problems facing ONCPB. The private traders in the francophone provinces have been able to get access to credit and can therefore pay farmers in cash. This is because in these provinces the traders actually "own" the purchased crop and can use it as collateral. The situation regarding NPMB in the South West Province, however, has not been so good. Four months into the cocoa campaign, NPMB still has not been able to get access to financing and, hence, has not been able to carry out the current crop campaign. Cooperatives in the province have therefore not been able to secure pre-financing from NPMB and, in turn, farmers have turned over only about a tenth of their current crop to the cooperatives. Instead, farmers are selling their cocoa at a deep discount (as much as 50 percent) to private traders who can pay in cash. Unless a solution can be found soon, a similar situation will inevitably develop in the North West.

A plan to address the immediate financial needs of ONCPB (including the paying down of arrears) is in the process of being developed (see Table II-5). The European Development Fund has pledged a total of CFAF 14 billion (in addition to last year's commitment of CFAF 10 billion) through its STABEX facility which is to be used to pay down arrears to exporters, cooperatives and commercial banks. The Caisse Centrale de Cooperation Economique (CCCE) has also pledged CFAF 10 billion which is to pay down ONCPB arrears, principally to exporters and to commercial banks. The BEAC is expected to reschedule CFAF 4.2 billion of outstanding commercial bank crop credit. Finally, the GRC is expected to come up with CFAF 5.6 billion to cover obligations to suppliers and SIC Cacao, as well as CFAF 7.6 billion to cover ONCPB's 1989/90 operating costs and severance pay. It appears, however, that the GRC does not have resources immediately available to cover these costs and will therefore have to spread these obligation out over time. Even if and when the actions described above are taken, an additional 34.8 billion of ONCPB obligations will need to be addressed in the near future.

Although the above mentioned plan will begin to address the arrears and liquidity problem facing the export crop sector, it will not address the "structural" reforms that are still required. The release of the CFAF 10 billion in CCCE resources is contingent solely upon the signing of an acceptable performance contract between ONCPB and the Government and upon the carrying out of a study by ONCPB that is to propose a cost effective system for quality control and management of stabilization funds and the liberalization (privatization) of ONCPB's marketing functions. The release of these funds, however, is not tied to any concrete action plan for general marketing reform. The same is true in the case of the resources being provided from the European Development Fund.

Table II-5. Financial Needs of ONCPB as of November 1989

	Immediate Needs (billion CFAF)	Future Needs [1] (billion CFAF)
Exporters	20.0	14.1 [2]
Interest on subsidy payment arrears	2.0	--
Subsidy and charges outside of bareme for 88/89 robusta	--	5.0
Subsidy to SIC CACAOS	2.1	0.8
Suppliers	3.5	1.5
Cooperatives	9.0	--
Commercial Banks	9.0	13.4
ONCPB's 1989/90 operating costs	5.0	--
ONCPB's severance pay	2.6	--
	====	====
TOTAL	53.2	34.8

[1] Should be paid before June 30, 1989.
[2] Payment owed exporters when stocks are depleted.

F. USAID/Cameroon's Role in Export Crop Sector Reform

USAID/Cameroon has been examining various possible areas of intervention to support the GRC in pursuing its ongoing Structural Adjustment Program, in particular with regard to parastatal reform. However, the Mission has concluded that a non-project Program of Reform in the Agricultural Marketing Sector (PRAMS) would be the most appropriate intervention. First, it would directly contribute to the Mission's CDSS objectives of reducing the overextended role of the public sector and supporting the overall development of a more efficient and competitive private sector. Second, it would support the Mission's existing interventions in agricultural marketing reform (the Fertilizer Sub-Sector Reform Program) and cooperative development (the Credit Union Development Project) by further improving the policy environment in these areas. Third, it is an area which can have an important people-level impact by increasing rural incomes.

Finally, it is an area where the Mission has particular expertise and experience and can make an important contribution. Although the World Bank and the GRC have clearly defined the key principles behind the needed reforms in the agriculture export crop sector, the detailed implementation plans remain to be defined. Given the size of the task involved and given the Mission's limited human and financial resources, USAID/Cameroon proposes to design and carry out the reform effort in the following two separate but interrelated non-project assistance initiatives:

a. PRAMS I: (FY 90 start) - Liberalize the internal and external marketing of arabica coffee and establish the framework for the liberalization of robusta coffee, cocoa and other agricultural inputs;

b. PRAMS II: (FY 91 start) - Liberalize the internal and external marketing for robusta coffee and cocoa and restructure the crop stabilization system

The Mission has chosen to proceed in this order for three major reasons. First, the sequencing of agricultural marketing reforms contained in the SAL begin with arabica marketing in the North West Province in January 1990. They are then extended to the entire zone where NPMB is operating, namely to the cocoa and robusta coffee marketing channels in the South West Province. Thus the phased expansion of the SAL reforms is mirrored by the phased expansion of the PRAMS reforms. Second, at existing world prices, arabica can still be produced at a profit in Cameroon and therefore allow for sufficient room to maneuver as the country moves from an administratively determined marketing system to a more liberal system. Third, UCCAO (West Province) serves as a good example that private actors can efficiently and profitably purchase, process and market arabica coffee to world markets.

SECTION III
PRAMS I:
AN NPA INITIATIVE TO REFORM ARABICA COFFEE MARKETING

The previous section provided both the background for reform of the agricultural marketing sector in general and the rationale for beginning the reform initiative with arabica marketing. This section presents the Mission's proposed five-year, $20 million Non-Project Assistance (NPA) intervention in the arabica subsector.

As was noted in Section II, the purpose of PRAMS I is two-fold. First, it will provide for the full liberalization of the internal and external marketing of arabica coffee in the two provinces of Cameroon where this type of coffee is grown. Second, it will establish, through studies and ongoing dialogue, the framework for the liberalization of robusta coffee and cocoa marketing (to be achieved in PRAMS II) and the determine the feasibility of reform in pesticide marketing.

Progressive liberalization of arabica marketing will be accomplished through a sector cash grant, divided into three tranches, with the necessary reforms contained as conditions precedent to each of the three disbursements. The necessary reforms at each stage are discussed in Section III.A, as are the conditions precedent associated with each stage of liberalization. In addition to developing and implementing policy reform, PRAMS I will support market liberalization facilitate liberalization through thoughtful programming of the generated local currency. A preliminary description of the proposed local currency uses is presented in Section III.B.

The impact of the proposed reforms on the more than 150,000 small-holder arabica farmers will be immediate and positive. Despite depressed market conditions and lower producer prices, these farmers will realize an increase in effective incomes and household liquidity, thus furthering the Mission's goal of increasing rural incomes and employment. Moreover, PRAMS I will create an environment in which cooperatives can reassert themselves as viable commercial enterprises representative of their members' interest. Indeed, based upon the reforms contained in PRAMS I, NWCA and the British Government's commercial development agency, the Commonwealth Development Corporation (CDC), have agreed in principle to establish a joint-venture arabica coffee trading company. This synergistic proposal is describe in Section III.C, while other positive results of market liberalization are discussed in greater detail in Section III.D.

These widespread improvements in farmer well-being juxtaposed against minimal negative effects, make PRAMS I socially very feasible. The challenge to PRAMS, during the design and implementation phases, will be to overcome the resistance to a more transparent, decentralized, and market-oriented system on the part of officials within the bureaucracy and the marketing board. Further discussion of the social, organizational, and political feasibility of PRAMS I is provided in Section III.E.

A. General Description of PRAMS I

In order to attain its overall objective of full liberalization of arabica marketing, PRAMS I is divided into three stages. The first stage, which has already begun and will last until sometime in the fourth quarter of FY 1990, will lay the foundation for further reform by establishing a policy liberalization regime for arabica marketing. Such a regime will provide the basis for the progressive liberalization of the market structure for arabica coffee in subsequent stages. Once the liberalization regime is established to the Mission's satisfaction, the first disbursement of dollars ($7.0 million) will be made.

The objective of the second stage is to establish a quasi-liberalized marketing structure in the North West Province analogous to that which presently exists in the West Province. This structure will be in place in time for the 1989/90 coffee season which will begin in December 1990. Disbursement of the second tranche of dollars ($7.0 million) will occur once the quasi-liberalized market structure is in place.

The objective of the third stage of PRAMS is to establish a fully liberalized market structure in both the North West and West provinces. This is planned to take place two years after the establishment of the quasi-privatized structure and in time for the 1991/92 coffee season which will begin in December 1991. Once the conditions precedent have been met for full liberalization, the third, and final, disbursement of dollars ($6.0 million) will be made. The social and economic impact of the liberalization will be monitored for the following two coffee seasons, making PRAMS I a five year program in total.

The key elements of each stage and their interrelationship is diagrammed in Figure III-1. The remainder of this subsection describes the objectives and conditionality of the three stages in greater detail.

1. Stage One: Establishing the Liberalization Regime

Objective. The policy regime which presently governs arabica coffee marketing is very peculiar, permitting the existence of two fundamentally different market structures to coexist side-by-side: (1) an administratively-determined market structure in the North West Province and a (2) quasi-liberalized market structure in the West Province.[2] The objective of Stage One

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[2] In the North West Province, where NWCA acts as an agent for purchasing and processing coffee on behalf of NPMB, the market structure is administratively determined. The relationship between the two organizations is governed by administrative decrees that establish a superior and subordinate relationship between them. In the West Province, UCCAO has been granted a monopoly in the purchase of arabica coffee and must abide by the governmentally-decreed producer prices. At the same time, UCCAO performs the rest of the marketing functions independent of government intervention and attentive to world market forces. Thus, although the market structure has several aspects of a liberal system, it cannot be considered fully liberal.

igure III-1. Relationship of the Three Stages of PRAMS I

Stage One

Objective:
Establish a policy liberalization regime for arabica coffee marketing

Conditionality:
- reform of pricing policy
- reform of ONCPB role
- reform of status of marketing cooperatives
- a timetable for Stage Two and Three reforms

Dollar Disbursement:
First tranche of $7.0 million upon fulfillment of conditions; expected in July/August 1990

Total Duration of Stage:
December 1989 to July/August 1990

Stage Two

Objective:
Establish a quasi-liberalized market structure in the North West Province

Conditionality:
- liberalization of the ownership flow
- liberalization of the financial flow
- liberalization of the commodity flow

Dollar Disbursement:
Second tranche of $7.0 million upon fulfillment of conditions; expected in November 1990

Total Duration of Stage:
December 1990 to November 1992

Stage Three

Objective:
Establish a fully liberalized market structure in the North West and West Provinces

Conditionality:
- fully liberalize the ownership flow
- fully liberalize the financial flow
- fully liberalize the commodity flow

Dollar Disbursement:
Third tranche of $6.0 million upon fulfillment of conditions; expected in November 1992

Total Duration of Stage:
December 1992 to September 1994

is to replace the existing regime with one that provides the foundation for establishing a fully liberalized market structure in both provinces by late 1992. To do so will entail gaining government agreement on reforms dealing with producer pricing, the role of ONCPB in arabica marketing, and the status of cooperatives. With these reforms in place, NWCA will be able to operate independently under a quasi-liberalized market structure in Stage Two and full competition will be possible in Stage Three.

To be more precise, the following are the minimum necessary elements of the policy liberalization regime:

a. A reform of producer pricing policy that: (1) ensures that those involved in the processing and export of arabica will be able to sell their produce on the world market profitably and (2) permits world prices differentials for washed/unwashed coffee and high/low quality to be reflected in the prices processors pay to producers.

b. A reform of the role of ONCPB that: (1) eliminates any role for NPMB in arabica marketing, (2) provides exporters with independent access to world markets, (3) assures transparency and accountability in the management of stabilization funds and (4) closely relates the size of ONCPB to tasks assigned to it. The performance contract being negotiated between ONCPB and the GRC should be consistent with these principles.

c. A reform of the legal status of marketing cooperatives in general, and of NWCA in particular, that enables them to function as independent commercial enterprises free of state interference. This will require: (1) a change in the law governing cooperatives in Cameroon and (2) payment of the arrears owed by ONCPB to the cooperatives. This latter action is essential if the cooperatives are to regain their solvency and repair their credibility with their members by paying them for the produce they have already received from them.

d. An agreement on the reforms to be taken in Stage Two and Stage Three and a timetable for their implementation.

With these reforms in place, a firm foundation will be set for the market liberalization contained in the subsequent stages of PRAMS I.

Conditionality. These four elements of a new liberalized policy regime will be codified in the program agreement to be signed between the GRC and USAID/Cameroon. Successful fulfillment of these elements will be a condition precedent to the disbursement of the first tranche of US dollars ($7.0 million).

Although the elements of the liberalization regime are substantial and wide-ranging, the Mission feels that through persistent dialogue they can be successfully negotiated. The Mission's assessment is based on that fact that the GRC has agreed to reform pricing policy, ONCPB's role, and the cooperative's status in the course of the SAL negotiation with the World Bank. However, those negotiations did not specify the precise modalities or timetable for the reforms. Thus the Mission's task is not to gain acceptance of the principle of reform in these areas, but rather to work out the details and timing of those reforms in a manner consistent with liberalization and privatization. The difficulties of this task should not be under-estimated; but they are, in the Mission's view, manageable.

2. Stage Two: Establishing a Quasi-Liberalized Market Structure

Objective. Once the program agreement has been signed and the preliminary conditions precedent have been met, the liberalized policy regime can be said to be in place. At that point, PRAMS I enters its second stage. The principal objective of Stage Two is to facilitate the creation of a quasi-liberalized market structure in the North West Province analogous to that which currently exists for UCCAO in the neighboring West Province. A secondary objective is to conduct and complete two comprehensive studies that could serve as the basis for the policy liberalization regimes in: (1) robusta coffee and cocoa crop marketing and (2) pesticide input marketing.

The transition from the administratively-determined market structure that currently exists in the North West Province to a quasi-liberalized one, will require reform of three key institutional arrangements. These are: (1) the flow of legal ownership of unprocessed and processed coffee, (2) the flow of crop financing, and (3) the physical flow of the coffee from the farmer to the foreign buyer (see Figure III-2).

Reform of the ownership flow and reform of the financial flow are closely linked. At present NWCA, as an agent for NPMB, does not have legal ownership of its members' produce. As a result, NWCA cannot use the crop as collateral for crop pre-financing and must instead rely on NPMB for credit. For NWCA to act as an independent commercial enterprise it must be able to seek out its own crop financing either from local commercial banks who use rediscounting facilities of the central bank (BEAC) or from external financing based on forward sales contracts or buyers' credit. The prerequisite for this liberalization in the financial flow is liberalization of the ownership flow.

Figure III-2: Changes in Institutional Arrangements from an Administrative to a Quasi-Liberal Market Structure

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A. Liberalize the ownership flow:
From: Farmer --> NPMB
To: Farmer --> NWCA

B. Liberalize the financial flow:
From: BEAC --> Commercial Banks --> NPMB --> NWCA
To: BEAC --> Commercial Banks --> NWCA

C. Liberalize the commodity flow:
From: Farmer --> Primary Society --> Union --> NWCA --> NPMB
To: Farmer --> Primary Society --> Union --> NWCA --> Any buyer

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Finally, reform is needed in the institutional arrangements governing the commodity flow. Rather than the existing arrangement where NWCA turns over the processed coffee to NPMB and is paid a fee for its services, NWCA, as legal owner of the producer, will have the right to contract with any buyer, either local or foreign, for the sale of its produce.

Conditionality. The new institutional arrangements necessary for the creation of a quasi-liberalized market structure in the North West Province will be contained in the program agreement and implementation of the new arrangements will be the condition precedent to the disbursement of the second tranche of dollars ($7.0 million). The Mission intends is to have this market structure in place in December 1990, in time for the 1990/91 coffee season. If so, the second disbursement will occur in the first quarter of FY 1991.

3. Stage Three: Establishing a Fully Liberalized Market Structure

Objective: The objective of the final stage of PRAMS I is to move from the quasi-liberalized marketing structures that will exist in the North West and West Provinces to a single, fully liberalized market structure. In essence, this means that both NWCA and UCCAO will be forced to compete in aspects of marketing with each other and with other private sector operators.

To move from the quasi-liberalized marketing structures to a fully liberalized one will entail further modification in the institutional arrangements regarding the ownership, financial, and commodity flows. The required changes are diagramed in Figure III-3. In terms of the ownership flow, in a fully liberalized market structure the farmer will be entitled to sell to any legitimate buyer, whether a cooperative or a private trader. In terms of the financial flow, not only the cooperatives, but any recognized buyer will be able to seek and secure crop financing from local commercial banks or external sources. Finally, in terms of the commodity flow, processors and exporters, including the cooperatives, will compete amongst each other for the farmers' produce.

Figure III-3: Changes in Institutional Arrangements from a Quasi- to a Fully Liberal Market Structure

A. Liberalize the ownership flow:
   From: Farmer --> NWCA or UCCAO
   To: Farmer --> any buyer

B. Liberalize the financial flow:
   From: BEAC --> Commercial Banks --> NWCA or UCCAO
   To: BEAC --> Commercial Banks --> NWCA and UCCAO and others

C. Liberalize the commodity flow:
   From: Farmer --> Primary Society --> Union --> NWCA --> NPMB
   To: Farmer --> Any buyer/processor --> Any exporter or foreign buyer

Conditionality. The new institutional arrangements necessary for the creation of a fully-liberalized market structure will be contained in the program agreement as conditions precedent and implementation of the new arrangements will be the condition precedent to disbursement of the third tranche of dollars ($ 6.0 million). The Mission intends to have a fully liberalized market structure in place by December 1992, in time for the 1992/93 coffee season. If so, the third disbursement will occur during the first quarter of FY 1993.

Although the market structure will be fully liberalized at this point, PRAMS I will continue for two additional years in order to monitor the impact of liberalization on farmers and on the efficiency of the marketing process.

B. Uses of Local Currency

Local currency deposits will be used to further reform in the agricultural marketing sector by financing directly supportive activities. A preliminary list of such activities includes:

a. Establishing a loan guarantee fund to facilitate NWCA's access to crop pre-financing from commercial sources

b. Contributing toward payment of accumulated arrears to arabica producers/processors, if necessary

c. Providing severance payments related to reducing public sector involvement in agricultural marketing (ONCPB/NPMB) or cooperative control (CENADEC; Department of Cooperation and Mutuality, MINAGRI)

d. Financing readjustment costs for NWCA: severance payments (if necessary), training of retained staff, and so forth

C. The NWCA/CDC Proposal

Once the quasi-liberalized market structure is established in the North West Province in Stage Two, arabica processing should become a viable commercial undertaking. At the same time, NWCA recognized that it lacks the necessary capacity to take on all of the new roles in financing, production management, and external marketing that it will have to under this new marketing arrangement. To address this problem, NWCA sought out technical assistance from the Commonwealth Development Corporation (CDC). The joint NWCA/CDC proposal calls for the creation of a joint-venture arabica coffee trading company that will be responsible for all financing, processing, and trading activities. Under this proposal, NWCA and its member unions would contribute its existing plant and equipment and some staff while CDC would contribute both technical and financial assistance. (The European Development Fund has also indicated that they may provide some financial support to such an undertaking.) A copy of the preliminary proposal is attached as Annex D.

It should be stressed that such a joint-venture is only possible once the PRAMS I's Stage One and Stage Two reforms have been put into place. Without the pricing reforms called for in Stage One, and the reforms in the ownership and commodity flows called for in Stage Two, NWCA can only operate as an agent of NPMB, not as an independent commercial enterprise. Only with the reforms can NWCA take over responsibility for its own affairs; only then is CDC willing to provide commercial assistance to the cooperative. Thus the existence of the NWCA/CDC proposal validates the necessity of the reforms contained in PRAMS I for private, commercial development to take place in the arabica subsector.

The involvement of an experienced commercial development organization like CDC as NWCA's technical partner has other advantages as well. First, it will allay concerns that NWCA would be incapable of assuming a larger marketing role. Second, it will help instill a more hard-nosed commercial orientation to the entire cooperative structure. Finally, the linking of a British commercial development venture with a general US policy reform effort will carry more weight with the GRC.

D. Impact

The major impact of PRAMS I will occur in three areas: individual arabica producers, the Cameroonian cooperative movement, and the entire Cameroonian economy.

1. Benefits to individual farmers

Successful implementation of the reforms called for under PRAMS I NPA will generate significant quantitative and qualitative benefits to arabica farmers in the North West and West Provinces. Among the major quantitative benefits are the following:

a. Increased effective incomes. Farmers will realize an increase in their effective incomes as a result of the prompt receipt of payment for their produce. Late payments, which has become the norm under the current administrative market structure, are heavily discounted by farmers. The longer the delay, the greater the amount by which the price is discounted. There are reports that farmers in the North West Province are selling their produce to unofficial buyers for half the official price. This suggests that late payment discounts could reach as high as 50 percent.

b. Increased household liquidity. Greater household liquidity resulting from prompt payment for output will permit farmers to purchase cash inputs (fertilizer, pesticides, seedlings, and so forth) which will increase the quantity and quality of outputs. It will also enable households to finance other needs such as medical costs, school fees, and the like.

c. Greater allocative efficiency. Producers will receive a higher percentage of the border price due to improved efficiency of internal processing and marketing. These efficiency gains will come first from the elimination of NPMB's role and later from the effects of competitive forces acting on the cooperatives and other arabic marketers.

d. Quality incentives. Producers will receive increased income as a result of price incentives for improved quality of output. Higher quality output will in turn command a higher price in the international market thereby increasing foreign exchange earnings.

e. Reduced labor requirements. On-farm coffee processing (pulping, washing, fermenting, and drying) is labor intensive and occurs when there is a high demand for family or hired labor to harvest coffee trees. Thus farmers face a serious labor constraint to properly process their produce. The liberalized market structure established under PRAMS I will create the opportunity for the cooperatives and others to take over the pulping and fermentation activities and thus permit farmers to devote their scarce labor resources to proper harvesting.

The major qualitative benefit to be realized from the reform process is that farmers will increasingly be able to make investment decisions based on true opportunity costs. This will result in a more rational and sustainable structure for Cameroon's agricultural production.

2. Benefits to the cooperative movement

The cooperative structure in the North West Province has most of the characteristics of a true cooperative enterprise. It is one of the more democratic institutions in Cameroon and has openly and steadfastly resisted excessive interference in its affairs on the part of the state, notwithstanding the state's broad supervisory authority under the cooperative law to direct the activities of cooperative societies. In this context, it has become a major actor in insuring its members' access to both input markets (including fertilizer and pesticides) and output markets (including arabica and robusta coffee and cocoa). Moreover, after the state, NWCA is the largest single employer in the province.

NWCA has survived (albeit in a currently weak condition) for over 35 years in spite of, rather than because of, of the interventions of state and parastatal organizations such as CENADEC and NPMB. However, if it is to reach its potential as a cooperative enterprise, some liberalization of the institutional arrangements under which cooperatives operate in Cameroon is needed.

USAID/Cameroon has supported efforts to restructure the cooperative law in Cameroon through its financial support of the Cooperative Seminar held in 1988 which provided an important venue for Cameroon's cooperative leaders to demand changes (liberalization) in the cooperative law. Also, USAID's long-running support of the cooperative credit unions has provided an excellent model for a liberalized cooperative movement.

In view of the important role that cooperatives can play in insuring competition and efficiency in both input (including fertilizer) and output markets, PRAMS I will include as a condition precedent to disbursement the enactment of a liberalized cooperative law that enables cooperatives to behave as profit making enterprises for their members.

3. Benefits to the Cameroonian economy

The entire economy will benefit as higher quantity and quality of output results in a greater share of the world arabica market and in increased foreign exchange earnings for Cameroon. Increased exports of the higher valued arabica coffee also raises the potential for increased government revenues. Increased farmer income will also contribute to rasing domestic demand and provide added impetus to local production. Moreover, the existence of an efficient, privately-run arabica marketing system means that government expenditures can be directed away from subsidies and into more productive investments. Similarly, scarce domestic credit can be freed up to support other productive private sector activities rather than being directed to propping up inefficient parastatal activities.

E. Preliminary Feasibility Analysis

1. Social Feasibility

The Mission's preliminary analysis of the social costs and benefits of the program indicates that the benefits far outweigh the costs. There are more than 75,000 arabica producers in the North West Province who for many years have been grossly ill-served by the existing policy and institutional arrangements in the export marketing sector. Another 87,000 arabica farmers in the West Province have been better served by UCCAO, but should benefit from a more competitive market for their produce. This suggests that the small farmers of the North West Province will reap the largest benefits from the policy/institutional reforms being supported. Their enthusiasm regarding the proposed reforms as manifested by their elected cooperative representatives, reflects this.

The down side of the reform effort being proposed will be the loss of jobs in ONCPB. Under the SAL, the number of ONCPB employees is to be reduced by 1300 within one year. This is unavoidable. Indeed, it is likely that further reductions in ONCPB staff will be necessary as NPMB's role is gradually curtailed. Under the PRAMS program, the social impact of this employment reduction can be mitigated somewhat through the use of local currency deposits to finance severance payments to persons whose jobs have been eliminated. In addition, the World Bank-financed Social Dimensions of Adjustment project currently envisions creation of a retraining program and a job assistance facility that can help individuals, like ONCPB employees, who lose their jobs as the result of the structural adjustment program,

It is anticipated that modernization in NWCA's processing activities will also result in loss of seasonal employment for approximately 500 persons who worked for about 3 months per year hand sorting beans for quality control. While NWCA has resisted modernization of the hand sorting process in the past to avoid this negative outcome, it has reconciled itself to the need to take this step in order to improve the quality of its product and remain competitive in world markets. Some form of severance payment to these sorters is also feasible under the PRAMS I.

2. <u>Organizational Feasibility</u>

Responsibility for implementing the policy/institutional reforms contemplated under the PRAMS I NPA, will rest at three levels, the Presidency, the bureaucracy and the cooperative structure. Since the reforms contemplated are in principle consistent with the already agreed upon reforms outlined in the SAL, the question of formal commitment is not an issue. The Mission recognizes, however, that refining the broad policy reform objectives contained in the SAL will entail a complex and difficult policy dialogue during both the design and implementation of the PRAMS I. In this respect, the Mission sees important similarities between FSSRP and PRAMS in terms of the organizations involved and their commitment and capacity to undertake reform.

Within the <u>Presidency</u> we perceive there is a greater recognition that serious change in the direction of liberalization and privatization is required in order to deal with the current financial and economic crisis. The challenge the Mission faces during the design stage is to build a strong, detailed and convincing argument for the specific policy and institutional (legal, regulatory and procedural) changes that are needed to define, refine and operationalize the broadly worded reform objectives outlined in the SAL.

Within the <u>bureaucracy</u> (which includes the ministries and para-pubic entities) there is considerable variation in the degree of commitment to reform. Some are supportive. Others, seeing that the reforms imply a reduction of the scope of public sector activities and a decline in individual discretionary power, are antagonistic. The challenge during the design stage is to identify and support groups which embrace or at least do not obstruct change and to win over or neutralize those that resist.

Within the <u>cooperative movement</u>, we perceive there is very strong support for the policy and institutional reform objectives outlined in the SAL. Indeed, these are changes the NWCA has been seeking for many years. The farmers in the North West Province and their elected representatives in the NWCA are acutely aware of the inefficiency and ultimate unsustainability of the marketing system in place. It is not surprising that they are becoming increasingly vocal about the need for reform. The challenge during the design and implementation stages will be to strengthen the capacity of the cooperatives and their members to articulate their support at the appropriate levels, much as has been done under FSSRP.

3. <u>Political Feasibility</u>

Farmers throughout the North West Province appear to be aware of the high cost of NPMB's marketing activities in the province. Through their apex cooperative association, NWCA, they have continuously pushed for greater autonomy in the marketing of their product. Thus, there is without question strong support at the "people" level for the reforms being implemented under PRAMS I.

The situation at the governmental level is more complicated as indicated above. The broad impetus for policy reform appears to come largely from the highest political levels within the Presidency. However, while final decisions regarding the specific content of the SAL are made by key high ranking ministers, much of the preparatory analysis and preliminary negotiations regarding the direction and content of the structural adjustment program is carried out at the secretary general or director level in those key ministries. Experience under the FSSRP suggests that decisions at the latter levels are more likely to reflect bureaucratic self-interest in survival than the political imperatives of rapid economic growth. Therefore, it is essential to monitor closely the reform process and to seek high level intervention when key issues are at stake. If close monitoring is undertaken and timely interventions are made when necessary, serious and effective policy and institutional reform will be politically feasible.

SECTION IV
IMPLEMENTATION ISSUES

This section deals with a range of issues related to the implementation of the PRAMS I NPA described in Section III. These include: the justification for an NPA programming modality, a discussion of the relationship between PRAMS I and the Mission's existing portfolio, a preliminary description of the Mission's strategy for managing and monitoring the implementation of the reform effort, as well as a presentation of the Mission's approach to coordinating the design and implementation of PRAMS I activities with the GRC and other donors.

A. Programming Modalities

1. Justification for the use of NPA

The Mission has chosen the DFA/NPA mode because of the generalized, sectoral nature of the assistance being provided under PRAMS I. That is, the purpose of the disbursement of US dollars is to encourage and support the implementation of reform measures that affect the entire agricultural marketing sector. As such, the foreign exchange is not directly linked to specific project-like expenditures such as technical assistance, training, or the provision of commodities. Therefore, a non-project, rather than a project, mode is the more appropriate assistance approach.

As was described in Section III, dollars will be granted to the GRC under PRAMS I based upon the fulfillment of sector-specific policy and institutional reforms that are consistent with the SAL. These reforms will result in the alleviation, through market liberalization, of policy constraints impeding the development of an efficient and sustainable agricultural marketing sector. The achievement of this objective will have a significant impact on the incomes of the many small arabica producers in the North West and West Provinces. Further, because of the significant reductions in ONCPB's overall operating costs, all farmers producing export crops should benefit by receiving a higher percentage of the world price. The specific nature of this impact was described in Section III.D.

For these reasons the Mission believes that the NPA mode is justified.

2. Justification for the use of a Sector Cash Grant

The design of PRAMS I is based on the use of a sector cash grant under the Development Fund for Africa. As should be evident from the discussion in the previous two sections, the Mission has targeted the agricultural marketing sector for a series of non-project assistance interventions to remove the policy and institutional constraints that limits this sector's contribution to overall national growth and the well-being of Cameroon's small farmers. This focus on the agricultural marketing sector began with the FSSRP and will be extended through the various phases of PRAMS. It should also be evident from the previous discussion that the cash grant provided under PRAMS I is to support and facilitate the GRC's stated goal of liberalizing the economy in general and the agricultural marketing sector in particular. Disbursement is conditioned upon the removal of specific policy and institutional constraints. Thus the dollars provided through the cash grant are simply facilitative to the process of sectoral policy reform and may be used for general GRC needs. Finally, it should be evident that the neither the nature of the constraints that PRAMS I is intended to alleviate nor the implementation plan lend themselves to the use of a commodity import program.

B. Relationship to Mission Portfolio

Two of the Mission's most successful activities, the Credit Union Development Project and the Fertilizer Sub-Sector Reform Program will be strengthened further through the reforms contained in PRAMS I. The continued success of the Credit Union Development Project may well depend on the passage of legislation giving greater autonomy to cooperative type organizations as called for under PRAMS I. The improved functioning of NWCA's output marketing capacity expected under PRAMS I and the strengthened credit union movement that is the object of Credit Union Development Project will reenforce one and other. To the extent that PRAMS I promotes increased farmer incomes, these farmers have increased incentive and capacity to save through membership in a credit union. Moreover, to the extent that the credit union is successful in mobilizing savings, the credit union league becomes a potential source of financing to NWCA for its marketing and investment needs. It should be noted that the credit union league already provides financing to the marketing cooperatives, with a CFAF 400 million in loans currently outstanding.

The ultimate success of the FSSRP will depend on the capacity of farmers to afford fertilizer and on the capacity of the private distribution system, including cooperatives like the North West Cooperative Association, to provide fertilizer to farmers efficiently. PRAMS I is expected to support both aspects. PRAMS I will increase farmer incomes and improve farmer liquidity so that they will be able to purchase fertilizer and other cash inputs. PRAMS I will also put arabica marketing and NWCA on a sound financial basis so that NWCA will not have to look to fertilizer marketing as the only source of profit. As a result fertilizer margins, and therefore retail prices, can be kept to a minimum.

The Cameroon Agriculture Policy and Planning (CAPP) project, the National Cereals Research and Extension (NCRE) project and the Agricultural Education Project at Dschang (UCD) can all contribute to the design and implementation of PRAMS I by participating in data collection and analysis needed at both stages. It is also expected that NCRE project personnel and the results of export crop research completed under IRA will be used in the preparation of the PAAD and in the conduct of the robusta coffee/cocoa marketing and the pesticide studies planned under PRAMS I. While no specific role for UCD has yet been identified, it is fully expected that its agriculture economics faculty will contribute to the policy analysis and implementation monitoring processes under PRAMS I and II.

C. Mission Management Strategy

The Mission's proposed management plan for monitoring the implementation of PRAMS I is grounded in its experience with policy reform and an assessment of current internal management resources:

a. EAPRI will lead Mission design and implementation monitoring of PRAMS I. Given the nature of PRAMS I, EAPRI, the newly created Office of Economic Analysis and Policy Reform Implementation, is the most effective choice for leading the Mission's involvement in its design and monitoring. The economic and institutional character of the reforms sought fit better with the orientation of EAPRI than they do with the production orientation of the Agriculture and Rural Development (ARD) Division. In addition, EAPRI is the repository of the Mission's experience with monitoring the implementation of non-project assistance.

b. Other Mission offices will play key roles in designing and monitoring PRAMS I. Although EAPRI will take the lead, other Mission office will play key roles in the design and implementation of PRAMS I. ARD will be actively involved. The Cameroon Cooperative Credit Union League (CamCCUL) which is being strengthened under ARD's Credit Union Development Project, provides a clear example of the potential that private, independent cooperative organizations have to benefit both their members and the economy as a whole. This experience will be tapped by close consultation with CAMCCUL management and by placing the Mission's project manager for the credit union project on the PAAD development team. In addition ARD will coordinate the input from its other projects into the design and implementation of PRAMS I. Of particular relevance will be the work of the National Cereals Research and Extension Project and the Cameroon Agriculture Policy and Planning Project (see Section V for further details).

   The Project Design and Evaluation Division will continue to provide technical support for design, monitoring and evaluation systems, and in the further development of the Mission's institutional analysis and design framework.

   The Controller's Office has a key role to play in coordinating the disbursement of dollars and assuring that the GRC's financial reporting for both the dollars and the generated local currency are adequate.

c. Project resources will be needed to support the PRAMS I NPA. As FSSRP has both a non-project and a project component, so too will PRAMS I. However the financial requirements for a PRAMS project component will be much more modest than those required for FSSRP. The purpose of the PRAMS project component will only be to support those aspects of the Mission's monitoring responsibilities that must be paid in US dollars (local currency costs will be paid out of local currency deposits). Examples of these activities include evaluations or special studies contracted through US consulting firms or the salary of American PSC program monitoring staff. The Mission is aware that if a new project is needed, then the AID project design procedures must be followed. The Mission is also considering the feasibility of redesigning the existing FSSRP project component to broaden its mandate to incorporate agricultural marketing more broadly. This approach would seem to be a more rapid and cost effective solution than a new project.

D. Coordinating Policy Reform Design and Implementation with the GRC

Dialogue with the GRC about the reforms proposed in PRAMS I has already begun. Key decision makers within the Presidency, the technical ministries, the central bank, and ONCPB have been presented with a preliminary proposal as the basis for further discussion. This informal contact and dialogue will continue throughout the development of the PAAD and on into the implementation phase. These informal discussion are very useful as a way to test new ideas or seek out solutions to implementation problems.

However, as PRAMS I moves from the preliminary to the final design stage the time has come to develop a more formalized mechanism through which the Mission and GRC can jointly examine needed reforms in the agricultural marketing sector. In proposing a formal mechanism, the Mission has several options. One option is to seek a broadening of the mandate of the existing inter-ministerial FSSRP Technical Supervisory Committee (TSC) to encompass agricultural marketing not just fertilizer marketing. A second option is to propose the creation of a separate inter-ministerial committee dealing strictly with PRAMS. Such a committee could be attached to the Ministry of Plan (as is the FSSRP's TSC), to a technical ministry (such as the Ministry of Commercial and Industrial Development or the Ministry of Agriculture), or to the Presidency (as are both the SAL implementation and parastatal reform committees). A third option is to propose that the committee to be established to monitor compliance of ONCPB's performance contract could also coordinate the GRC's input into agricultural marketing reform.

Each of these options has its advantages and disadvantages. The Mission is not prepared to commit itself to one particular option or another at this time. Instead, the decision will be the result of a careful review of the available options which will be completed by early January 1990, in time for the GRC to participate fully in the PAAD development (see Section V). It should be noted that the ultimate choice will take into account both the desire to minimize the proliferation of public bodies and the intent not to so formalize the mechanism that it becomes a permanent appendage of the state.

E. Coordinating Policy Reform Design and Implementation with Other Donors

The close collaboration and coordination with other donor involved in agricultural marketing reform has been pointed out at various points in earlier sections. The Mission has worked closely with both the IMF and the World Bank to ensure that PRAMS I furthers the objectives of the SAL for the agricultural sector (see Section II.E). The Mission has also been in close contact with those donors (EDF and CCCE) involved in covering ONCPB/NPMB's arrears and those, in addition to USAID, who are participating in the review of ONCPB's performance contract (the World Bank and CCCE). And the Mission is in almost daily communication with CDC as both organizations move forward with the design of their companion initiatives.

Apart from informal contacts, the Mission is also a member of an informal donor's coordinating committee dealing with cooperative development. Other members include UNDP, GTZ, and EDF. This committee can serve as a useful mechanism for applying concerted pressure on the GRC to carry through with its liberalization of the cooperative law.

It should be evident from the discussion in Sections II and III that there is a notable degree of consensus among the donors about the nature of the reforms needed in the agricultural marketing sector. Such a unified position will enhance PRAMS I's chance of success. Given that the Mission has good relations with all of these donors and given that there is no serious conflict among them, there is no reason why close collaboration and mutual support cannot be maintained.

SECTION V
FINAL DESIGN STRATEGY AND SCHEDULE

A. Design Strategy

In developing the PAAD for PRAMS I, the Mission will be guided by the following strategic principles:

a. IAD will serve as the conceptual framework. The Mission has been working with Indiana University for the last several months to adapt its Institutional Analysis and Design (IAD) framework to policy reform in developing countries. The framework has already been usefully applied to FSSRP and the Mission believes that it can provide a firm theoretical foundation for the liberalization of the agricultural marketing sector. In particular, we feel that the IAD will help to identify the necessary and sufficient conditions for liberalization to proceed.

   To ensure the fullest exploitation of the IAD framework, the Mission will include an institutional analyst wherever possible in its PAAD development activities. It will be particularly important to include institutional analysis in the proposed economic impact and cooperative development studies (see point c, below) and in the drafting of the PAAD itself. The Mission will draw on the resources of Indiana University and its collaborators for this input.

b. Further sectoral analysis is unnecessary. Based on the high quality of the Agriculture Sector Review conducted by the World Bank (with significant USAID technical and financial support), particularly its treatment of the export crop subsector, the Mission does not intend to conduct a separate sector analysis. (Relevant portions of the Agricultural Sector Review are attached as Annex A.)

c. Additional studies are needed. Notwithstanding the quality of the Agricultural Sectoral Review, the Mission has identified three areas that need additional study in order to prepare the PAAD. Specifically, fuller understanding is needed about: (1) the technological and economic constraints to increasing the quantity and quality of arabica production; (2) the economic impact of a liberalized market structure on farmers, the cooperatives, other potential competitors, and the government; and (3) the factors, both outside and inside the cooperative structures of the North West and West Provinces, that prevent them from operating as independent commercial enterprises. More details on these studies, including a list of issues to be addressed, are presented in Annex E.

   In order to provide some comparative context in which to examine Cameroon's agricultural marketing sector, the Mission is examining the utility of sending a small group of key public and private sector representatives on a study-tour to Kenya. Kenya produces the highest quality arabica coffee in Africa under a liberal system which relies heavily on cooperatives. Such a system might provide reassurance that public and private sector desires can be accommodated in a liberal and private market structure.

d. Collaboration is essential. In order to prepare a high-quality PAAD within the proposed time-frame, the Mission will need to collaborate closely with three different groups: other USAID-funded projects, other donors, and the GRC. Both the Cameroon Agricultural Policy and Planning Project (CAPP) and the National Cereals Research and Extension Project (NCRE) have both data and technical expertise to contribute to the studies on production constraints and economic impact. Indeed, the CAPP project may be the best vehicle through which to perform these two studies on a timely basis.

Given the overlapping needs of the Mission and CDC as planning and design of our respective interventions moves forward, close coordination between the two organizations will be needed. Indeed, the most efficient way to proceed is for joint teams to address issues of mutual concern, such as production constraints and economic impact. The Mission will also need to coordinate with the CCCE who are proposing an arabica marketing study of their own.

Finally, the Mission will need to collaborate closely with the GRC during PAAD preparation. To assure that Cameroonian concerns are adequately addressed in the studies, the Mission intends to involve Cameroonians in the design process. Although, as was noted in Section IV.E, the precise modalities for Cameroonian involvement have yet to be determined, they will be by the time PAAD development begins in earnest.

B. PAAD Development Schedule

Operating with the above strategic principles, the Mission intends to move quickly into PAAD development. Assuming that this PAIP is approved in early January, the Mission plans conduct the needed studies between January and March, draft the PAAD from mid-March to mid April and submit the final PAAD to AID/W on May 1, 1990. Approval of the PAAD by AID/W by June 15 and negotiation with the GRC during June and July will permit execution of the Program Agreement by July 31, 1990. A more detailed schedule for the PAAD development process is presented in Table V-1.

Given the quality of the available data and Mission experience in policy reform and cooperative development, the Mission is reasonably confident that this timetable can be followed.

Table V-1: Action Plan

	Activity	Action Agent	Completion Date
1.	Submit PAIP to AID/W	PDE/EAPRI	12/01/89
2.	Prepare SOW for Planned Studies (a) Production Constraints study (b) Economic Impact study (c) Cooperative Dev. Constraints study	PDE/EAPRI/ARD/ CDC	12/05/89
3.	Submit PIO/Ts to AID/W for Contracting	EAPRI/ARD	12/10/89
4.	IQC/Buy-in for study teams negotiated	SER/OP	1/10/90
5.	Production Constraints study begins	ARD	1/10/90
6.	AID/W completes PAIP Review	PRM and AFR/PD	12/29/89
7.	Economic Impact/Coop studies begin	PDE/EAPRI/ARD	1/30/90
8.	Production Constraints study completed	CAPP/IRA	3/10/90
9.	Economic Impact/Coop studies completed	CAPP and/or IQCs	3/15/90
10.	First draft of PAAD completed/ reviewed by Mission	EAPRI/PDE/ARD	4/15/90
11.	PAAD revised/approved by Mission	EAPRI/PDE/ARD	4/25/90
12.	PAAD submitted to AID/W		5/1/90
13.	PAAD reviewed/authorized by AID/W	AFR/PD and DP	6/15/90
14.	Grant Agreement submitted to GRC	EAPRI/PDE REDSO/GC	7/1/90
15.	Grant Agreement negotiated, signed with GRC	PDE/EAPRI REDSO/GC	7/30/90

ANNEX A

EXCERPTS FROM THE WORLD BANKS'S AGRICULTURAL SECTOR REVIEW

Document of

THE WORLD BANK

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Report No. 7486-CAM

NOT A USG CLASSIFICATION

CAMEROON

AGRICULTURAL SECTOR REVIEW

March, 1989

Occidental and Central
Africa Department

45

CURRENCY DEFINITIONS

Currency Unit: CFA Franc (CFAF)
Fixed Parity: 50 CFAF: 1 French Franc

EXCHANGE RATES

Fiscal Year	CFAF per Dollar
1983/84	409.5
1984/85	471.1
1985/86	386.6
1986/87	318.8
1987/88	291.7
1988/89	300 (proj.)

ABBREVIATIONS AND ACRONYMS

CAMCCUL	Cameroon Credit Union League
CDC	Cameroon Development Corporation
CENADEC	Centre National de Développement des Entreprises Coopératives
CENADEFOR	Centre National de Développement des Forêts
CNCE	Centre National du Commerce Extérieur
COOP/MUT	Direction de la Coopération et de la Mutualité
EAMI	Entreprises de Moyenne Importance
FONADER	Fonds National de Développement Rural
HEVECAM	Société de Développement Hévéa-Cameroun
IRA	Institut de Recherches Agronomiques
IRZ	Institut de Recherches Zootechniques
MESRES	Ministère de l'Enseignement Supérieur, de l'Informatique et de la Recherche Scientifique
MIDENO	Mission de Développement de la Province du Nord-Est
MIDEVIV	Mission de Développement des Semences et des Cultures Vivrières
MINAGRI	Ministère de l'Agriculture
MINDIC	Ministère du Développement Industriel et Commercial
MINEPIA	Ministère de l'Elevage, de la Pêche et des Industries Animales
MINFI	Ministère des Finances
MINPAT	Ministère du Plan et de l'Aménagement du Territoire
NWCA	Northwest Cooperatives Association
OC	Office Céréalier
ONAREF	Office National de Regénération des Forêts
ONCPB	Office National de Commercialisation des Produits de Base
ONDAPB	Office National de Développement Agricole et du Petit Bétail
OPV	Office Pharmaceutique Vétérinaire
SEMRY	Société d'Expansion et de Modernisation de la Riziculture à Yagoua
SOCAPALM	Société Camerounaise de Palmeraies
SODECAO	Société de Développement du Cacao
SODECOTON	Société de Développement du Coton
SODEPA	Société de Développment et d'Exploitation de la Production Animale
SODERIM	Société de Développement de la Riziculture dans la Plaine de Mbo
UCCAO	Union Centrale des Coopératives Agricoles de l'Ouest
USAID	United States Agency for International Development
ZAPI-EST	Société Régionale de Développement des Zones d'Action Prioritaire Intégrée de l'Est

FISCAL YEAR

July 1 - June 30

CAMEROON

AGRICULTURAL SECTOR REVIEW

Table of Contents

Page No.

48

CAMEROON

AGRICULTURAL SECTOR REVIEW

EXECUTIVE SUMMARY AND POINTS FOR DISCUSSION

Chapter I: The Economy

i. Over the past ten to fifteen years Cameroon has been one of the more successful economies in Africa. The economy grew sluggishly during the 1960s but picked up during the 1970s, growing at a rate of about 4.2% per annum. Following the expansion in oil production in 1978, the economy began to grow vigorously at 10% per annum. Economic growth slowed down in 1982, then finally began to decline in 1985. This decline was the result of falling commodity prices between 1985 and 1988, exacerbated by the sliding value of the U.S. dollar against that CFA Franc. Slow economic growth is projected for the medium-term at about 3% to 3.5% per annum, even with the financial and economic adjustment measures that the Government intends to put in place during the next few years. This slow growth is mainly due to the diminishing oil production and declining commodity prices. Agriculture, however, is expected to grow at the historical rate of slightly above 4% per annum.

Chapter II: Sector Position and Performance

ii. Cameroon's agriculture sector is the backbone of the economy. Before the advent of oil production in the late 1970s, agriculture accounted for 30% of the gross domestic product (GDP) and 80% of total exports. Although the agricultural share of GDP has declined (to about 25% in 1987/88), the sector still contributes about 50% of total exports and generates employment for about three quarters of the total population. With oil reserves and revenues projected to decline, the economy will again have to depend on agriculture to provide the major impetus for economic growth. The discussion point here is whether agriculture will be able to resume its role as the prime engine for growth in the economy.

iii. Fundamentally, the country has a strong comparative advantage in agriculture. The scope for expanding agricultural production to meet rising domestic demand and to expand exports is significant, given the relative favorable land/population ratio, low yields (which leave a large potential for increase), underexploited natural resources (forests, fisheries), and diversified products such as cereals and tubers, cocoa, coffee, cotton, rubber, oil palm, and tropical fruits and vegetables. Constraints, however, lie in the policy environment, spanning from the exchange rate to domestic marketing and pricing policies, and the weak, though proliferous, institutional support to farmers. Thus, a major adjustment in the exchange rate, the incentive framework, and the domestic cost structure is needed to enable the sector to reach its potential. This would have to be coupled with more cost-effective institutions to support, but not direct, farmers in their investment decisions.

iv. Past agricultural performance has been good, with an annual growth at about 4.4% between 1966 and 1988. Growth in the food crops subsector has managed to surpass the population growth. The export crop subsector exhibited a mixed performance, in spite of significant public investments made to boost its production. The outputs of traditional smallholders --

marketed by private traders with little Government support -- have been entirely responsible for growth in the food crops subsector. In contrast, heavy government intervention in the pricing and marketing of export crops, input subsidies, state monopoly in distribution, and support to parastatal plantation estates, have had limited impact on the overall growth of the sector.

v. The low population density (about 20 persons per km2) puts Cameroon in a relatively favorable position with regard to land availability. However, poor access to land caused by limited infrastructural development is now contributing to increasing pressure on land resources in some areas. In the highly populated area of the Far North, the West and the Northwest, land carrying capacity seems to have reached its sustainable limit. In the absence of greater infrastructural development, intensification of agriculture may be the only viable alternative for many farmers. Furthermore, as the cultivated area occupies about 30% of the arable land, and given the normal practice of rotation one out of five to seven years, greater expansion in cultivation will be at the expense of the forest. Agricultural intensification is then necessary to protect the rich Cameroonian forests.

vi. Although Cameroon has a well developed modern legislative framework that sets rules and conditions for obtaining ownership of land, in practice, the process for securing land title is not well developed. One constraint is the reluctance of government authorities to interfere with traditional rights and practices. The point for discussion here is whether security of land tenure is essential for agricultural intensification and, if so, what practical steps need to be taken to resolve the uncertainty caused by the juxtaposition of traditional and modern rights. It has been demonstrated elsewhere that security of land ownership is critical for agricultural intensification. The Government should include this objective in its agricultural development strategy. We recommend the acceptance of traditional rights as the basis for defining ownership, and the simplification of procedures for legalizing the process (para 2.23).

Chapter III: The Challenge for Agricultural Development--Strategic Issues

vii. Because of its favorable climate, diversified base for agricultural production, and low population density, Cameroon is in a relatively good position to provide food to its population. Food imports are relatively low (about 10% of the total import bill). Food security problems are related more to food consumption and accessibility than food supply. The report concludes that in spite of its high level of income and favorable food supply compared to many African countries, Cameroon has two principal food security problems: chronic malnutrition affecting about 20% of the population under five years of age and transitory food insecurity in the North, affecting about a quarter of the total population.

viii. Chronic food insecurity is the result of poverty and the remoteness of health and education activities in most rural areas in the country, but particularly prevalent in the North. Transitory food insecurity is also a problem of the North where droughts typically occur once every three years and where monoculture in sorghum and millet limits the ability of farmers to acquire food with cash incomes. Another food security related issue is the high cost of food marketing which results in farmers' low share of the market price in spite of the liberal marketing environment for food crops.

ix. The Government has a sincere concern for food security and has launched a number of food security related programs. Unfortunately, these programs have resulted in a number of incoherent policy decisions and costly interventions. Policy incoherence is most prevalent in the case of rice production, where producer prices for paddy are maintained at a relatively high level, and prices of imported rice have been effectively controlled at a lower level (an implicit subsidy caused by the fixed parity of the CFA Franc and low import duties). Costly interventions to stabilize food supply and prices -- without much success -- are demonstrated in the Government's support of two main parastatals: the Cereal Office (Office Céréalier -- oc) and the Food Development Authority (MIDEVIV). The discussion points here are: Does the Government have a food security strategy? Is there a need for a national food security strategy? If so, what should this strategy consist of? We conclude that the Government's food security strategy so far has been scattered through a number of policies, projects and programs, often with conflicting objectives. It is important to develop a national strategy, which will harmonize and rationalize the existing regulations and investments. The strategy should deal with both supply and demand issues, particularly those of the most vulnerable groups.

x. On the supply side, the food security strategy should focus on intensifying smallholder production, developing measures to reinforce the supply stabilization function of the private sector, and providing protection measures to offset the effect of overvaluation of the real exchange rate and dumping. The operational implication of this strategy would be improving basic support services such as research and extension, ensuring timely delivery of inputs, reinforcing pricing and marketing information, expanding on-farm and secondary storage at the village level, promoting food conservation and food transformation, improving road links between the normally grain surplus provinces and the deficit ones, and most importantly, establishing an effective warning system and contingency plan for food movement in time of serious drought (paras 3.28-3.30).

xi. On the demand side, the food security strategy should aim at reducing chronic malnutrition and supporting effective demand of poverty stricken groups. The action plan should include measures aimed at raising women's productivity in agriculture, improving feeder roads in the remote areas, strengthening basic health measures such as immunization and household sanitation, targeting supplementary feeding programs to the most vulnerable groups such as school-age children in the poverty stricken areas, providing nutrition education, and creating opportunities for self-help and revenue-generating micro projects at the village level (paras 3.31-3.37).

xii. The emphasis on women's role in food security is necessary as Cameroonian women are the main producers of food crops for both home consumption and markets. They are also responsible for family nutrition and child care. Improving women's access to technology, creating opportunities for them to earn incomes, and providing health and nutrition education are the necessary ingredients in the design of food security programs (para 3.32).

xiii. In the foreseeable future, Cameroon will have to rely on agriculture to replace losses of export revenues from declines in oil production and prices. Export volumes of major commodities such as cocoa, coffee and wood products (accounting for 95% of total value of agricultural exports) have either declined or stagnated, while export prices have fallen significantly in real terms. Other exports such as cotton, oil palm, rubber, bananas and tobacco have grown in volume over the years, but their weight in total exports is still too small to have an impact on the overall export performance. The poor performance in exports was exacerbated by the sliding value of the U.S. dollar against the CFA Franc. While other major cocoa and coffee producing countries have adjusted their exchange rates to make their exports more competitive, Cameroon's fixed parity of CFA Franc has resulted in the loss of competitiveness of traditional exports in which the country formerly had a comparative advantage. To avoid losing its competitiveness in the long run, Cameroon will have to adjust its nominal exchange rate and/or to increase productivity. The first choice is ruled out because of Cameroon's participation in the CFA zone. Alternative fiscal substitutes, such as import duty-cum-export subsidy scheme, have not worked elsewhere due to the high level of frauds. Thus, measures aimed at increasing productivity are indispensable for Cameroon to regain its competitiveness. Given the limited scope for raising producer prices, Cameroon will have to rely more on non-price measures to encourage replanting and to increase yields on existing plantations.

xiv. The significant expansion in world cocoa and coffee production and slow growth in demand will result in a decline in world cocoa and coffee prices in the medium-term. Since Cameroon is a price taker for these commodities, export revenues obtained from them can only be increased by expanding volumes of these traditional exports. For cocoa, the characteristics of the Cameroonian product (high fat yield and the red color of its powder) have given it a strong hold in a sp$ialized niche of the market. This market is expected to absorb anticipated increases in cocoa production (about 40,000 to 60,000 tons by the year 2000) (para 3.53).

xv. The future for coffee exports depends on the fate of the International Coffee Agreement (ICA). At the present ICA quota, Cameroon has overproduced coffee and accumulated expensive stock. However, given the significant and increasing spread between Robusta and Arabica coffee, Cameroon could maximize export revenues by expanding exports of Arabica coffee and cutting back on Robusta coffee production. If the quota is suspended, Cameroon will need to further expand its Arabica coffee production. In any case, a concerted effort must be made to improve the quality of exported coffee (paras 3.54-3.55).

xvi. The prospects for increasing export revenues from timber export is good, with the declining supply of logs from Côte d'Ivoire. The future for exports, however, lies in the exploitation of decorative wood (Sapelli) which has the fifth highest world market price. To promote increased exports of this high valued timber product, Cameroon needs to open up access to the forests in the East (with care to the environmental impact), as well as to diversify markets outside of the traditional importers. There is a potential for exporting processed wood and semi-finished and finished products. However, Cameroon will have to revise its regulations regarding concessions and taxation, as well as improve training for sawmill personnel, if it wants to increase exports in processed wood (para 3.56).

xvii. Given the poor prospect for traditional exports, the Government is attempting to diversify exports. The issue here is the potential for export diversification: What commodities? What markets? How to capitalize on it? There is a growing potential demand for tropical fruits from developed countries and processed products from regional markets. The marketing strategy and economic viability of these industries are still uncertain at this stage and need to be developed. The discussion point here is the strategy for promoting non-traditional exports. Experiences from developing countries with successful export diversification programs have shown that the private sector plays a major role in responding to potential world market demand. This role has been made possible by a favorable macroeconomic framework such as a favorable exchange rate, liberal pricing and marketing policies, and light administrative control. Thus, a focus on the creation of an enabling environment for private investments is the minimum requirement for export diversification (paras 3.59-3.63).

xviii. The outlook for both traditional and non-traditional exports is not robust in the immediate and medium-term. The question is: What should be the export strategy for Cameroon in the foreseeable future? The pursuit of an export strategy based on increasing the productivity of traditional products offers the best possibility for immediate growth. An increase of traditional exports by 2% to 3% per annum, which is feasible, would result in a sector growth of 2.5% to 3.5%, all other things being equal. Export diversification will take time to develop. Cameroon will need to explore and develop its competitiveness in non-traditional products. Thus, export diversification should be an additional objective rather than a substitute for traditional exports.

xix. The expansion of traditional exports is linked closely to the domestic incentive framework. The Government's intervention in pricing and marketing major export crops has resulted in heavy taxation on agricultural exports in the past. This was unfortunate as it constrained the investments in new tree stocks at the time when world market prices and exchange rates were favorable. The declining terms of trade for major export commodities and slim prospects for major world price recovery render discussions on incentive prices irrelevant. The relevant question is whether Cameroon can sustain the present level of producer price. It is demonstrated in the report that at projected world prices and exchange rates, Cameroon would have to subsidize traditional exports in the order of CFAF 40 billion a year well beyond 1990, a level which cannot be sustainable with the accumulated stabilization reserves. Thus, in the absence of exchange rate adjustment, a reform of pricing policies is unavoidable.

xx. We recommend the use of a flexible price fixing mechanism, with a floor price and a progressive tax system above the floor price. Farmers should not have to pay for the cost of an overvalued real exchange rate, and hence they should be protected by a floor price that reflects the opportunity cost of labor. In the longer term, however, if and when the exchange rate constraint is removed, the Government should move toward free prices. The floor price would have to be low enough to prevent the need for perpetual government support.

xxi. The flexible pricing system can only benefit farmers when it is accompanied by a more open marketing environment. When world market prices rise above the support level, competition will result in higher prices to farmers. The discussion point here is the need for pricing and marketing reform and the application of the proposed approach to the Cameroonian environment. If agreement can be reached on the principle, we propose to discuss further the level of floor prices that would at least ensure incentives for maintaining existing production, and the design of a progressive tax system when export parity prices rise above floor prices. (paras 3.85-3.89).

xxii. Plantation products such as rubber and palm oil, where heavy investments have been made in the past, and the loss of competitiveness of these products vis-a-vis Asian producers, present a difficult choice for Cameroon. Given the small base of these exports in the Cameroonian economy, should Cameroon phase out investments in these products or should export subsidy be provided to build up a base for export diversification? Phasing out investments in these plantation estates is not an expedient solution, as it would affect the livelihood of about 100,000 employees and deprive Cameroon of a source of export diversification. The prospect for privatization of these estates is also limited at the current world market conditions and exchange rates. In the medium-term, measures for increasing productivity and cutting costs should be pursued. The Government may have to assume losses occurring from exports of these products. Once efficiency is achieved, then export subsidy could be used to compensate for the effects of currency overvaluation (para 3.84).

xxiii. The lack of competitiveness is also pervasive in import substitutes such as rice, edible oil, and sugar. The Government has encouraged domestic rice production by guaranteeing a producer price that is above the import parity price. This problem is aggravated by inadequate milling capacity at SEMRY (the parastatal responsible for producing and marketing rice) and the high cost of transport for moving rice from the North to major consuming centers in the South. The Government has decided to protect domestic production through quantitative restrictions on rice imports and by the establishment of a rice equalization fund financed by a tax on imports. The revenues will be used to subsidize domestic production.

xxiv. Quantitative restrictions have not been effectively enforced. While it is premature to judge the effectiveness of the equalization fund, experience in other countries indicates that the level of "fraud" in importing is extremely high, rendering import duties meaningless. It is further complicated in Cameroon by its open border with Nigeria and Chad, as well as by being the transit point for imports to Chad and Central Africa Republic. The discussion point here is whether the incentive policy for rice is sustainable, particularly when the urban centers can be easily supplied with imports of other cereals in which Cameroon has a better comparative advantage in production. It appears that the projected world market price for rice will remain at the present level in constant terms well beyond 1990. In the absence of exchange rate adjustment, the level of deficit financing will remain substantial, unless the equalization fund can be effective in raising import prices and domestic costs can be lowered. We therefore recommend freeing the rice producer price. SEMRY's role in rice marketing should eventually be phased out to allow the private sector and farmers to take over milling activities. This will have a positive effect on cost reduction for domestic rice production (paras 3.95 and 3.96).

xxv. We support the Government's reform program in phasing out subsidies and in privatizing input distribution, notably in fertilizer. The discussion here should focus on whether this reform program will bring about the desirable effect and whether other factors such as the limited scope for increasing producer prices and inadequate credit facilities will negate the intended effect of such a reform. There are indications that the program is surging ahead with the assistance of USAID. It is important that other donors do not undermine this effort through provision of aid in kind. The more serious concern is whether there is a sufficient demand for fertilizer to build up a private distribution network without financial subsidies. We argue that reliable input supply and other non-price factors such as the availability of profitable investments, effective extension support, and marketing opportunities are more important than subsidies in determining the demand for fertilizer as demonstrated in the cotton producing area. It is likely that even if subsidies were eliminated, fertilizer would be used on some food crops and on efficient coffee plantations - precisely the desirable result. Thus, the limited scope for price increases should not be perceived as an obstacle to pursue the reform program. Cameroon should consider extending similar reforms to other inputs, such as seeds and plant protection materials (para 3.103).

xxvi. Cameroon is more fortunate than many other African countries in preserving its rich forest resources and environment. However, forest exploitation has not been adequately planned and controlled; concession policies encourage exploitation of few valuable species and favor log exports to processed wood. Forest industries are not competitive due to obsolete equipment and inadequate training of entrepreneurs. There is no plan for managing fuelwood extraction despite the fact that it is the major cause of forest depletion. Finally, existing reserves and national parks are in danger of being encroached upon.

xxvii. The Government has been highly conscious of environmental problems and has commissioned a Tropical Forest Action Plan (TFAP) to deal with a series of issues including legislation, institutions, concession policies, forest management and conservation. The time is opportune to put in action the TFAP recommendations. The discussion point here involves the priority of various measures recommended by TFAP. We recommend focusing action on the revision of the concession policy in favor of long-term leases; the preparation of a forest management plan, and control and issue of logging permits according to the plan; the preparation of a forestry industrialization plan to provide incentives and training for the rational development of processed wood industries; the development of a household energy strategy using both forest resources and energy substitutes; and the creation of buffer zones surrounding protected areas (paras 3.149-3.156).

xxviii. Population pressure in the highly populated areas has led to desertification in the Far North and puts the pastoral system and its feed resources under great pressure in the Northwestern and Western provinces. Migration from the Far North has taken place to less populated areas of the North, but this area also risks becoming overexploited, particularly with the presence of livestock and transhumant pastoralists from Nigeria and Chad. Hills and steep slopes utilized by livestock herders are the most endangered areas as these areas are often burned at the start of the dry season and erode rapidly during the following rainy season. Thus there is a need for improved livestock and pasture management to avoid erosion. While technology for increasing feed resources exists, the constraint in improved pasture management lies in the lack of secure land tenure. <u>The discussion point here would focus on the need to provide land rights to herder groups, which would provide them with incentives to properly manage pasture resources</u>. A pilot land management program is being initiated under the Livestock Sector Development Project to test various land tenurial modes for a future generalization of their use in the country (paras 3.116 and 3.142).

xxix. A large number of institutions are involved in Cameroonian agriculture, including government ministries, local government bodies, parastatals and cooperatives. Key issues in the management of agricultural development are: slow decision making processes, lack of interagency coordination, and overlapping responsibilities and functions. A decentralization of decision making authority from the Presidency is called for, and reforms were begun after the election in May 1988. Efforts are also underway to improve interagency coordination. We strongly recommend the involvement of the technical ministries in policy issues such as pricing and marketing, which have been the domain of the Ministry of Industrial Development and Commerce (paras 3.158 and 3.159).

xxx. The most serious problem that will have to be addressed is the overlapping responsibility of specialized parastatals and the administration in provision of support services to farmers. This situation arose as external donors, in the effort to bypass the cumbersome procedures of administration, have pushed for the creation of extra-ministerial agencies to implement projects financed by them. This tendency, coupled with reliance on expatriate line managers, has eroded the management capability of Cameroonian institutions, in spite of the relatively good training that Cameroonian staff have received. Admittedly, among the numerous poorly performing parastatals, there are a few shining examples which have managed to make an impact on agricultural growth such as the Cotton Development Company, SODECOTON. <u>The discussion point here should focus on the role of administration and specialized agencies in providing support services to farmers. A more far-reaching question is the importance of institution building in promoting sustainable growth in agriculture and in determining the most cost-effective approach to achieve this objective given the financial constraints that the Government will be facing in the medium-term.</u>

xxxi. We recommend an increased and more effective role for the technical ministries, notably the Ministry of Agriculture (MINAGRI) and the Ministry of Livestock, Fishery and Animal Industries (MINEPIA) in the provision of extension services to farmers. In practical terms, in areas where extension

56

services have worked well under existing institutional arrangements, we propose that these extension activities be retained, but they should be harmonized with the national extension services. In areas where extension services are poor MINAGRI and MINEPIA staff should be trained and provided with operating means to carry out their responsibility. Institution building is critical for promoting growth, as demonstrated in the case of cotton development: the supply response would not have been substantial had linkages between research, extension, and timely input supply been absent. Learning from this experience, we are concerned with the inadequate attention to applied research. The government's own resources are becoming more scarce and donor assistance is becoming oriented toward adjustment lending. We urge that improvement of research programs and the strengthening of linkages between research and extension be put in the forefront of a long-term strategy for growth. The Government may consider entering into a long-term engagement with twinning institutions from bilateral donors to secure funds and technical assistance for research. The relationship between The Agricultural Research Institute, IRA, and IITA, under the National Cereals Research and Extension Project (USAID) is an example (paras 3.170-3.174).

xxxii. The cooperative movement in Cameroon is rich and diversified. Cooperatives are vital for the promotion of a smallholder economy and serve as an important link between the administration, traders, and small farmers. Historically, cooperatives have been construed as instruments of government policy and not as commercial entities which evolve from mutual interest of their members. Today most of the cooperatives are virtually bankrupt, and their management is in a shamble -- an unfortunate development at a time when there is a need for the transfer of public intervention in productive and commercial activities to the private sector.

xxxiii. The cognizance of the weakness in cooperative development has resulted in a number of recommendations made during a recent seminar organized by MINAGRI. These recommendations center around the withdrawal of state intervention from cooperative administration and for reinforcing technical support to cooperative management. The discussion here involves priority actions to reform the cooperative movement and the role of the various public agencies in supporting cooperative management. We recommend that the legislative framework for cooperative movement be modified to enable cooperatives to be established, to develop and operate exclusively under the control of their members and their elected representatives. Public intervention should be limited to the registration of cooperatives, control of financial audits, and provision of technical advice and training until such time as a national federation could be developed to cover these activities (paras 3.186-3.189).

xxxiv. Rural finance is perceived by the Government as critical for agricultural modernization and growth. Various studies on the rural finance subsector in Cameroon, however, suggest that low prices, marketing difficulties, and unreliable input supplies are more important constraints to expanded agricultural production than the lack of credit funds. Directed programs with subsidized funds and interest rates in the past have not proven successful as funds were diverted for housing and consumption purposes and there were no incentives for loan recovery. Given this diagnosis, we recommend that priorities be given to activities that will eventually raise the demand for credit, such as improvements in pricing, marketing, input supply, and technology transfer. In addition, a more effective credit program should respond to farmer needs, including consumption as well as investment loans. In this case, the criterion for lending must be the capacity of the specific borrower to repay (paras 3.200 and 3.201).

xxxv. The illiquidity of the present banking system and the dissolution of the state-owned specialized bank for agriculture, FONADER, have virtually dried up formal sources of financing for agriculture. The Government is in the process of setting up a new agricultural credit bank (Crédit Agricole du Cameroun, CAC). At the moment, CAC exists mainly on paper as its functions are yet to be defined, and managers have not been appointed. The discussion here is whether there is a special role for CAC given the existence of various financial institutions in Cameroon which could be improved in performance and coverage to provide better services to the rural sector? What should be the operational mode of CAC to avoid the same mistakes made by FONADER in the past? We argue that the establishment of CAC is not necessary for agricultural lending purposes. We urge the Government to explore ways to expand the credit union movement that has been successful in the Northwest, West and Southwest to other parts of the country, and to increase commercial bank lending to agriculture once the liquidity problem is resolved. However, if the Government insists on maintaining CAC, we recommend that CAC be built up as a credit-cum-saving institution, which relies on member deposits for a substantial share of its revenues. It should also be allowed to charge interest that reflect the cost of borrowing with an adequate spread to cover costs. As should be free of political interference, the Government's injection of funds should be kept to a minimum. Evidence from numerous informal savings groups (tontines) in Cameroon has shown that the propensity to save is high. The record of credit unions also supports this hypothesis (para 3.202).

xxxvi. Loans to smallholders have not been favored by financial intermediaries because of the clients' lack of collateral; quite often, they are perceived as high risks. Experience elsewhere has shown that these risks could be reduced by the use of group pressure or solidarity for loan recovery. Smaller installments and a frequent recovery schedule could reduce the risk of non-repayment. This would undoubtedly increase the administrative cost of the financial institutions which will have to be reflected in the interest rate. Higher interest rates may not be affordable to all smallholders. However, it has been shown that high-cost credit can keep the influential non-target group away from a targeted credit program, which is a desirable result. A more important element in designing loan programs to serve smallholders is the effectiveness of the institutions in loan delivery, such as simple procedures, high accessibility, and well trained staff. These elements should be tried out by CAC and existing credit institutions (paras 3.203 and 3.204).

xxxvii. The Government has decided to promote farm modernization through the provision of subsidies and credit for the establishment of medium scale farms (EAMI program). While it is premature to judge the economic viability and effectiveness of such a program for farm modernization, the report raises a number of issues which need to be addressed. Given the high cost of establishment of these farms (US$5,000 per ha), could the program be

58

replicated on a wide basis? In the immediate term, does the technical and managerial expertise exist to manage these farms efficiently? Given the Government's financial difficulty in the immediate and medium-term, should public investments be used for subsidization of operations that would not have a significant impact on sector growth?

xxxviii. We argue that the program as designed could not be replicated on a wide basis. These operations are expensive, and if not heavily subsidized, they run the risk of having to carry a heavy debt burden. The technical and management expertise for operating these farms may exist on a limited scale at present, and can only be acquired on the basis of an evolutionary of traditional farmers in the medium-term. Furthermore, it is questionable that heavily subsidized, externally implanted, modern production units will be acceptable to many existing traditional farmers. We recommend that the Government focus on changing the policy environment to make farm investments more profitable and to facilitate the process for land titling and ownership. It should concentrate on providing technical assistance to farmers who want to modernize -- in short, creating the conditions for the natural emergence of efficient and competitive small and medium scale farms (paras 3.205-3.208).

xxxix. Despite the Government's stated emphasis on agricultural development, the sector's share of financing has not kept pace with the overall growth of total investments. Investment in the sector in the past has been in favor of the development of expensive parastatals and government-owned plantation estates. In recent years, emphasis has been put on the creation of medium scale farms. The traditional sector, which contributes about 90% of value added to agriculture, has received little benefit in spite of the proliferation of the number of integrated rural development projects.

xl. The long standing issue of resource availability for agriculture has become more acute with Cameroon's current financial crisis. Budget allocations are not sufficient to finance ongoing projects and programs, and many productive activities have virtually been stopped. The portfolio of agricultural projects is large and diverse, and the lack of clear priorities has made it difficult to be selective in the reprogramming exercise. This is aggravated by the lack of systematic information on investments, inadequate evaluation of impact, and weak linkages between planning and budgeting. There is a tendency to reduce the budget across the board to the extent that no meaningful activities can be carried out. The recurrent budget continues to grow in absolute terms, but with the increasing proportion being spent on personnel. The result is a large administrative staff without the means to function. The discussion points here are means to improve the linkage between planning and budgeting and how to reprogram the dispersed investment portfolio.

xli. There is a wide scope for improvement in planning and managing the budget for the agricultural sector. The first priority would be to set up a data system to collect relevant information on budgets and expenditures and to strengthen the capacity of ministries concerned to evaluate programs and projects. Efforts are already underway in the Ministry of Planning and Development, MINPAT, MINAGRI and MINEPIA. We also recommend institutionalizing the evaluation process to provide inputs for annual budget planning by the establishment of a task force with representatives from MINPAT, the Finance Ministry, MINFI, MINAGRI, MINEPIA, and the Ministry of Higher Education, Computer Science and Research, MESRES, to regularly review the performance record of ongoing activities which received funds from the previous budget and to review the justification for new investments. Finally, a three-year rolling investment plan should be established based on well defined objectives rather than unrealistic goals and targets. Efforts should also be made to rank priorities and to reduce the number of projects in the portfolio. Non-performing projects and programs should be eliminated. Priority projects and programs in the existing investment portfolio should be projects aimed at increasing efficiency in cocoa and coffee production, livestock sector development projects, research projects, performing area development projects such as the Development Mission in the Northwest Province (MIDENO), (PAFSAT), plant protection (against desert locus and other insects), programs to improve forest management, statistical collection, and project monitoring. Investments that need to be reviewed are support to parastatals, the medium scale farm programs (CEAMI), and the IBRD-supported Cocoa Rehabilitation Project and rice projects. (Annex 5).

A Strategy for Growth and Priority Areas for Action

xlii. The last chapter synthesizes various themes and proposes a strategy for growth. This strategy is based on three principal objectives: (a) maximizing food production to ensure food security for the Cameroonian population and to exploit the comparative advantage in producing food commodities for exporting to the West African region; (b) expanding traditional exports to the extent that they can be absorbed in the world market at reasonable prices while improving on quality and diversifying the export base; and (c) creating opportunities for increasing rural employment to reduce the income gap between urban and rural areas.

xliii. We recommend an emphasis on the following factors in designing a strategy to meet these objectives: (a) intensifying agricultural production through improved crop and farm management practices (including livestock) which call for relevant research themes, effective extension advice, reliable input supplies and improved marketing opportunities; (b) raising the productivity of traditional farmer through effective research and extension messages, support to the development of genuine cooperatives serving their members, and an incentive framework that would attract small and medium size farmers and livestock owners to invest in modern technology; (c) improving efficiency in exports through increasing productivity, reducing intermediary costs, improving quality particularly in Arabica coffee, and diversifying exports wherever feasible; and (d) rationalizing the exploitation of Cameroon's rich natural resources through adjustments in forest exploitation policies to favor long-term concessions to associate forest industries and farmers in protecting and regenerating forest resources and securing land tenure for land improvement. The discussion point here is whether the Government agrees with the objectives and the proposed strategy for the agriculture sector.

xliv. The above proposed strategy translates into an action program encompassing policy and institutional reforms, and selective investments. On policy reforms, we propose emphasis on the pricing and marketing

60

framework, particularly of export crops, to relieve the budgetary burden of financial subsidies in the immediate term, while maintaining certain incentives in the production of export crops. We also support government efforts in phasing out input subsidies and privatizing distribution where appropriate (fertilizer, fungicides and livestock inputs). In areas where subsidies and government interventions are needed because of externalities, the Government should attempt to recover at least part of the cost of the services.

xlv. On <u>institutional reforms</u>, we propose that the Government withdraw immediately from productive and commercial activities that have not yielded intended benefits, such as supply and price stabilization of food crops, marketing of export crops, animal and food production, and cooperative management. The Government should also rationalize its investments in various development agencies to increase efficiency and reduce costs. Some forms of privatization could be explored, such as management contracts for plantation estates and agro-industries; joint ventures for processing industries; maintenance contracts for road improvements; and inspection contracts for quality control.

xlvi. At the time when there is a limited scope for using prices as incentives, a strategy for growth will be increasingly depend on non-price incentives. We believe that <u>the priority in public investments</u> should include: (a) research and extension oriented toward the needs of farmers and livestock owners; (b) improvements of roads and basic infrastructure to facilitate marketing and technical support to farmers; (c) assistance in institution building, such as technical support to cooperatives and other farmer associations, pricing and marketing information, early warning systems, provision of land tenure, and forest management and conservation; and (d) support for enhancing management capacity, particularly through the use of resource allocation mechanisms to sharpen policy review and ensure implementation of priority investments. <u>The discussion point here is whether the Government agrees with the priority areas for actions to support the strategy outlined above</u>.

xlvii. As already mentioned, the Government will have to create a favorable environment for private investments to substitute for public intervention. The rationalization of the public investment portfolio is a step toward encouraging private investment. Elimination of excessive administrative control and simplification of import/export procedures will enhance private interest. Finally, the Government should explore means to encourage existing financial intermediaries to finance development loans in agriculture, based on sound financial disciplines.

xlviii. With the implementation of the proposed strategy, we project sector growth at about 3% in the immediate term (1989/90), 4.1% in the medium term (1990/95), and a recovery to match the historical record of 4.4% in the longer term (1995/2000). Without adjustments, the sector is expected to stagnate in the immediate term, grow at 2.5% per annum in the medium-term. Details of the basis for these projections are provided in the report. <u>The discussion point here is the probability of achieving the expected growth</u>.

61

xlix. Donor support to Cameroonian agriculture has been broad-based and until recently, heavily concentrated on area development and commodity specific projects. The performance of externally financed projects has been mixed, but overall, these projects have not contributed significantly to sector growth. Donor support, however, has contributed to the proliferation of administrative structures and helped to complicate Cameroon's internal budget and evaluation process. In recent years, the larger donors have begun to take a sector approach to lending for agriculture in Cameroon. Given this emerging reorientation of donor activity toward sector support, it will be necessary that the donors maintain closer coordination than in the past. The discussion here is the mechanism for donor coordination. We believe that the Government is the main actor for coordinating donor activities. It should articulate the strategy and define investments for which donor assistance would be sought.

l. Past Bank support for agriculture in Cameroon has evolved from plantation estates to smallholders, and in recent years, toward sector lending. The impact of Bank lending on agriculture has been limited, partly because the Bank has emphasized physical targets rather than policies and institutional development. The pursuit of the policy dialogue, until recently, has not been productive due to the lack of any mechanism in Cameroon for inter-ministerial coordination.

li. In line with the strategy outlined above and lessons learned from the past, we recommend a new direction for Bank lending with a focus on institutional building and policy reform. On institutional building, a National Agricultural Research Project is under implementation. It is important that this project be oriented more toward applied research and respond to the need of smallholders. A National Extension and Training Project is under preparation to link research to extension and to reach a majority of farmers. The Livestock Sector Development Project approved by the Bank will in January 1989 link livestock to crop management through improved extension services, to build up the planning capability of MINEPIA, to improve on pasture management, and to build up producer associations.

lii. Policy reforms in pricing and marketing, input subsidies, cooperatives, and forestry exploitation and conservation are actively pursued under the Structural Adjustment Loan (SAL) to be approved in FY89. The Livestock Sector Development Project also pursues policy reforms through the privatization of veterinary services, and full cost recovery for all clinical services and drug distribution.

liii. Future lending would be programmed in three operations: A Food Security Project will follow the SAL to deepen the policy dialogue initiated under the SAL, improve food distribution and address poverty related problems which are the major causes for food insecurity in Cameroon. A Forestry and Environment Project would further extend the reforms on the fiscal and legislative framework for forest exploitation and conservation in support to investments for forest management, and for protection of the existing ecosystem. An Export Promotion and Diversification Project would focus on the promotion of traditional and non-traditional exports through both policy refinement and institutional support, and would provide credit for the private sector to invest in these industries.

liv. The above programs would involve donor participation. We expect that these projects would make up a core investment program for the sector, and thus considerable external financing would be forthcoming. If this approach is successful, we propose an Agricultural Sector Management Program, in which external donors would agree with the Government on the core programs and projects, and the related recurrent expenditure. External financing then would be a time-slice of the Government's overall investment program in the agricultural sector.

lv. The proposed lending program has been discussed with the Government and preparation has been started for the Food Security and the Forestry and Environment Projects. We plan to develop detailed terms of reference for the Export Promotion and Diversification Project, to be discussed with the Government in April/May 1989.

Export Crops

2.10. The performance of export crops over the last 25 years[5] has been mixed. Among the major export crops, cotton and Robusta coffee showed significant increases, while cocoa and Arabica coffee production decreased. Palm oil and rubber, which are not significant in terms of exports and incomes, also showed increases.

2.11. Cocoa production has moved erratically, with sporadic increases and declines. The overall performance has been poor due to the aging of trees (about 45% of the tree stock is older than 20 years), a result of insufficient new plantings and replantings. The average yield is about 380 kg/ha, but varies significantly by producing region: yields are highest in the Southwest, at 600 kg/ha and lowest in the East, with a mere 200 kg/ha. Low producer prices over the 1974/78 period, especially in comparison with Côte d'Ivoire, were thought responsible for poor performance. However, during the 1978/87 period, prices were higher in Cameroon and performance did not improve. Non-price factors such as restricted manpower policies, inadequate investments in roads, erratic input supply, inadequate research, and poor institutional support to farmers, have also contributed to the overall decline. Problems with blackpod disease, as well as with capsid and other pests (which are related to both labor and input supply problems), also contribute to the poor growth in cocoa production.

2.12. Arabica coffee production fluctuated widely between 1971 and 1983, before severe drought conditions caused a severe drop in 1983/84. Production has not recovered, and as a result, the overall output for the 1971/87 period declined at an annual rate of 2.6%. Arabica cultivation is afflicted by problems similar to those in the cocoa sector. Yields are low and have been dropping steadily. The major contributing factors are failure to replace aging plantations (9% of the trees are less than 4 years old, while 22% are over 25 years old);- lack of effective disease control programs,- inefficiencies associated with the fertilizer delivery system,- and unfavorable relative prices. The ratio between producer prices for Arabica coffee and maize is low in Cameroon and has been declining since 1971. The high price and lower labor intensity of maize makes it a more attractive crop than Arabica coffee. The practice of inter-cropping Arabica coffee with food crops and the fact that women are solely responsible for food crops and for maintenance of Arabica coffee also contribute to low yields of Arabica (presently estimated at 250-350 Kg/ha). It has been reported that women give more attention to food crop production because food crops are the sole source of income to women. Revenues from Arabica coffee are retained by men.

2.13. Unlike Arabica coffee, Robusta coffee output increased modestly between 1971 and 1987. There are a number of reasons for this difference. First, Arabica is grown at higher altitudes than Robusta and the land available for area expansion is limited and generally heavily populated. Second, for those farmers who do produce both crops (mainly in the Northwest Province), domestic price differentials between Arabica and Robusta have become less favorable, despite a growing price differential in world markets. The differential was CFAF 110/kg in favor of Arabica in 1976. It has declined steadily since 1976 and has been just CFAF 35/kg since 1984. As a result, more Robusta coffee was planted and Robusta share of total coffee output increased (from 68% in 1971 to 87% in 1987). The age distribution of the Robusta tree stock is now much more favorable than it is for either Arabica coffee or cocoa. Overall, almost 50% of the trees are under 12 years old and only about 20% are over 25 years old. As a result, the average yield from Robusta coffee is twice that of Arabica.

2.14. Growth in cotton production is the result of area expansion and, more importantly, yield increases (yields increased from about 400 kg/ha in 1971 to about 1.3 tons per ha in 1984). Cotton production is supported by a parastatal, SODECOTON, which has provided good linkages between research and extension, established effective support services to farmers (though at a high cost), and maintained favorable producer price incentives. In fact, Cameroon is the only country among the major eight cotton producers of West Africa to have experienced a regular increase in the producer price index. This pricing policy, coupled with effective assistance to farmers, has contributed to the high rate of growth.

2.15. Rubber and palm oil production increased significantly as a result of government investment in plantation estates. However, the economic rationale for investing in these crops based on plantation agriculture is not favorable. Asian producers have developed a high comparative advantage in producing these crops, partially because of lower management and labor cost. This has led to the consideration of promoting the "nucleus estate" to involve smallholders in the production process to reduce costs. Cameroon can benefit from the experience of Côte d'Ivoire where such a system has proven profitable (but with private management, free market prices, uncontrolled marketing and no subsidies).

Livestock

2.16. The livestock population was estimated in 1986 at 4.4 million cattle, 5.3 million sheep and goats, about 1 million pigs and 14 million poultry, with a total annual production of 120,000 tons of meat, 45,000 tons of milk, and 2,300 tons of eggs. Per capita meat consumption is about 15 kg per year, resulting in an annual demand of 160,000 tons. To satisfy its demand, Cameroon imports nearly 100,000 cattle on the hoof from the Central African Republic and Chad, and about 20,000 tons of meat from overseas (half of it in the form of heavily subsidized, low grade frozen beef from the European Economic Community).

2.17. Cameroon's livestock sector suffers from high mortality rates (5% to 10% in adult cattle and small ruminants, and 20% to 40% for young stock). This is due partly to poor delivery of animal health services and partly to unreliable availability of appropriate inputs. Appropriate technology for increasing livestock production exists and Cameroon's natural range lands are capable of producing enough to feed a considerably expanded national herd. With improvement in animal health services, better management of range land, and support to semi-intensive production of livestock, such as poultry farm, the sector could significantly reduce the national deficit in livestock trade and increase its contribution to the economy.

Agro-Industry

2.18. The agro-industry subsector includes processing industries in food and beverages, textiles and clothing, leather and shoes, wood and wood products, paper and paper products, and rubber and rubber products. These industries produce for both domestic consumption and export. Their cost structures range from high efficiency (food and beverage, which are relatively labor-intensive, and primary wood processing, which are local resource intensive) to medium efficiency (the textile and shoe industries). The rubber-related industries are relatively resource inefficient (DRC about 1.33). The potential for developing agro-industries is great due to Cameroon's abundant raw materials and entrepreneurial human resources. However, the subsector is constrained by policy distortions which give high and variable rates of effective protection between industries. This is compounded by legislation offering duty exemptions to imported materials while taxing local production, resulting in high material import content and reducing linkages between agriculture and agro-industry, and limiting the development of activities based on Cameroon's comparative advantage.

66

B. Export Development and Diversification

Export Performance

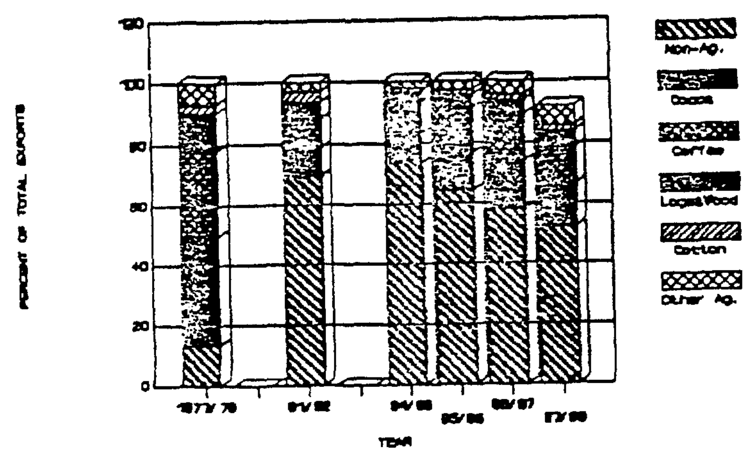
3.39. Cameroon has a diversified base for exports relative to other countries in Africa. Its concentration, however, has been on the exports of traditional crops such as cocoa, coffee and cotton, which account for about 80% of agricultural exports. Other exports include timber products, tobacco, rubber, bananas, palm oil and palm kernels (Table 12). As oil exports became more important in the 1980s, the share of agricultural exports declined (from about 87% of total exports in 1977/78 to the lowest level of 27% in 1984/85). Since 1985, however, agriculture has regained its importance, accounting for almost 50% of total exports in 1987/88 (Figure 3).

Table 12. Export Performance

Product	1977/78	1981/82	1984/85	1985/86	1986/87	1987/88
			(in millions CFAF)			
Cocoa and cocoa products	68,869	43,931	106,517	95,300	87,300	72,400
Robusta and Arabica coffee	53,954	45,283	111,201	111,600	82,200	61,200
Logs and Wood Products	23,019	25,365	36,118	33,169	24,910	27,200
Cotton	5,551	16,753	12,983	13,910	10,791	9,900
Others	13,075	13,920	23,731	23,098	24,309	31,600
Agricultural Exports	164,468	145,252	290,550	277,009	229,510	243,500
Total Exports	190,090	479,786	1,094,471	779,709	546,710	510,900

Source: MINPAT.

Figure 3. Share of Non-Agricultural and Agricultural Export Revenues, 1977/78, 1981/82 and 1984/85-1987/88



3.40. Cocoa and its derived products are the most important export crops in Cameroon, accounting for 30% to 40% of agricultural exports. Cameroon is the world's fifth largest cocoa producer and has a market share of about 8%.

Its export volume stagnated at around 90,000 tons between 1977/78 and 1985/86 (Statistical Volume, Annex 3). Since then, while export prices have fluctuated widely, exports have begun to decline. Cameroon's cocoa beans are bought entirely by cocoa processors, rather than chocolate manufacturers, because of its high fat yield and strong red coloured powder. These attributes make Cameroonian cocoa attractive for conversion into cocoa butter and cocoa cake/powder.

3.41. Because of the special characteristics of Cameroon cocoa beans, cocoa exports are concentrated in a few major markets where there are a large number of processors, notably in the Netherlands and The Federal Republic of Germany. These two countries account for 90% of Cameroon's cocoa exports, with the remaining share going to France, the Soviet Union, and Spain. While the Dutch and West German processors are prepared to pay a premium for Cameroon cocoa because of its particular characteristics, its market share in other countries depends on competitive pricing. In fact, Cameroonian beans command the lowest price of all the major cocoa imports in France. It appears that the prospect for diversifying markets is limited, unless Cameroon's cocoa can be sold at a very competitive price.

3.42. The bulk of the Cameroonian cocoa crop reaches consumer countries in the form of cocoa beans, as processors have limited capacity to absorb processed cocoa products. Buying cocoa products limits the processors' flexibility to manufacture their own intermediate products according to their own particular recipe. France is the major market for Cameroon's intermediate cocoa products (the French company Groupe Barry has interests in cocoa processing in Cameroon). This linkage, however, limits exports of Cameroon's intermediate products in the international market as they are produced for a particular group of consumers. Thus, the prospect for diversifying cocoa exports by developing intermediate products is also limited.

3.43. Robusta Coffee. Export of Robusta coffee grew from a level of about 54,000 tons in 1977/78 to about 77,000 tons in 1985/86, then declined to about 56,000 tons in 1987/88. It accounted for about 30% of agricultural exports, second to cocoa. Coffee is exported mostly in the form of beans to a more diversified market than in the case for cocoa. In 1985/86, France, the Netherlands, The Federal Republic of Germany and Italy accounted for three quarters of Cameroon's export market. The remaining coffee goes to a number of countries in Europe, to the United States and to Japan. Cameroon, in principle, has an international quota of about 75,000 tons (including Arabica). This resulted in stock accumulations as high as 72,000 tons by 1986/87, but as of June 1988, stocks were reduced to 30,000 tons. Because of their poor flavor and quality, coffee beans are processed in limited quantities for export. The market for processed products is also limited because consuming countries prefer to process and mix coffee from various origins to their own tastes.

3.44. Arabica Coffee. Arabica coffee accounts for about 5% of agricultural exports. The volume of exports grew from about 15,000 tons in 1977/78 to about 28,000 tons in 1983/84, then declined to about 12,000 tons in 1986/87. Export prices have declined sharply since 1985/86. Exports of Arabica coffee are handicapped by poor and inconsistent bean quality. As discussed in previous sections, poor husbandry practices by farmers coupled with disincentives for producing good quality beans have resulted in heavy discounts for Cameroon is

69

Arabica coffee in the international market 3/. This is unfortunate because Arabica coffee commands a higher price than Robusta coffee in the world market. Improved quality would bring higher export revenues to the Government.

3.45. Cotton. Although cotton exports account for less than 5% of agricultural exports, it is an important product for the development of the northern region, which has a quarter of the total Cameroon population. Cotton exports have increased significantly in volume since 1977/78, mainly because of a successful effort by SODECOTON to boost cotton productivity. Export revenues and profitability suffer, however, from the decline in world market prices which began in 1985/86.

3.46. Timber Products. Timber is Cameroon's fourth most important export, following petroleum, cocoa and coffee. About two-thirds of timber exports are in the form of logs, with the remainder in the form of processed wood such as plywood and veneer. Exports of logs remained at about the same level from 1973-75 to 1983-85 (about 600,000 m3 per year), and exports of sawn timber, plywood and veneers also remained stable, at about 100,000 m3 per year. In terms of value, timber exports increased from CFAF 20 billion per year in the mid-1970s to peak at CFAF 25 billion in the early 1980s, but since then has shown no growth. The principal importers of logs from Cameroon are the European Common Market countries, which purchase 85% of Cameroon's log exports. The most important markets for logs are Belgium, Spain, France, the Federal Republic of Germany, Italy and Greece. A major part of sawn wood production also goes to EEC countries. Plywood and veneer are exported almost exclusively to France.

Key Issues

3.47. Competitiveness of Cameroonian Export Products. Agronomically, with the exception of palm oil, Cameroon has a comparative advantage in producing most export crops. The high cost structure of the economy, fueled by oil revenues and aggravated by the U.S. dollar's slide against the CFA Franc, has made Cameroonian export products hardly competitive. The high cost structure is induced by the oil revenues and by high rates of rural exodus as the population has migrated in search of higher wage jobs. The returns to labor from cultivating export crops are slightly above the minimum wages in the cities in the public sector, comparable to minimum wages in the private sector, and well below returns to labor from cultivating maize, as demonstrated in Table 13.

3/ Cameroon Arabica coffee is sold at CFAF 920 per kg compared to Kenyan Arabica coffee at CFAF 1380 per kg (cif. France) (Marche Tropicaux, September 1988).

C. Structure of Incentives

3.64. The level of government intervention in pricing and marketing agricultural produce is relatively high in Cameroon. For major export crops, the Government sets producer prices, regulates marketing, and sets distribution and profit margins. Except for rice, food crops are not, de facto, subject to price controls, despite the fact that the Government has had the authority to set retail prices for food crops since 1972. Export taxes are levied on the majority of agricultural products, and import tariffs are levied on most import substitutes. The following section analyzes pricing and marketing issues related to major export crops and import substitutes, and proposes an incentive structure that reflects changes in world market conditions in the short and medium term.

Export Crops

3.65. The structure of price incentives varies between export crop subsectors. Annex 2 presents profiles of the different subsectors with respect

71

to their structures of production, pricing policies, marketing networks, input supply systems and technical support services. The following discussion concentrates on major themes that are common to the subsectors.

3.66. Existing Government Policies. Output prices are set by the Government in most export crop subsectors. For smallholder crops (cocoa, coffee and cotton), producer prices are set annually by government decree, based on recommendations by ONCPB. For cocoa and coffee, ONCPB computes an annual price schedule (*barème*) that sets remuneration margins for each step of the marketing process. The *barème* is used to calculate "equilibrium prices", which are in turn used to compute the variable levy on agricultural products. If world prices exceed the equilibrium price, ONCPB in effect, imposes a tax equal to this difference on exporters. When world prices fall below the "equilibrium price", ONCPB subsidizes exporters out of the stabilization fund accumulated from the "surplus years". Thus, ONCPB assumes the entire risk of price fluctuation in world markets by assuring a fixed price to exporters and producers. A price schedule is not published for cotton as SODECOTON, a parastatal responsible for production and marketing of cotton, has an export monopoly. Its costs are deducted from the export price. The same method of stabilization used for cocoa and coffee is applied to cotton.

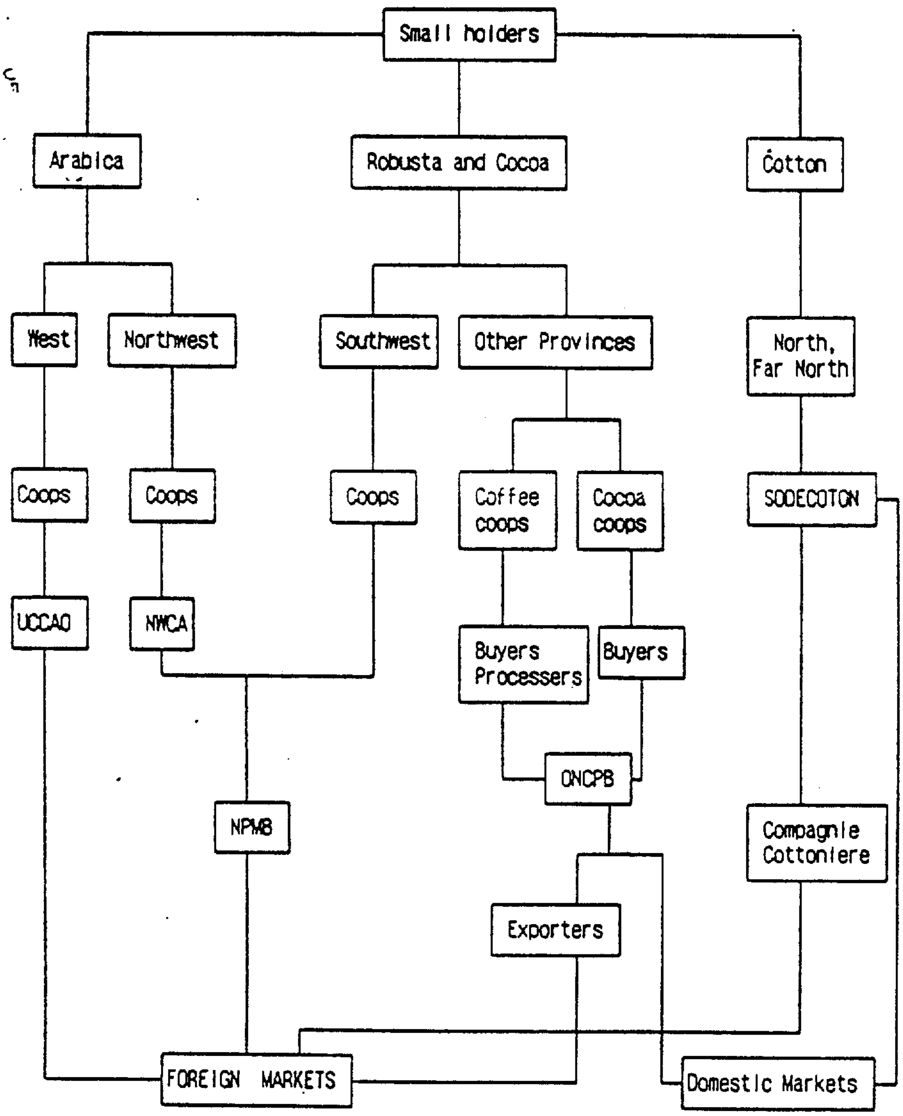
3.67. Wholesale prices for palm oil and rubber are fixed by the Government in consultation with the major estates. Producer prices are then set to permit the estates to cover all processing and handling costs. The official producer price applies to purchases from farmers affiliated with the estates, but it is not enforced in private palm oil marketing networks. The industrial producers are then left to absorb gains and losses, and no subsidies are granted for inputs used by them.

3.68. All export crop marketing networks are subject in some way to government regulations or controls. Except for Arabica coffee produced in the West, ONCPB has a monopoly in marketing cocoa, coffee, and cotton (export of palm kernels is insignificant). It delegates internal marketing to cooperatives, traders, or parastatals, and external marketing to some private traders. In the case of cotton, it authorizes SODECOTON to collect, process and export cotton produced by smallholders. Rubber and palm oil are exported by parastatals and private industries.

72

3.69. The marke ting network for major smallholder crops, cocoa and coffee and cotton, is extremely complex, and varies by products and by region. Figure 4 traces out the network.

Figure 4. Marketing Circuits



Source: Bank Files, J. Schwettmann, 1987.

13

3.70. In the West, the Union Centrale des Coopératives Agricoles de l'Ouest (UCCAO) has a monopoly to purchase and export Arabica coffee. UCCAO is made up of six department-level cooperatives, themselves divided into sections and centers. The annual producer price is fixed by government decree. UCCAO is reimbursed for its marketing costs according to a fixed price schedule established by ONCPB. UCCAO's Arabica exports are subject to an export duty (32% of the crop's valeur mercuriale), and a fixed ONCPB levy (CFAF 38/kg). UCCAO retains all profits and generally redistributes them to farmers after reserving a certain amount for stabilization purposes and for certain investments (such as processing equipment) related to the subsector.

3.71. In the Northwest, the Northwest Cooperatives Association (NWCA) also has a monopoly to purchase cocoa and coffee, but it has to sell them to the National Produce Marketing Board (NPMB), the Limbé branch of ONCPB. NWCA is given a block buying allowance which covers handling, processing and marketing costs. This is apparently inadequate, as the cooperatives are constantly in financial difficulty and payments to farmers are often late. As a result, Northwestern farmers often attempt to sell coffee through the West Province. Similar arrangements exist for cocoa and coffee produced in the Southwest region, except for a "free market zone" in the Kumba Central Sub-Division where cooperatives and private traders compete (but within distribution margins authorized by NPMB). In this case, farmers prefer to sell to private traders because of prompt payment and the possibility of loans against the value of the coming crop, albeit at a high interest rate.

3.72. In other Francophone areas, ONCPB sets an annual price schedule (barème) specifying levels of remuneration for all marketing activities performed from farmgate to port. In general, cooperatives have a local monopoly in primary collection and processing. Private traders (acheteurs agréés) are then responsible for marketing up to the time of export. They are licensed annually by presidential decree, given a buying quota and authorized buying areas. Some private traders are authorized by ONCPB to export directly (auto chargement), but most of them export under terms and conditions negotiated by ONCPB.

3.73. Key Issues. The system of fixing prices independently of world market trends has imposed heavy taxation on farmers. The level of taxation for cocoa ranged between 24% and 76% from 1970 to 1985 and for coffee between 35% and 76%. Despite consecutive nominal increases in producer prices that have made current producer prices some of the highest in West Africa (Table 15), real prices have often declined.

Table 15. Producer Prices in Selected Francophone Countries (1987-88 FCFA/KG)

	Cacao	Cafe Robusta	Coton
Cameroun	450	470	155
Cote d'Ivoire	400	400	115
Senegal	-	-	100
Togo	360	400	105
Car	-	380	100
Niger	-	483	105
Congo	320	215	-
Gabon	430	260	-
Benin	-	330	110
Equatorial Guinea	400	-	-

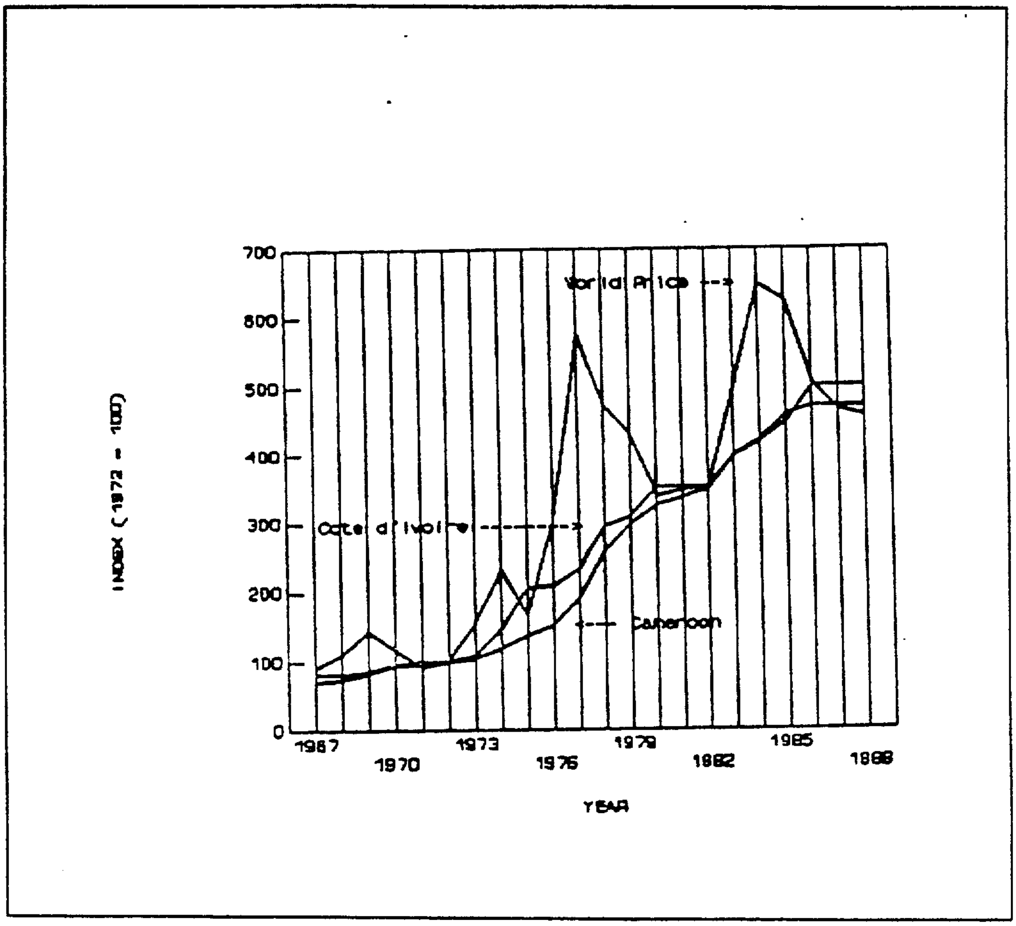
Includes a year-end bonus (ristourne) of CFAF 30/k of cocoa and coffee and CFAF15/kg of cotton.

3.74. The fixed prices and the retention of revenues by the Government in times of favorable world markets have constrained the adjustment of investment and production in response to higher world prices in the past. A comparison of cocoa performance between Côte d'Ivoire and Cameroon points out that during the 1970s (Figure 5), higher producer prices in Côte d'Ivoire led to substantial real income gains for producers, who responded with a massive planting effort that effectively tripled Côte d'Ivoire's capacity, and ensured export supplies for the next 20 years. Cameroon, on the other hand, chose to stabilize prices at lower levels and the result was that producers had much less incentive to plant. Other non-price factors such as Côte d'Ivoire's greater supply of labor (much from Burkina Faso) and easier access to markets also explain the differences in performance. The comparison calls into question the value of Cameroon's price stabilization scheme. It is often viewed as a mechanism to insulate producers from the vagaries of an unstable market. In practice, it has removed the opportunity for producers to capture windfall rents during price booms. In time of world price declines, by keeping domestic prices fixed and relatively high, it eliminates the signal to farmers to reduce production, and increase production of other commodities for which prices become relatively higher. Of the six major cocoa producing countries in the world (Côte d'Ivoire, Brazil, Malaysia, Cameroon, Ghana and Nigeria), three transmitted price increases during the 1970s to producers; all three experienced large increases in planting and have assured themselves of substantial market shares into the next century.

15

The other three are faced with deteriorating tree stocks in a market with soft prices and substantial supply increases from the first three producers.

Figure 5. Comparison of Cameroon, Côte d'Ivoire, and International Cocoa Price Index (1972 = 100)



3.75. The recent decline in world market prices no longer permits raising producer prices. It is estimated from Table 15 (para 3.73)that Cameroon has to subsidize about CFAF 100 to 150/kg of coffee and cocoa exported. The level of subsidy is estimated at about CFAF 20 billion since 1987/88. SODECOTON reported an accumulated loss since 1985/86 of about CFAF 45 billion (CFAF 13.5 billion in 1987/88). In principle, the stabilization funds, estimated at about CFAF 114 billion in 1985/86, 6/ should be able to cover this subsidy. However, in practice, only part of the subsidy was paid, probably due to the illiquidity of the banking system. With a slim chance for recovery in world commodity prices,

6/ ONCPB Balance Sheet, 1985/86:

Cameroon has lost the golden opportunity to use producer prices as an incentive for rebuilding its tree stock. The relevant question is whether ONCPB can sustain its stabilization role at present producer prices and exchange rates. World prices for cocoa and coffee and exchange rates projected for the short and medium-term would involve a yearly deficit of CFAF 30 billion well beyond 1990. A reform of the Government's pricing policy seems therefore unavoidable. This reform should include the introduction of a more flexible price fixing mechanism to better reflect the changes in world markets and exchange rates.

Table 16. Cocoa and Coffee Financial Balance
(CFAF per kg)

	COCOA			ROBUSTA COFFEE			ARABICA COFFEE		
	1987/88	1988/89	1989/90	1987/88	1988/89	1989/90	1987/88	1988/89	1989/90
Export Price (CIF)	653	567	542	625	618	655	735	850	855
External Marketing Cost	49	42	42	51	51	51	51	51	51
Export Price (FOB)	604	525	500	574	567	604	684	799	804
Internal Marketing Cost	141	126	126	234	234	234	291	291	291
of which Taxes	65	65	65	73	73	73	83	83	83
Producer Price	420	420	420	440	440	440	475	475	475
ONCPB Balance	43	-21	-46	-100	-107	-70	-82	33	38
Year-end Bonus	30	15	15	30	30	30	40	40	40
Subsidies	86	86	86	32	32	32	44	44	44
ONCPB overhead	43	43	43	43	43	43			
Other costs	17	17	17	47	47	47			
ONCPB Net Balance	-133	-182	-207	-222	-229	-192	-126	-11	-6
Government Taxes	65	65	65	73	73	73	83	83	83
Net Deficit	-68	-117	-142	-149	-156	-119	-43	72	77

Source: Export prices for 1987/88 and 1988/89 are from ONCPB's submission to mission in July and November 1988
Export price for 1989/90 and exchange rate is from the World Bank Projection
Other information on costs, subsidies, and taxes are derived from ONCPB annual price schedule, and from Schwetman's report

3.76. For cocoa and coffee, the restricted entry into marketing and fixed remuneration system is intended to protect producers from uncompetitive buying situations and limit traders opportunities to collect economic rent. In practice, the system has promoted inefficiencies in export crop marketing without bringing any particular benefit to producers. Remuneration levels for marketing agents are based on average cost estimates plus a government-determined margins. As such, they do not adequately reflect changing real opportunities connected to domestic supply and world market conditions. In fact, the system tends to encourage inefficiency as the marketing margin is set to keep small but inefficient traders in business. As demonstrated in Table 17 below, internal marketing costs have increased significantly since 1981/82, especially relative to direct taxes and external marketing costs.

Table 17. Evolution of Intermediary Costs

Item	Cocoa			Robusta Coffee		
	1981/82	1987/88	% Change	1981/82	1987/88	% Change
Export Prices (f.o.b.)	524	604	15	609	510	-16
Ext. Marketing Cost	40	49	23	44	44	0
Int. Marketing Cost	57	81	42	74	97	31
Taxes	65	65	0	89	94	6
Producer Prices	310	450	45	330	470	42
ONCPB margins	92	8	91	116	-15	-230

Source: Etude Diagnostique de l'ONCPB, AGRER.

3.77. The relative importance of traders and cooperatives in given areas is determined administratively, and traders are allocated export quotas and specific buying regions. Limited competition creates opportunities for traders to collect rents, discourages cooperatives from minimizing costs, and often functions to the disadvantage of producers. This occurs through misreporting output/weight, delays of payment to farmers, and mixing of produce of various qualities. In areas where some competition exists (but within the distribution margins allowed by ONCPB) farmers are better served by marketing agents. These farmers have ready access to cash advances and receive prompt payments (i.e., in the "free marketing zone" for cocoa in the Southwest). In addition, the practice of assigning zones of operation, which change every year, also tends to create a mistrust among traders, cooperatives and farmers. Some of the recurrent problems, such as cooperatives' lack of advances for crop purchases, farmers' liquidity problems before harvesting season, and produce quality could be reduced significantly if some freedom were permitted in the buyer/seller relationship, including free entrance to marketing and exporting.

3.78. Apart from its monopoly power in marketing cocoa, coffee and cotton, ONCPB is responsible for quality control and administration of the stabilization funds, and represents Cameroon in international negotiations for exports of these three products. Quality control starts with primary verification at the farm level and ends at the time of export. Experience has shown that primary quality control, which is estimated to cost about CFAF 15 to 18/kg of cocoa and coffee exported, has not done much to improve produce quality. 7/ On the contrary, the process tends to delay the marketing process, since no business transaction can take place between farmers/cooperatives and traders without the presence of the ONCPB quality control agent (vérificateur). Quality control at the border, on the other hand, is much more effective and less costly due to economies of scale. 8/ The introduction of the "good fermented" premium for cocoa at the time of export has provided much better results for improving quality. Thus, it appears that ONCPB can save about CFAF 2 billion, without affecting the quality of cocoa exported, by eliminating the primary quality control process. Furthermore, given the premium Cameroon cocoa commands in the world market because of its high fat yield and red powder characteristics, it is not cost-effective for ONCPB to invest heavily in quality control at the primary collection level.

3.79. On the other hand, Arabica coffee exports are discounted heavily because of poor quality. This is due to poor primary processing (depulping, washing and drying) by farmers. The lack of adequate equipment, water, and extension advice may be partly responsible for poor quality. More importantly, the price differential between well-washed and dry coffee (bon grain) beans and poorer quality beans is only CFAF 35/kg, while the process is estimated to cost about CFAF 100/kg. Given the poor prospects for an increase in international

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7/ In 1985/86, ONCPB reported that the lower quality cocoa "hors standard" was about 15% (without ONCPB's interference in the Southwest) while in the Francophone areas, the reported figure was only 5%.

8/ In Ghana, quality of cocoa exported improves significantly when official quality control service is introduced at the export stage.

coffee prices, Cameroon will have to compete on quality for higher prices. Thus, it will have to widen the price differential for different qualities, or allow traders/cooperatives to purchase coffee cherries from farmers at half of the dry bean price.

3.80. Since 1983/84, ONCPB has instituted a policy of paying a premium to farmers after the marketing season (usually in July). In principle, the premium is regarded as a year-end bonus to reflect the quality of cocoa delivered and the overall industry performance over the year. This has now become institutionalized as a second payment that farmers are regularly entitled to receive. Even in a year when world market prices fall below export parity prices, ONCPB is still authorized to pay the bonus (CFAF 30/kg for coffee and cocoa and CFAF 15/kg for cotton). Furthermore, it is costly for ONCPB to mobilize its staff to pay individual farmers. In 1984/85 the cost was about CFAF 1.4 billion, which could be reduced by incorporating bonus payments in prices for the following season.

3.81. The operating costs of ONCPB have grown significantly since 1981/82, as presented in Table 18. They have increased from CFAF 22/kg of cocoa and coffee exported in 1981/82, to CFAF 87/kg in 1985/86, an increase of almost 300% over five years. At the same time, exports for the two crops have remained stagnant at 200,000 tons. A large part of increased marketing costs is due to resources allocated by ONPCB to the primary quality control program created in 1983/84.

Table 18. Operating Costs of ONCPB 1981/82 - 1985/86

Item	1981/82	1982/83	1983/84	1984/85	1985/86
			(CFAF billion)		
Personnel	2.6	3.2	4.0	4.3	6.4
Other Operating Cost	2.5	4.0	5.1	6.9	13.1
	5.1	7.2	9.1	11.2	19.5
Volume of exports (tons) (Cocoa/Coffee)	205,376	199,920	223,555	195,697	201,362
Cost Per kg. */	22.3	32.4	36.6	51.5	87.2

*/ Assuming 90% allocation to cocoa and coffee.

Source: Various information notes provided to IBRD and IMF missions by ONCPB.

3.82. Marketing of cotton, handled exclusively by SODECOTON, is relatively efficient, though at a relatively high cost. The cost price (prix de revient) for SODECOTON has gone from CFAF 630/kg of fiber in 1983/84 to CFAF 735/kg of fiber in 1987/88. Compared with other cotton producing countries in West Africa, where the same system is applied, Cameroon ranks among the highest cost producers. In recent years, because of the fall in world cotton prices, SODECOTON has encountered serious financial difficulties. Various measures to

79

reduce management inefficiencies have been taken, but the effort has not compensated for the significant deficit, estimated at CFAF 45 billion by 1987/88. Much of the blame has to be put on the generous producer price relative to other Francophone countries. With poor prospects for a significant increase in world cotton prices in the medium-term, it is doubtful that the current producer price can be sustained.

3.83. A lower producer price for cotton will have a serious impact on northern farmers, who already have the lowest incomes in the nation. However, it will not have a significant effect on production, which is fairly supply inelastic within the range of producer prices likely to be applied, and because it is almost the sole source of cash income in the Northern province. In fact, in 1987/88, the producer price was effectively reduced from CFAF 140 to about CFAF 126 by the introduction of lower prices for lower qualities. This has not yet had any effect on output, suggesting that prices could be further decreased without a significant reduction in output. In the absence of a price decrease, input supply programs will likely be reduced due to lack of funds. This will probably have a more serious impact on production than would lower producer prices.

3.84. The fall in prices for rubber and oil palm has also caused the large public agro-industrial complexes to run serious financial deficits and forced private companies to close down. The issue here is whether an export subsidy should be granted to products in which the country does not fundamentally have a comparative advantage, as is the case for palm oil. The consideration goes beyond economic efficiency, as the withdrawal from these industries would affect about 100,000 employees and deprive Cameroon a means for diversifing exports. In the short-term, the Government has little choice but to assume the financial deficits of these parastatals, and should begin immediate efforts to increase efficiency by raising productivity and cutting costs. In the medium-term, except for compensation for an overvalued exchange rate, the choice of crops to grow should be dictated by their relative profitability in world prices.

3.85. Flexible Pricing System. The pricing policy for export crops in Cameroon has several contradictory objectives: (a) to provide sufficient incentives for production and to ensure adequate incomes to farmers; (b) to allow reasonable intermediary costs for private traders, parastatals and cooperatives; and (c) to generate state revenues. As demonstrated above, this system has generated important resources to the Government, but it has not provided sufficient incentives for increasing production and improving product quality. Raising producer prices at this stage, given the financial straits of the Government, is not a relevant policy option. On the other hand, letting domestic prices fluctuate to reflect world market conditions, but reflecting an overvalued exchange rate, would impose a large burden on farmers.

3.86. A pricing system that would eliminate the rigidity in prices, distribute gains and losses caused by fluctuations of world market prices, encourage competition among marketing agents in order to increase efficiency, minimize state intervention, maintain certain incentives for production, and encourage efficient crop selection and husbandry by farmers is called for. These multiple objectives could be achieved by adopting a flexible pricing system which links producer prices to world prices while guaranteeing producers a floor price. The system would impose progressive taxes on the difference between world and floor prices when world prices were relatively higher and would provide support when world prices were relatively lower than floor prices. Moreover, the revenue generating objective of the Government would also be accommodated. An efficient marketing system for both outputs and inputs, and the liberalization of internal and external trade, are necessary ingredients for such a system to fully benefit producers.

3.87. The level of floor prices should be such that the return to labor would be at least equal to the opportunity cost of labor. A level of CFAF 330/kg of cocoa, 350/kg of Robusta coffee, 450/kg of Arabica coffee and 100/kg of cotton would be appropriate as floor prices. The returns per manday for each of these crops are estimated in Table 19. The variable support/levy system should be transparent and easily administered. An example of the proposed flexible pricing system for cocoa is detailed in Annex 3. This shows that when the export parity prices rise above the support level, farmers will get a growing share of the profits.

Table 19. Returns to Labor at Current Prices and Proposed Floor Prices

Crop	Traditional		Improved	
	Current Price	Floor Price	Current Price	Floor Price
Arabica				
Producer Price (CFAF/kg)	475.0	450.0	475.0	450.0
Yield (kg/ha)	250.0	250.0	350.0	350.0
Revenues ('000 CFAF/ha)	118.8	112.5	166.3	157.5
Costs ('000 CFAF/ha)	26.0	26.0	48.0	48.0
Net Benefits ('000 CFAF/ha)	92.8	86.5	118.3	109.5
Mandays/ha	85.0	85.0	101.0	101.0
Net Benefits/md/ha (CFAF/md)	1,091.2	1,017.6	1,170.8	1,084.2
Robusta				
Producer Price (CFAF/kg)	440.0	350.0	440.0	400.0
Yield (kg/ha)	425.0	425.0	625.0	625.0
Revenues ('000 CFAF/ha)	187.0	148.8	275.0	250.0
Costs ('000 CFAF/ha)	20.3	20.3	39.6	39.6
Net Benefits ('000 CFAF/ha)	166.7	128.5	235.4	210.4
Mandays/ha	100.0	100.0	138.0	138.0
Net Benefits/md/ha (CFAF/md)	1,667.0	1,284.5	1,705.8	1,524.6
Cocoa				
Producer Price (CFAF/kg)	420.0	330.0	420.0	330.0
Yield (kg/ha)	260.0	260.0	480.0	480.0
Revenues ('000 CFAF/ha)	109.2	85.8	201.6	158.4
Costs ('000 CFAF/ha)	54.0	54.0	76.0	76.0
Net Benefits ('000 CFAF/ha)	55.2	31.8	125.6	82.4
Mandays/ha	59.0	59.0	67.0	67.0
Net Benefits/md/ha (CFAF/md)	935.6	539.0	1,874.6	1,229.9
Cotton				
Producer Price (CFAF/kg)	140.0	100.0		
Yield (kg/ha)	1,200.0	1,200.0		
Revenues ('000 CFAF/ha)	168.0	120.0		
Costs ('000 CFAF/ha)	28.0	28.0		
Net Benefits ('000 CFAF/ha)	140.0	92.0		
Mandays/ha	148.0	148.0		
Net Benefits/md/ha (CFAF/md)	945.9	621.6		

Sources: De Graaff, J., Economics of Coffee, Wageningen: Pudoc, 1986.
World Bank mission estimates (Cocoa Rehabilitation Project).
SODECOTON's various annual reports.

3.88 The possible constraint to the application of this system is the extent of competition that exists in Cameroon. The food marketing system demonstrates that competition functions well in Cameroon and that traders do not seem to have excessive margins. Another reservation is the reluctance of traders to collect produce from remote areas. For this reason, it is important that the cooperative movement be supported so that primary collection can be effectively carried out by cooperatives. This would allow private traders to concentrate their marketing functions at the collection centers.

3.89 It is often argued that trade liberalization will bring about lower quality products and possibly lower prices for producers, particularly in the African context. Critics often look at short-term results in making such a judgement. In the longer term, competition will force exporters to go for quality products to get better prices, and producers will maximize their welfare through various services offered by traders. This is evident in the free marketing zone in the Southwest province. On the other hand, if quality control were enforced at the time of export, product quality will be improved; this has been proven with the "good fermented" premium paid for cocoa at the time of export (para 3.78).

Food Products

3.90 Existing Government Policies. The Government intervenes, in principle, in the food crops subsector by regulating marketing, transportation, and prices of foodstuffs. In practice, however, these regulations are not effectively enforced. Price control is effective for a few products such as rice, flour, edible oils, sugar, bread and drinks. In general, ex-factory prices are fixed to take into account production costs of parastatals, which are generally high. In addition, inadequate protection policies and competition from artificially cheap imports result in mounting deficits of food producing parastatals. Recently, the Government introduced import levies and retained quantitative restrictions to protect domestic production of important products such as rice, edible oil, sugar and meat.

3.91 Key Issues. The main issue in pricing and marketing of food products is the low financial competitiveness of import substitutes compared with imports in the major urban markets. The low competitiveness of domestically produced rice is mainly due to two factors: (a) a high official producer price, resulting from sucessive increases since 1981, even though world market prices have consistently fallen, and (b) high transport costs from the producing center (SEMRY in the North) to the main consuming center of the South (Douala, Yaounde). In addition, the high overhead costs and inadequate milling capacity contribute to the lack of price competitiveness. At present, the producer price for SEMRY rice stands at CFAF 78/kg for paddy (which implies a milled rice price of CFAF 130/kg, assuming a milling ratio of 60%).

3.92 Adding a cost of CFAF 30 to 50/kg to transport rice to the South and a sales profit margin, it is clear that SEMRY rice cannot compete with imported rice. The official wholesale price for SEMRY is CFAF 122/kg for quality rice, CFAF 106/kg for superior rice brokens, and CFAF 50/kg for low quality brokens. Actual retail prices were observed at CFAF 110/kg for quality rice and CFAF 65/kg for brokens, i.e., an average sale of CFAF 74/kg before taxes. As a result, at the end of August 1987, SEMRY had accumulated 80,000 tons of paddy (the

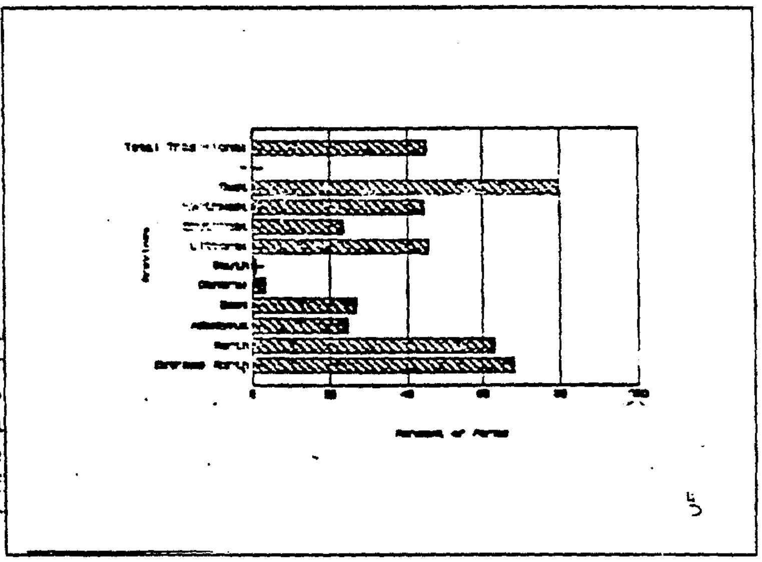
82

Agricultural Support Services

Agricultural Inputs

3.165. Modern inputs are widely used in some parts of Cameroon, especially in the high population density and animal producing regions (the West, Extreme North and North, Figure 7). According to the 1984 Agricultural Census, about 45% of total farms used chemical and organic fertilizer, and 30% applied crop protection chemicals to their crops. Most of the fertilizer and chemical inputs used by the traditional farm sector are subsidized, while the non-subsidized market (accounting for about 40% of the fertilizer consumed) supplies mainly the large scale plantation sector and the small cotton growing farmers organized by SODECOTON. Since the fertilizer subsidy programs have traditionally focused on export crops, much larger proportions are applied to export crops (90% of the cotton farms and 55% of the coffee farms) than food crops (24% of the farmers applied fertilizer to food crops).

Figure 7. Percent of Crop Farms Using Fertilizer by Province.



3.166. While farmer knowledge of modern inputs and their use are fairly widespread in Cameroon (for example, fertilizer use grew annually about 16% between 1975 and 1985), the delivery system has been unreliable and relatively expensive, with the result that smaller portions of the subsidy cost go to actual fertilizer purchase. This was due, in part, to the distribution monopoly and procurement practices of government organizations, which were cumbersome and time consuming. Directed subsidized programs (i.e., fertilizer for coffee) have not proven successful because farmers have tended to redirect fertilizer to crops with higher profitability (i.e., food crops). Because the fertilizer provided for use on coffee (ammonium sulfate, urea or 20:10:10) is not appropriate for maize, there is an obvious inefficiency in fertilizer use, with negative consequences for soil fertility.

3.166. A fertilizer sector reform program was initiated, in 1987. This program is being supported by USAID and is aimed at liberalizing the procurement of fertilizer, introducing free market pricing of fertilizer, and reducing fertilizer subsidies. The subsidy level is intended to decline from the 1987 level of approximately 65%, to zero in 1991. The Government also plans to reduce subsidies on fungicides about 50% in five years starting in 1989. This will be implemented under the IBRD-financed Cocoa Rehabilitation Project. Elimination of subsidies on fungicides would result in a negative benefit/cost ratio to use pesticides at the current cocoa price level. Farmers would not find it profitable to use pesticides for black pod treatment and, hence, cocoa yields would be reduced.

3.167. During the preparation of these programs, the following factors requiring additional analysis and careful monitoring were identified: input/output price relationships for the major commodities, the availability of credit, the efficiency of the private sector, and the environmental impact from the increased use of modern inputs. Nevertheless, the reduction of input subsidies is a move in the right direction and should significantly enhance the efficiency of resource use in Cameroon's agriculture sector.

Agricultural Research

3.168. Agricultural research is entrusted mainly to two institutions: the Agronomic Research Institute for crop research and the Animal Research Institute (IRZ) for animal research. Both institutions are under the tutelage of the Ministry of Higher Education and Scientific Research. These two institutes have grown significantly during the last decade. However, research activities have concentrated on the production of scientific papers and research findings which often have little applicability to the conditions of the average smallholder. In addition, the main part of the research program has been geared toward cash crops and the breeding of exotic types of beef and dairy cattle. Important efforts have been made in recent years to reorient research to better serve the needs of smallholders. Most important among these research programs is agronomic research on food and root crops, a domain that has largely been ignored in the past.

3.169. Despite recent improvements in the research program, the research system faces serious constraints which limit the system's ability to recruit quality staff and to conduct appropriate research. They are:

(a) inadequate facilities, insufficient transport, and old or dilapidated equipment;

(b) insufficient funds for operation - most of the research budget has been used to pay salaries (amounting to 95% of total budget);

(c) inadequate supply of technicians and excessive numbers of researchers, administrative staff, and laborers;

Cooperatives

3.177. Cameroon has a rich and diversified cooperative movement which dates as far back as 1924. Today there are about 400 cooperatives or pre-cooperatives, making up a total population of direct beneficiaries estimated at about 2 million. Historically, the main activity of cooperatives in Cameroon has been the marketing of Robusta and Arabica coffee, and cocoa. They have, recently, become increasingly involved in other areas, such as thrift and loan, training extension, processing of selected products, management and financing of infrastructure, handicrafts, fishing, stock raising, and food production. The cooperative sector markets about 200,000 tons of coffee, cocoa, and cotton annually, and mobilizes savings of about CFAF 9 billion. Cooperatives are, thus, major institutions in the promotion of the rural economy, and serve as a vital link between the administration, traders and small farmers.

3.178. The performance of cooperative organizations varies considerably from one province to another. Cooperatives in the Western Province were mainly established by their members. They have a monopoly on the purchase of all Arabica coffee produced by their members, they export coffee directly through a regional cooperative union (UCCAO), and they receive almost the full export price for their products. These cooperatives had been financially viable. However, when world market prices for coffee fell they began to experience problems. Thus, there is need for a careful restructuring of these cooperatives to reduce operating costs so that farmer interests will continue to be protected. As was mentioned earlier in this report, a serious effort to increase productivity and expand Arabica coffee planting must be launched.

3.179. Cooperatives in the two English-speaking provinces, Northwest and Southwest, were also created by member initiatives. Their managers had been appointed by the Government. The cocoa and coffee marketing cooperatives in the Southwest were restructured in the late 1970s and since then have functioned relatively well. The mainly Arabica coffee marketing cooperatives in the Northwest were recently restructured. However, management problems and political interference still hamper the overall efficiency of the marketing cooperative movement in the region. Since these cooperatives are not allowed to market their products directly, their financial viability has been subject to the distribution margin negotiated with ONCPB (para 3.71). Many cooperatives claim that the margin has not covered the costs.

3.180. Cooperatives in the French-speaking provinces of the Center, South and East provinces were established by government initiatives. They are plagued with financial and management problems. The remuneration for their cocoa and coffee marketing has been inadequate; their trading activities are restricted in terms of zones and marketing agents; and their managers are mostly government-seconded staff many of whom are poorly qualified and unmotivated. These cooperatives are in urgent need of restructuring in order to provide even primary marketing services to their members.

3.181. The Rural Development and Savings Cooperatives (SOCOOPED) operating mainly in the Northern province are direct successors to the compulsory cooperatives of the colonial period. These units rely on taxes as their main resources, with managers appointed by the Government. Their services to members

85

are virtually nonexistent, and resources have been diverted to uses not related to cooperative operations. These cooperatives should be dissolved and replaced with legitimate cooperatives.

3.182. The credit unions in the English-speaking provinces are the success story of the cooperative movement in Cameroon. Similar organizations exist in the French-speaking provinces in the Center and the South (Caisses Populaires), but their performance has been poor. While the reasons for success of the credit unions may be due to the political environment and ethnic identities, their organizational structure and their managerial independence provide valuable lessons for the cooperative movement in Cameroon. The credit unions evolved entirely from members' initiatives and are operated within their rules and with members' participation. Credit unions are also supported and protected by an efficient and well managed support agency, the Cameroon Cooperative Credit Union League (CAMCCUL), without government interference. In contrast, the Caisses Populaires in the Francophone area are subject to influence and political interference from the administration, and are not able to generate a sufficient degree of member participation and control.

3.183. The main central organizations charged with support to the cooperative movement are the Department of Cooperatives and Mutualities (COOP/MUT) in MINAGRI and the National Center for Cooperative Development (CENADEC). COOP/MUT is responsible for the promotion of the cooperative movement; assistance to cooperatives in their establishment, operations and management; and supervision and control of cooperatives. COOP/MUT has grown significantly during the last decade, in both personnel and operating costs. Its services to cooperatives, however, have not matched this substantial growth in administration. This is due to poorly trained staff, exacerbated by the lack of motivation since COOP/MUT staff do not have any prospect for promotion. In addition, the practice of seconding COOP/MUT staff as senior cooperative personnel, often as managers of the cooperatives, has had a negative impact on the cooperative movement.

3.184. CENADEC was established in 1975 to provide planning and organizational assistance to cooperatives, to evaluate their financial needs, and to provide training to cooperatives' staff. CENADEC also provides technical assistance to COOP/MUT. CENADEC has operated mainly in the cocoa producing areas and has achieved limited results. The individual responsibilities of CENADEC and COOP/MUT are not clearly defined, thus leading to an overlapping of functions and a lack of coordination. Some cooperatives are heavily loaded with both COOP/MUT and CENADEC seconded staff with a heavy handed style of management and without regard for members' concerns.

3.185. In summary, technical support to cooperatives has been disappointing. This is particularly alarming when the results are compared to the cost of operating these two organizations, more than CFAF one billion per year. The legislation for the cooperative movement, adopted in 1972 gives extensive power to government authorities to regulate and approve all cooperative activities. Thus, cooperative development in Cameroon has been construed as an instrument of Government policy and not as a profit-making effort which evolved from the mutual interests of members. While in recent years several Government declarations have been made to give more autonomy to cooperatives, application has not been visible. A fundamental revision of the legislation framework is necessary, particularly to provide autonomy and independence to cooperatives, with the Government providing only assistance.

3.186. The cognizance of the weakness in cooperative development in Cameroon surfaced in a recent seminar organized by MINAGRI. The problems were discussed and recommendations were made for far reaching measures to restructure the cooperative movement. The recommendations are generally sound and should be supported. Priority areas are: (a) the revision of the legislative framework to give more autonomy to the cooperative movement; and (b) the re-definition of the roles and responsibilities of COOP/MUT, CENADEC and ONCPB for cooperative assistance, regulation, financial control and staff training.

3.187. First, the basic Cooperatives Law (No 73/15) and the cooperative by-laws need to be modified to enable cooperatives to be established, developed, and operate exclusively under the member control by elected representatives. The legislation should limit government intervention to the registration of cooperatives, control of financial audit, and provision of support services until such a time when a national federation can be developed to cover these activities. Cooperative by-laws should be simplified.

3.188. COOP/MUT should restrict its role to the registration of cooperatives and enforcement of financial audits, which should be undertaken on an annual basis. CENADEC should provide nationwide technical assistance to cooperatives in organization and management, and particularly in training cooperative staff. CENADEC should eventually be replaced by an independent cooperative federation. In the near term, until full marketing liberalization can take place, ONCPB should rely on cooperative traders for quality control, and authorize viable cooperatives to market and export their products directly.

3.189. Cooperatives should be trained in keeping their accounts in order. To avoid mismanagement of funds, annual financial audits should be required. Training of cooperative staff is primordial for further viable development of cooperatives. It is also necessary to train the trainers through short courses and seminars. The management concept of the Training and Visit (T&V) system could be adapted easily to the cooperative movement.

Rural Finance

Existing Rural Financial Institutions

3.190. Cameroon's rural financial system has expanded rapidly over the last two decades. It comprises several different institutions, which all have limitations and problems.

3.191. Until recently, the National Fund for Rural Development has played a major role in agricultural credit. It was established in 1973 to channel public savings generated from export crop taxation to farmers. One of its main functions was to provide subsidized agricultural inputs. Others functions included financing rural development projects and extending credit to farmers. In terms of turnover, input distribution has been FONADER's most important activity. The share of agricultural credit in total activity varied between 38% and 45% for the period 1983/87.

3.192. From its inception, FONADER's credit program has been beset with huge internal problems due to an organization which was ill-adapted to banking, an excessive centralization of activities which precluded reaching large numbers of farmers, poorly trained staff, inadequate accounting practices, and a practice of imprudent lending which later led to an extremely low rate of recovery. FONADER was not equipped and was not expected to operate as a bank. It depended mainly on government grants for its funds and lent out at a subsidized interest rate. It had no inc$tive to recover loans, and even if FONADER wanted to adopt stricter business practices, for political reasons, it was not able to foreclose on delinquent loans.

3.193. Despite having access to substantial financial resources, FONADER was not able to fulfill its mandate in reaching a large number of farmers. Its credit program went mostly to civil servants for housing, and average loans were mostly of large size and concentrated in the area around Yaoundé. Its input services are irregular, and the distribution system has been costly and inefficient. In 1987, the Government decided to dissolve FONADER and to replace it with a new Agricultural Credit Bank. As of June 30, 1987, FONADER had CFAF 12.4 billion in assets (mostly bank deposits) in addition to CFAF 14.4 billion in loans to the Government and CFAF 22 billion in agricultural credit, most of it probably uncollectible. The dissolution of FONADER exists mainly on paper as no plans have been made for its liquidation. This should be a priority for the Government as FONADER has substantial assets. It is also unlikely that the Government will have to inject any funds into FONADER for its liquidation. In fact it may be able to recover some funds that were granted to FONADER for lending to the rural sector.

3.194. The commercial banks have an extensive network covering all provincial headquarters and economic centers. They are mainly involved in financing marketing, storage, and export of agricultural produce, syndicated and rediscounted with the Bank for Central African States (BEAC). The contribution of commercial banks to financing the smallholder rural sector is nil. The prevailing interest rates do not allow full cover of the costs and risks of lending to a multitude of small scattered borrowers. In any case, the whole banking system is now facing a liquidity problem and it is unlikely that it can play a significant role in rural development in the near future.

3.195. Some marketing cooperatives function as retail agents for FONADER's credit, but they are ill-equipped to carry out this function. Many of them are in generally poor financial condition. Unsound business practices, fraud and embezzlement of funds are widespread. A large number of cooperatives have a high default rate on credit, not because of large overdue loans from members, but because, being chronically short of funds and incurring losses from their marketing operations, they have used credit repayments from farmers to finance their activities. Potentially, marketing cooperatives can be extremely effective intermediaries for channeling credit to small farmers. However, this can only be done if the cooperative movement undergoes a fundamental reform as outlined above.

3.196. The credit union movement in the Anglophone part of the country is often cited as a success story in the history of rural credit in Cameroon. The credit unions are firmly based on regular savings from members and, with the exception of aid from USAID for training and technical assistance, they are largely selffinancing. They are also reasonably well managed, without excessive Government intervention. Credit unions have played a significant role in the mobilization of rural savings. As of 1987, the level of saving reached about CFAF 9 billion from about 62,000 members. Lending has been much less than the amount of saving, partly due to a strict rule of operation which requires member credit unions to deposit 25% of their savings to their apex organization (CAMCCUL), and partly due to cautious lending practices.

3.197. Though most credit unions are better established in urban than in rural areas, and service more salaried workers than farmers, they are slowly expanding their services to the farming sector. However, they have encountered difficulties in making loans for agricultural purposes, since agricultural credit is risky, and the demand for this type of credit is constrained by factors other than the supply of credit (in 1987, about 10% of the loans were for farming purposes). However, they remain a viable instrument for channeling funds to farmers.

3.198. The informal financial sector, including tontines or njangis, money lenders, lend hand societies, and modern farmers' groups are also very active in mobilizing rural savings. The tontines are an informal method used for rotating savings and credit, comprising a group of participants who make regular contributions to a fund which is given to each member in turn. The tontines movement is widespread; about 75% of the families belong to at least one tontine. The strength of the system lies in the fact that they constitute an inwardly, social cohesive unit. Paradoxically, this source of strength is also a source of criticism as tontines have very little contact with each other and this contributes greatly to the fragmentation of the financial system in Cameroon. Despite their importance and success in mobilizing savings and responding flexibly to credit demand, incorporating the tontines into the formal distribution system is not advisable. However, with improved banking performance and coverage of the formal sector, a higher degree of usage of banking services by the informal sector could be stimulated and thus increase credit creation and money circulation in the economy.

Rural Credit Strategy

3.199. The declining world commodities prices have had a negative effect on public sector savings, with agricultural taxation reduced to a negative level. Thus, the financial intermediaries will have to rely more on private savings than public savings as a source of funds. Studies in various countries and experiences from Cameroon have shown that everyone, including the poor, saves money at certain points in time. It is desirable to build up financial institutions which, like the credit unions, rely on members' deposits for a substantial share of their revenues. Credit cum savings institutions offer several advantages:

(a) these institutions, being closer to farmers, are in a better position to assess their financial status and debt recovery capacity;

(b) loanees behave more responsibly when the funds of their community, including their own, rather than those of the Government are at stake;

(c) support of savings (including incentives for savings) helps farmers in cash management; the decision to save constitutes a conscious step to protect income from unintended or untimely consumption; and

(d) savings reduce credit needs as well as the needs for government injection of funds and, therefore, also reduce the scope for political interference.

The improvement of saving facilities in rural areas should be considered a high priority in the rural strategy. The capacity of the rural financial system to mobilize savings must therefore be built up concurrently to, or even before, its capacity to administer credit.

3.200. A review of the rural finance sector for Cameroon, concluded that credit demand for agricultural investment purposes is low and not likely to increase rapidly in the medium-term. Credit is not the main constraint to the adoption of improved technology. Others factors such as the profitability of investments, labor supply, and timely availability of inputs are equally important considerations affecting farmers' decisions to borrow for agricultural investments. Directed programs have not proven successful, as borrowers have a tendency to redirect credit to projects with the highest profitability. This has led to the diversion of funds (i.e., credit is used for housing or consumption purposes), or for productive investments other than those intended (i.e., fertilizers are diverted from coffee to food crop development).

3.201. Given this diagnosis, the national agricultural development policy should give low priority to credit allocation in the immediate term. Priorities should be given to improvements of pricing, marketing, input supply and transfer of technology which will eventually raise the demand for credit. The focus of the new credit strategy would be on developing robust financial structures (i.e., self-generating finances) and to prepare for a much enlarged demand in the future, a long-term process. This is different from the short-term objective of the past, which was to increase the flow of resources to farmers, irrespective of the capacity of intermediaries to administer those funds or clients' ability to repay the loans. Furthermore, a more effective credit program should respond to farmers' needs, including consumption as well as investment credit. In this case, the criterion for lending must be the capacity of the borrower to repay and not the political decision to fund a particular activity.

Agricultural Credit Bank

3.202. The new Agricultural Credit Bank of Cameroon was established by presidential decree in 1987. CAC exists only on paper. Its functions are yet to be defined and managers have not been appointed. Given the existence of financial institutions in Cameroon which could be improved in coverage and performance to provide better services to the rural sector, it is difficult to define a special role for CAC. Lessons learned from the past indicate that if CAC is to be a successful operation, it should rely on self-mobilized funds for making loans. This means that the operational priority should be in savings mobilization. Staff will have to be trained, and credit procedures need to be studied and determined. It would be realistic to plan that, during the first two years CAC would concentrate activities on savings mobilization and delivery of small loans, to gain experience in preparation for a much larger role in the future.

Smallholders' Credit Program

3.203. Improvements of smallholders' productivity and incomes have often been constrained by the lack of technology and poor access to credit. While technological changes can take place through improved research and extension, the lack of collateral of smallholders poses a serious challenge to the Government in designing policies and programs to serve these farmers. Experiences gained from the Grameen Bank movement in Bangladesh could provide valuable inputs to this process. The experience has clearly demonstrated that the lack of collateral should not stand in the way of providing credit to the poor. The poor can utilize loans and repay them if effective procedures for bank transactions with them can be established. It also demonstrated that high-cost credit (the Bank charges an interest rate at least equal to, or higher than the rate from other financial institutions) can keep the influential non-target group away from a targeted credit program. More importantly, it demonstrates the need to develop appropriate institutions for the delivery of loans.

3.204. While the Grameen Bank experience cannot be replicated in totality due to a different socioeconomic environment, some of its elements could be adapted to the Cameroonian situation. The formation of groups with a small number of like-minded people before a loan is given to any individual of the group or to the group itself can be substituted for collateral. Group solidarity and peer pressure have resulted in full loan recovery. Other innovations such as recovering of loans in small regular installments and developing funds with compulsory savings from individuals for their mutual benefits can also be adopted. This type of program can be experimented with by the new Agricultural Credit Bank or by existing credit unions.

Farm Modernization

3.205. During the previous two five-year plans the Government gave high priority to modernizing traditional small-scale agriculture. Various programs, such as the Young Farmers Promotion Program and the Modern Farmers Cooperation Program were initiated, but generally with disappointing results. The Sixth Plan gives high priority to a program of establishing about 3000 Exploitations Agricoles de Moyenne Importance (EAMI), extending to 40,000 ha in total, at an estimated cost to the Government of CFAF 30 billion in infrastructure, land clearing and subsidies, and CFAF 29 billion in credit. Farmers' own and private capital contributions would amount to CFAF 7 billion. The EAMI program intends to attract private capital and modern technology to the rural sector for the installation of medium-sized individual farms which will be considerably larger than traditional farms but smaller than the plantations of the public sector. The successful operation of these farms would provide, through its demonstration effect, a stimulus for the modernization of the traditional sector. The program is aimed at the prospective "new elite," that is:

(a) existing traditional farmers planning to expand and modernize their operations;

Annex A

Cameroon
Barême: Cost Structure of Cocoa and Coffee

(CFAF/kg)
1988/89

Cocoa		Coffee
500.00	World Price (cif)*	600.00
480.63	CIF price	499.89
3.00	Exporter's Margin	4.22
24.78	Freight	22.09
3.24	Insurance	3.25
10.76	Wastage	3.75
4.59	Financial Costs	8.3
46.37	(Transport during)	41.61
434.26	Fob Price	458.28
3.28	Wharfage Costs	2.85
1.88	Port dues & Miscellanous	1.86
1.22	Shipment tax	1.43
57.00	Export tax	65.73
1.00	Special tax	3.00
0.93	Other taxes	1.07
11.00	General Costs	13.09
0.17	Others	1.54
76.48	Warehouse price	90.54
357.78	(excluding exporter's margin)	367.74
1.70	Traders Margin	
4.50	Cooperatives Margin	
0.78	Warehouse Rent	1.13
0.52	Warehouse Insurance	
9.11	Wastage	1.83
1.77	Handling Costs during Transport	2.78
11.00	Financial Costs	39.18
3.20	Collection Costs	19.35
1.40	Handling Costs	
	Sorting Costs	12.86
	Grading	8.69
	Insurance (theft, etc.)	2.16
	Storage Costs	3.24
	Hulling	25.13
0.90	Tax	1.32
34.98		117.67
	Coffee price at hulling plant gates	250.07
322.8	Local market price	
20.48	Transport Costs	7.79
302.32	Producers Stock Value	242.28
420.00	Guaranteed Producer Price	440.00
117.68	Gap (Support)	197.72

* With the new barême, the gap for Cocoa becomes CFAF 108.31/Kg instead of CFAF 117.68/Kg; and for coffee, CFAF 97.62/Kg instead of CFAF 197.72/Kg.

CAMEROON

TRADEABLE CROPS

PROFILES

COCOA

1. Cocoa is Cameroon's first (or second after coffee) export crop produced by 262,000 planters over an area of 350,000 ha (against 255,000 ha under coffee), mainly in the Center, South, and South-Western Provinces, where 88% of national production originates. Almost 60% of cocoa plots are under one hectare, 32% between one and three hectares, and only 8% larger than three hectares. Cocoa production is an important source of cash for 18% of the population in agriculture.

2. Cocoa performance varies within regions. The following table demonstrates a significant difference in productivity among regions. Compared to the Center and the South, plantations in the South-West are younger with higher yields because of its fertile soil, younger population and farther distance from major urban centers making food crop production less profitable than in other regions.

Table 1. Distribution of Cocoa Production

Province / Items		Center	South	Southwest	East	Others	TOTAL
Number of farms	('000)	110	43	28	24	17	222
Cultivated areas	('000 ha)	142	76	74	39	15	346
Production	('000 t)	46	20	35	7	6	114
Yield	(kg/ha)	380	270	600	200	430	380
% trees < 4 years		15	4	21	13	23	14
% trees >20 years		50	60	19	55	20	45
% trees > 30 years		36	32	9	26	2	27

Source : Agriculture Census 1984

The relative price ratio of Robusta coffee to maize is low relative to that in other countries and is declining. However, intercropping with foodcrops is not prevalent as in the case of Arabica. Thus the average age of trees is lower and yields higher relative to Arabica.

3. One major problem of this sector is the old age of plantations with seriously deteriorating productivity. In 1984, over one quarter of the area under cocoa was planted over 30 years ago and another 17.5% had been planted between 20 and 30 years ago. In the past, heavy taxation of the sector made it unprofitable to plant new areas. Another factor discouraging the creation of new plantations is the fact that existing plantations are usually abandonned.

which then causes capsid and black pod disease to develop and spread over all planted areas, including the new ones. Finally, there is the risk of loosing one's land rights which last for the duration of the trees' economic life. Since 1980, the Government has offered replanting and planting bonuses of CFA 200,000 per hectare for farms above five hectares. Despite this bonus, plantings have not increased significantly.

4. Most of the production is carried out by farm households, with an average farm size of 1.3 ha. Only in the South-West Province, can one find larger farms (averaging 2.2 ha), using hired labor. Most farmers are associated with cooperatives, a practice which except for the South-West, reflects a recent movement promoted by the Government. Most cooperatives represent therefore Government more than their farmer members. Depending on the region, a cooperative's role may vary from being a collector of farm produce to one of collector, distributor, and transporter of inputs and products. In principle, cooperatives have a monopoly on primary cocoa collection and processing. However, due to cooperatives' lack of financial and transportation means, private traders/exporters have often ended up handling transportation and sometimes local purchasing as well. Until recently, about 90% of graded cocoa was purchased by cooperatives with financing from exporters, which was then transported to regional collection centers (Centres de Collecte Homologué-CCH) either by cooperatives or by exporters. But in 1985/86, the Ministry of Commerce altered a marketing regulation, permitting exporters to purchase cocoa directly from farmers and thus keep the "barème-determined" collection payments for themselves. This resulted in a marked decrease in cooperatives' marketing of cocoa and thus their revenues.

5. Cocoa marketing, different between the anglophone and francophone regions, is governed by price regulations and entry restrictions. In the anglophone Southwest, cooperatives act as "licensed buying agents" for a local branch of ONCPB. They perform cocoa collection and processing and transport the processed beans to this office, and receive a "buying block allowance" of CFAF 30,492 per ton, plus reimbursement of transportation costs. The cooperative union, SOWEFCU, also receives a bonus of CFAF 10 per kilo of cocoa marketed by the cooperatives. This portion of cocoa production (20-25% of total exports) is exported directly by ONCPB, rather than through licensed exporters. In the francophone Central, South and other regions, ONCPB sets an annual price schedule (barème), fixing different levels of remuneration for all marketing activities performed from farmgate to port in various regions, and also regulates who can perform what activities in the marketing chain.

6. Cocoa producer prices, set annually by Government decree, incorporate a grade differential to improve quality of production. Sub-grade cocoa is priced at one third the value of Grades I and II. In the past, the large difference between the export parity price and producer prices accrued to the Government in the form of an export duty (32% of cocoa's indicative price or valeur mercuriale) and to the ONCPB as a variable levy.

7. The annual official price may not equal to what the producers receive because of the bonus (ristourne) (para. 6 of main text), or the payment of a premium by traders when they compete legally or illegally with cooperatives in buying farmers' cocoa (as in Central Cameroon). In some instances, traders may use fraudulent weighing practices to reduce producers' effective price per kilo, and cooperatives often have significant delays in their payments to farmers.

Therefore, the actual price farmers receive may be higher or lower than the official price depending on local circumstances.

8. Exporters are annually licensed by presidential decree. They are given a buying quota, as a percentage of total exports, and authorized buying areas which are not necessarily contiguous. They conduct export sales themselves with ONCPB's prior authorization. Exporters obtain financing from commercial banks which in turn receive funds from the BEAC equivalent to 10% of the value of the exporters' quotas. Both cooperatives and exporters have tremendous problems due to working capital shortages.

9. Fertilizer use in cocoa production is not significant, while pesticides, mainly used against capsid and black pod, are heavily subsidized. There are externalities in the anticapsid treatment, but not in black pod treatment for which the subsidy is to be phased out.

10. SODECAO (Société du Développement du Cacao) is the main institution concerned with the cocoa subsector. Its extension services have not been cost-effective. SODECAO distributes black pod fungicides, and sells hybrid cocoa seeds, fertilizers for food crops, farm equipment and cocoa driers. It also provides credits for sprayers. Its Crop Protection Service carries out the anti-capsid treatment program which is not performed in a timely manner. The Agricultural Research Service has not been very effective. SODECAO's Feeder Road Construction Division has operated effectively, with capacities for road reconstruction and regrading of 400 km/year and 500 km/year respectively.

ROBUSTA COFFEE

11. Despite the small share of around 2.5% of world trade in coffee, Cameroon's export volume must conform to the International Coffee Agreement's (ICA) quota régime. Robusta coffee is Cameroon's second most important export crop after cocoa. It is grown by roughly 200,000 farmers over an area of about 153,000 ha in all provinces except for the North and Extreme North. The average yield for robusta is about 600 kg/ha, with wide variations among provinces, and an age characteristic somewhat more favorable than that of cocoa and Arabica coffee, as shown in table 2.

Table 2. Distribution of Robusta Coffee Production

Items	Province	Littoral	West	Southwest	East	Center	Others	TOTAL
Number of farms	('000)	31.1	41.4	31.6	32.5	16.3	20.6	173.5
Cultivated areas	('000 ha)	31.0	33.4	36.4	26.4	12.0	13.6	152.8
Production	('000 t)	37.4	27.3	12.9	22.8	7.5	10.9	118.8
Yield	(t/ha)	1.2	0.8	0.4	0.9	0.6	0.8	0.8
% trees < 4 years		8.7	9.6	8.3	23.1	10.0	16.9	12.1
% trees >20 years		75.8	79.9	78.3	76.5	90.8	36.8	80.0
% trees > 30 years		24.2	20.1	21.7	23.5	9.2	63.2	20.0

Source: Agricultural Census 1984

12. Robusta is produced primarily by smallholders, with few exceptions of large plantations of over 5,000 ha in the Littoral Province. Over half of farmers' Robusta plots are under 0.5 ha in size, and the average plot size is 0.7 ha. The cultivation method of this coffee is usually more extensive than that of Arabica coffee.

13. Robusta prices are set annually be Government decree. As with cocoa, export tax revenues from Robusta accrue to (a) the Government, through an export duty applied to robusta's valeur mercuriale, and (b) the ONCPB, which collects the remainder of the difference between the export parity and producer prices as a variable levy. The single largest expense allowed for in the barème (excluding the export duty) is for processing, i.e. converting coffee berries (café cerise) to coffee beans (café marchand), which amounts to roughly one third of non-tax components of marketing costs.

14. The marketing system for Robusta is similar to cocoa, that is an ONCPB-determined price schedule fixing levels of remuneration for all marketing related activities and specifying who can perform what in which areas. Cooperatives and private traders perform coffee collection and processing, with their relative importance varying by region. In the Western Province, Robusta coffee is marketed through the two UCCAO (Union Centrale des Coopératives Agricoles de l'Ouest) cooperatives which are primarily composed of Robusta growers. For years, these cooperatives were unable to cover their costs under the barème payment scheme and were subsidized with Arabica profits. In the Littoral Province, 10% of Robusta coffee is marketed through 8 cooperatives and 87% through 72 private processing plants, mostly owned by robusta producers. These plants have a low capacity utilization of about 50%. In the Southwestern Province, farmers sell a small share to cooperatives and the rest to private traders. In francophone Cameroon, exporters are assigned quotas specifying the percentage of the total harvest to be exported. Typically, they advance funds to traders and/or cooperatives for coffee purchasing, processing, and transport to port, and undertake export sales themselves under ONCPB's authorization. A small number of exporters, mostly expatriates, have a large share of export sales. In anglophone Cameroon, export sales are undertaken directly by the local branch of ONCPB, which receives coffee from "licensed buying agents" who handle the domestic marketing of Robusta.

15. Subsidized fertilizer use in Robusta coffee is difficult to assess since no agency is responsible for its distribution. Part of the fertilizer distributed to farmers by cooperatives and traders/exporters is delivered on a credit basis. Cooperatives are supposed to deduct the cost of the fertilizer from farmers' coffee sales, but poor record-keeping, among other things, have contributed to non-recovery of a large portion of such credits. Cooperatives and traders also offer small-scale, short-term credit for mainly consumption purposes.

ARABICA COFFEE

16. Arabica coffee, grown almost exclusively in the western highlands of the Western and Northwestern Provinces, on 167,000 farms over an area of 99,800 ha. Yields are low, about 200 kg per ha, due to aging plantations and increasing competition with food crops. Farming systems in the densely populated Western Province highlands are relatively intensive. The majority of farms are less than 2 ha, with an average farm size of 1.2 ha. Food crops (maize, beans,

yams, cassava, plantains, and vegetables) are cultivated along with Arabica and have become increasingly important in farmers' income. Land ownership is increasingly private in the Western Province, and lack of access to land is a major factor contributing to outmigration from the area. In contrast, the Northwestern Province is not as densely populated. In both provinces, 65% of the plots under Arabica are less than 0.5 ha, while 10 % of total arabica output is produced by some 17 semi-industrial plantations over 2,500 ha.

Table 3. Distribution of Arabica Coffee Production

		Northwest	West	TOTAL
Number of farms	('000)	79.8	87.0	166.8
Cultivated areas	('000 ha)	41.5	58.3	99.8
Production	('000 t)	16.1	19.2	35.4
Yield	(t/ha)	0.2	0.2	0.2
% trees < 4 years		4.8	4.6	9.4
% trees < 25 years		84.6	73.1	77.9
% trees > 25 years		15.4	26.9	22.1

17. In the Western Province, UCCAO has a monopoly in Arabica purchasing and exports. Producers are responsible for conducting primary processing (depulping, fermentation, cleaning and drying). The cooperative obtains marketing credit from UCCAO and buys up the harvest using mobile purchasing teams. Coffee is then transported to collection centers of UCCAO's factory at Bafoussam where it is centrally sorted. UCCAO exports coffee directly for which it receives 1% in commission. The system has worked relatively well, with some quality problems relating to processing bottlenecks. In the Northwestern Province, coffee marketing is similar to arrangements for cocoa and Robusta coffee.

18. Arabica producer prices are set by Government decree. UCAAO is reimbursed for its marketing costs according to a fixed price schedule of ONCPB. Unlike Robusta coffee and cocoa, for UCCAO's Arabica exports, ONCPB does not collect a variable levy. UCCAO's Arabica exports are only subject to an export duty (32% of the crop's valeur mercuriale) and a fixed ONCPB levy. However, Arabica exports from the Northwestern Province are subject to a variable levy. Altogether, Arabica's contributions to ONCPB revenues have been comparatively low. Another interesting point is that while taxation revenues for the other two crops and non-UCCAO Arabica accrue to ONCPB, roughly two thirds of taxes from UCCAO's exports are returned to itself.

19. Almost 60% of coffee farmers in Western and Northwestern Provinces use some fertilizer on their coffee plots. UCCAO is responsible for distributing inputs to Arabica producers. It can either import directly at world prices or obtain subsidized fertilizers through MINAGRI's centralized system. UCCAO has been a major recipient of government subsidized fertilizer. UCCAO is unique in that it assumes responsibility for transporting centrally-procured fertilizer from port to the Western Highlands; other agencies must rely on the Government to deliver fertilizer supplies due to lack of transportation and working capital. Nonetheless, UCCAO reports that only 50-70% of its subsidy request is granted

by MINAGRI. Chronic delays and logistical problems reduce the effectiveness of this centralized government procurement and subsidy system to deliver fertilizer to farmers in a timely manner.

20. UCCAO's extension activities has functioned fairly efficiently and at reasonable cost. Its impact has been limited, because although farmers have grasped the technical improvements in coffee production, there is no incentive to apply them given the decline in relative profitability. Another reason is the single (cash crop or even food crop) crop approach which does not fit into farmers' complex multicrop strategies.

COTTON

21. Cotton is Cameroon's fifth largest agricultural export earner, after cocoa, coffee (Robusta, Arabica), and logs. Produced exclusively in the Northern Province by 129,000 farms over an area of about 80,800 ha, cotton is the most important crop in the development of the North. Until the early 1970s, cotton was cultivated extensively, with low input basis and no fertilizer. Since 1974, the cultivation has become intensive, with pesticide spraying, improved seed varieties, and effective support to farmers through extension, research, inputs and credit by SODECOTON,(Société de Développement du Coton), a joint venture between the Government and the private French firm of CFDT. As a result, yields increased from a low level of 400 kg/ha in 1971 to 1.3 tons/ha on average in the 1980s, corresponding to production level of 100,000 tons p.a.

22. Cotton production is predominantly a smallholder family operation. Sixty percent of farms are between one and three hectares, with an average size of 2.1 ha. Sorghum, groundnuts, millet, maize, rice and various leguminous crops are grown along with cotton. Most cotton plots (85%) are one hectare or less. Rural population density in the cotton growing area is low at 12 inhabitants/km2, and labour is considered the binding constraint to expanding production. Animal traction has been introduced to improve productivity.

23. The very different marketing, price stabilization and input subsidy arrangements of cotton from other crops is carried out by SODECOTON with vertically integrated operations. SODECOTON is responsible for support services, input delivery, crop collection, oil seed processing, and export sales. When SODECOTON runs a surplus, 60% accrues to the ONCPB, 10% to the Northern Province Cooperatives Savings and Development Movement, and 30% to itself for investments; some portion may also be given to farmers as a bonus. In cases of deficit, ONCPB is supposed to cover the entire losses.

24. Some inputs (improved seeds, insecticide and ULV sprayers) are provided to farmers free of charge. For other inputs (fertilizer and herbicides) SODECOTON recovers part of its costs. Producers receive a subsidy of 25% for for herbicides. The main type of credit to cotton farmers is credit in kind for inputs, automatically deducted from the output price. Medium-term credit was made available through the now dissolved rural development agency FONADER (Fonds National de Développement Rural) for purchase of animal traction and equipment. This type of credit had a poor recovery rate. SODECOTON has a dense network of village extension workers (1:140) to distribute inputs and give technical advice. This extension system has been oriented almost entirely to cotton production. Little has been done for food crops. This is due to the relative lack of appropriate technical messages generated through SODECOTON's

ANNEX B

SAMPLE BAREME

Annex B.

Cameroon
Barême: Cost Structure of Cocoa and Coffee

(CFAF/kg)
1988/89

Cocoa			Coffee	
500.00		World Price (cif)*	600.00	
480.63		CIF price	499.89	
3.00		Exporter's Margin	4.22	
24.78		Freight	22.09	
3.24		Insurance	3.25	
10.76		Wastage	3.75	
4.59		Financial Costs	8.3	
46.37		(Transport during)	41.61	
	434.26	Fob Price		458.28
3.28		Wharfage Costs	2.85	
1.88		Port dues & Miscellanous	1.86	
1.22		Shipment tax	1.43	
57.00		Export tax	65.73	
1.00		Special tax	3.00	
0.93		Other taxes	1.07	
11.00		General Costs	13.09	
0.17		Others	1.54	
76.48		Warehouse price	90.54	
	357.78	(excluding exporter's margin)		367.74
1.70		Traders Margin		
4.50		Cooperatives Margin		
0.78		Warehouse Rent	1.13	
0.52		Warehouse Insurance		
9.11		Wastage	1.83	
1.77		Handling Costs during Transport	2.78	
11.00		Financial Costs	39.18	
3.20		Collection Costs	19.35	
1.40		Handling Costs		
		Sorting Costs	12.86	
		Grading	8.69	
		Insurance (theft, etc.)	2.16	
		Storage Costs	3.24	
		Hulling	25.13	
0.90		Tax	1.32	
34.98			117.67	
		Coffee price at hulling plant gates		250.07
	322.8	Local market price		
20.48		Transport Costs	7.79	
	302.32	Producers Stock Value		242.28
	420.00	Guaranteed Producer Price		440.00
	117.68	Gap (Support)		197.72

* With the new barême, the gap for Cocoa becomes CFAF 108.31/Kg instead of CFAF 117.68/Kg; and for coffee, CFAF 97.62/Kg instead of CFAF 197.72/Kg.

ANNEX C

SUPPLEMENTARY INFORMATION ON NWCA

ANNEX C
SUPPLEMENTARY INFORMATION ON NWCA

This Annex contains the following additional information on the North West Cooperative Association (NWCA):

<u>Figure C-1</u> shows the relationship of the three tiers of the cooperative structure in the North West Province.

<u>Figure C-2</u> presents a map of the North West Province which indicates the areas of operation for the primary societies and unions.

<u>Figure C-3</u> provides an organigramme of the apex organization, NWCA Ltd.

<u>Figure C-4</u> lists some additional information about arabica production levels in the North West Province.

Figure C-1

NORTH WEST COOPERATIVE ASSOCIATION LIMITED

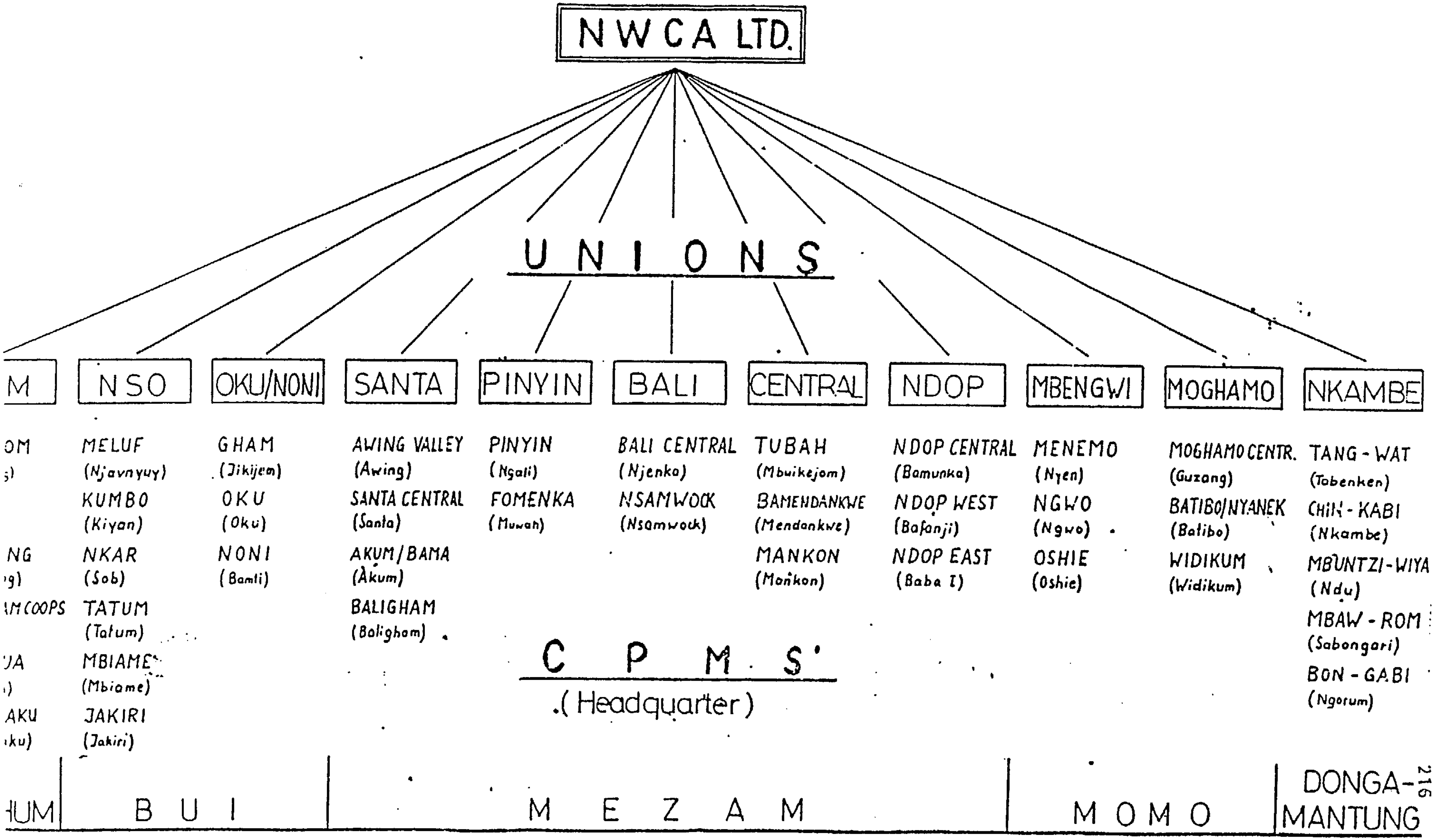
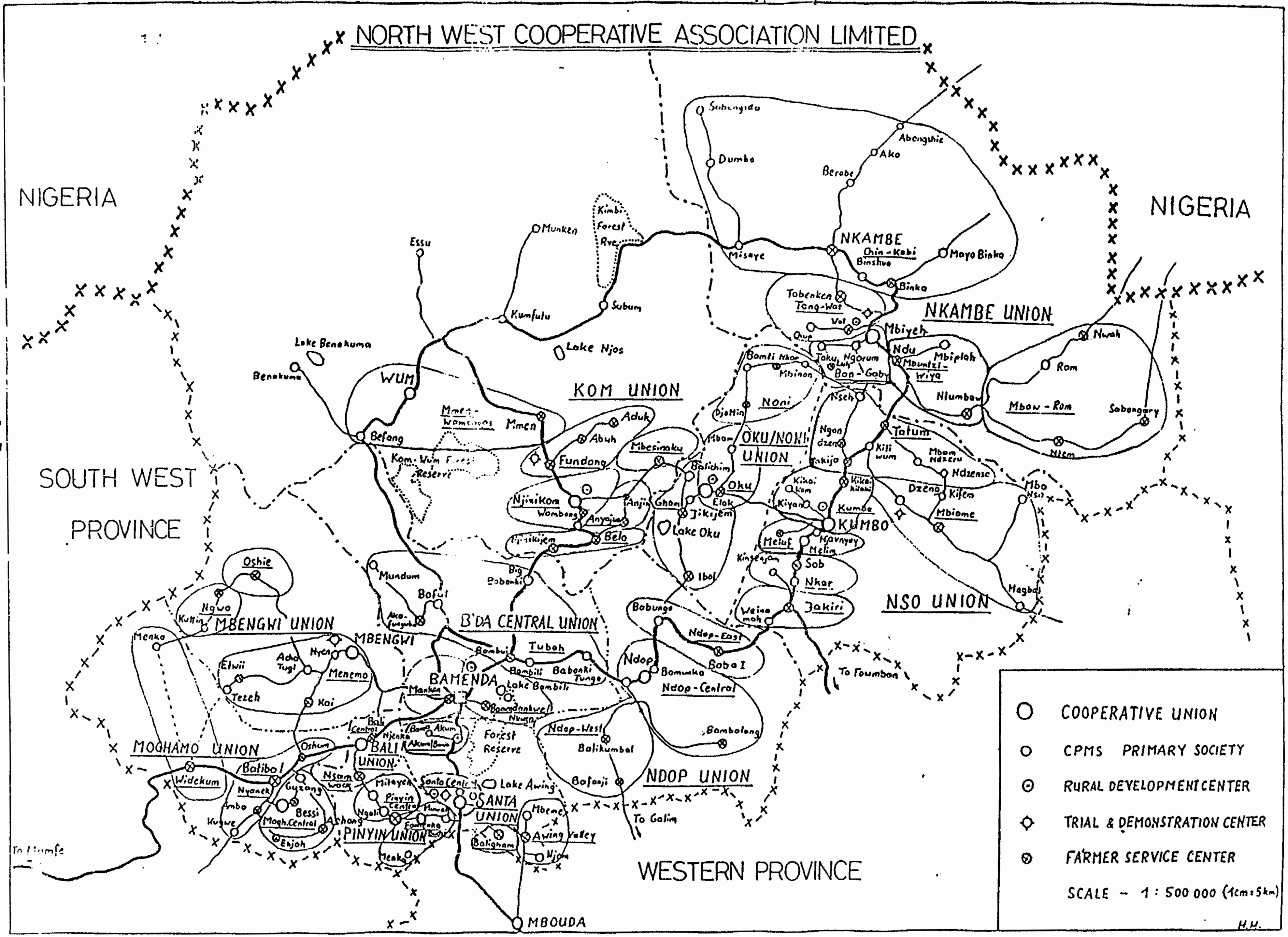


Figure C-2



NORTH WEST COOPERATIVE ASSOCIATION LIMITED
NIGERIA
NIGERIA
SOUTH WEST PROVINCE
WESTERN PROVINCE
NKAMBE UNION
KOM UNION
OKU/NONI UNION
NSO UNION
WUM
B'DA CENTRAL UNION
MBENGWI UNION
MOGHAMO UNION
BALI UNION
PINYIN UNION
SANTA UNION
NDOP UNION
NKAMBE
KUMBO
BAMENDA
MBENGWI
MBOUDA
Lake Njos
Lake Oku
Lake Awing
Lake Benakuma
Forest Reserve
To Foumban
To Galim
COOPERATIVE UNION
CPMS PRIMARY SOCIETY
RURAL DEVELOPMENT CENTER
TRIAL & DEMONSTRATION CENTER
FARMER SERVICE CENTER
SCALE - 1 : 500 000 (1cm=5km)
H.H.

Figure C-3

ORGANIGRAMME OF NWCA Ltd.

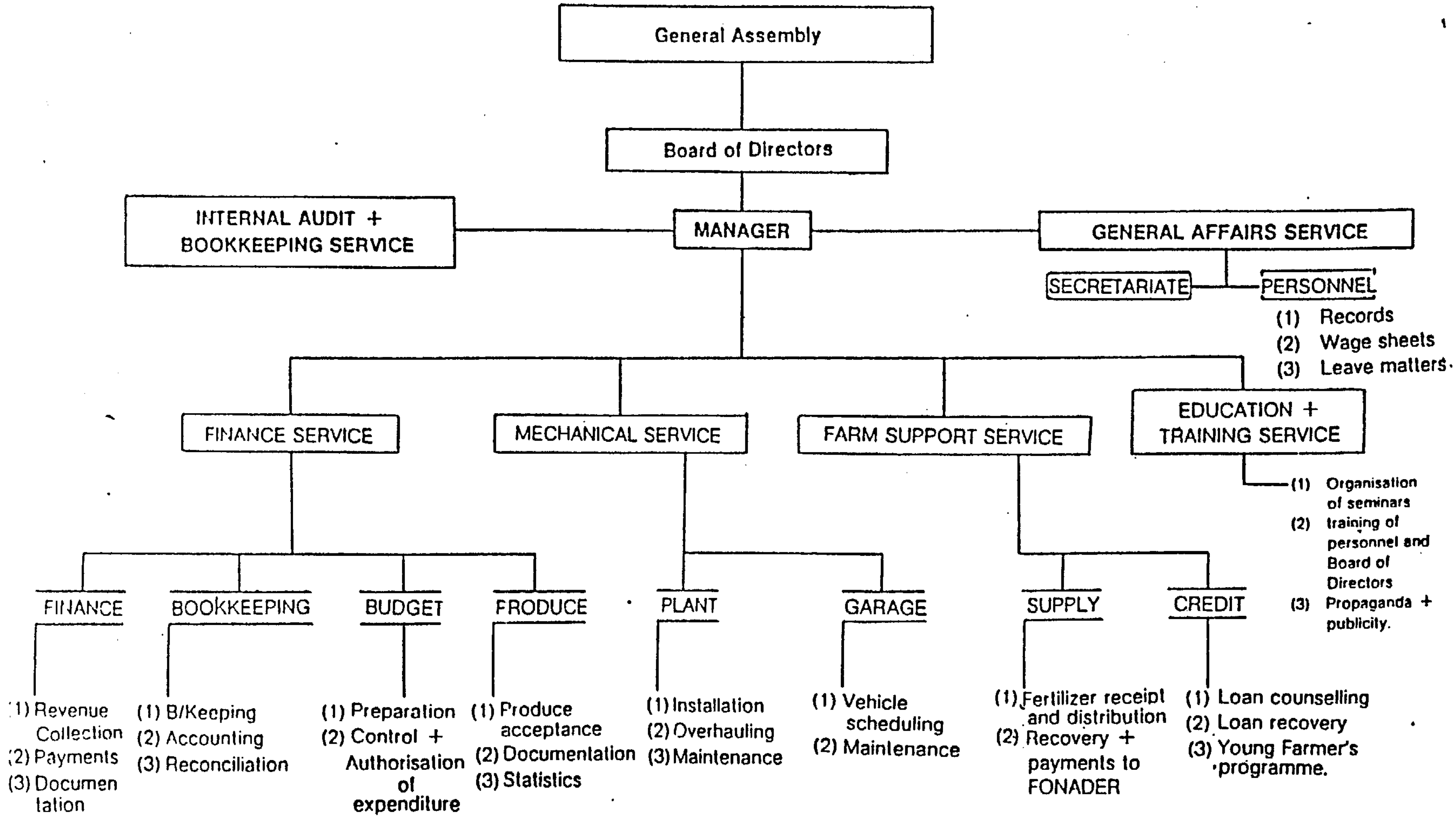


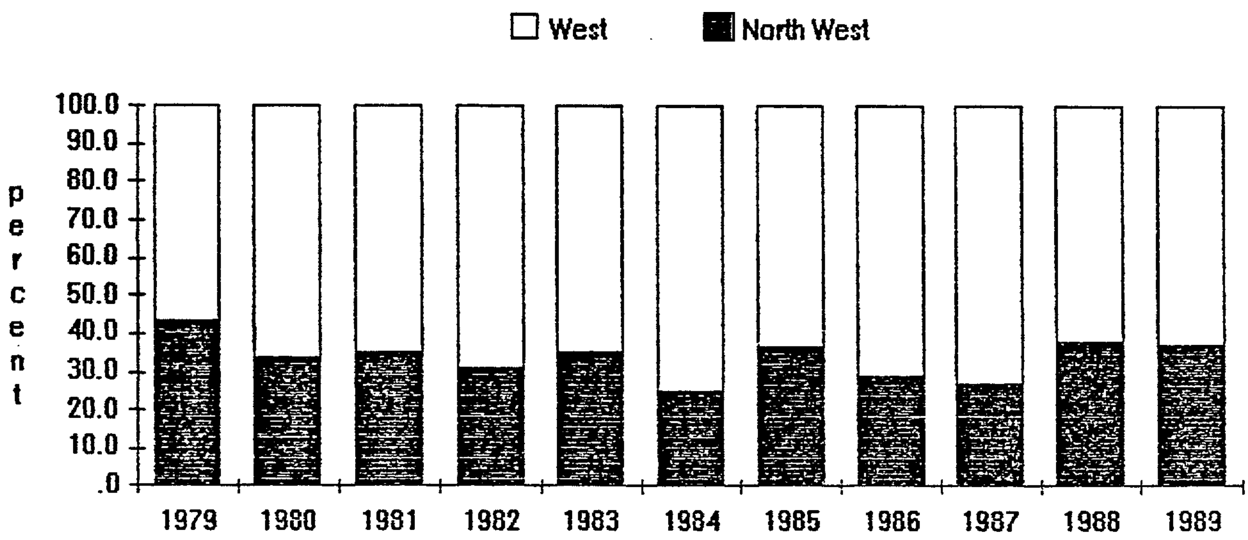
Figure C-4

ARABICA PURCHASES, TOTAL, NWCA and DIFFERENCE

Year	Total	NWCA		Difference	
		(tons)	(%)	(tons)	(%)
1979	24,803	10,631	42.9	14,172	57.1
1980	24,401	8,042	33.0	16,359	67.0
1981	24,122	8,343	34.6	15,779	65.4
1982	25,417	7,680	30.2	17,737	69.8
1983	21,838	7,585	34.7	14,253	65.3
1984	16,832	4,107	24.4	12,725	75.6
1985	18,932	6,842	36.1	12,090	63.9
1986	18,967	5,411	28.5	13,556	71.5
1987	22,562	5,888	26.1	16,674	73.9
1988	13,027	4,892	37.6	8,135	62.4
1989	14,950	5,480	36.7	9,470	63.3

Sources: Total - ONCPB, NWCA - NWCA

ARABICA SHARES BY PROVINCE



ANNEX D

INTITIAL CDC/NWCA PROPOSAL

CONFIDENTIAL

NORTH WEST COOPERATIVE ASSOCIATION LIMITED
P.O. BOX 41
BAMENDA

Proposed Arabica Coffee Marketing Company

Objectives

* to establish a new commercial structure, under the control of the Cooperative Movement, to provide for the timely purchase and payment of arabica coffee from farmers in the North West Province;

* to undertake the efficient sale of processed arabica coffee to international buyers;

* to bring the processing and grading of coffee in the North West Province under efficient and accountable control;

* to encourage an improvement in the quality of arabica coffee exported from the Province;

* to enhance the remuneration of the farmers through timely payments and the reduction of processing and marketing costs;

Proposal

That NWCA, with direct technical and financial support from the Commonwealth Development Corporation (CDC), should establish an arabica coffee trading company (ACTC) to undertake the following functions,

* to take over and manage the Bamenda facilities of the National Produce Marketing Board (NPMB), including hulling and sorting equipment;

* to own and operate the hulling facilities at the Cooperative Unions in the North West Province;

* to organise the rehabilitation of these processing and transport facilities;

* to arrange with Commercial Banks and others the seasonal finance for the prompt purchase of the crop from farmers;

* to organise the efficient export of the crop;

• to contract with the Cooperative Unions for the timely and efficient purchasing of the crop in their respective areas;

• to operate any arabica coffee price stabilisation activities in the North West Province that it may be called upon to do;

Background

If NWCA is to be successful in its bid to take over the full marketing function that it has for so long been campaigning for, it must be able to clearly demonstrate that it will have the capability to do this. The association with CDC is designed to demonstrate that the technical competence of the company will be beyond question.

The support of other international development organisations, particularly USAID and EDF, will be essential. The arabica trading activities must be capable of being clearly identified and audited, and for this reason a separate company structure is recommended.

Critical to the success of the venture will be a number of decisions,

- that the present Block Buying Allowance system be abolished.

- that any new coffee price control system should not impose an additional trading risk on NWCA. Either the ACTC should pass on to farmers the net proceeds that their crop realises, or, if a higher price is set by Government, there must be a guaranteed fund to make up this premium.

- the ACTC/NWCA must be allowed direct access to seasonal finance facilities.

- the ability of the ACTC to market the crop to the best buyer is essential

- that ACTC/NWCA fully take over the present NPMB facilities in Bamenda.

- that a number of reforms within the Cooperative structure in the North West will be needed, including,

- an amalgamation of the Unions into viable units;
- a strengthening of the financial systems involved in farmer payment;
- acceptance of the need for the ACTC to operate the hulling lines to ensure their efficient operation;

Arabica Coffee Trading Company

This will be a limited liability company. Shareholders will be the Unions contributing their hulling equipment and NWCA (for the value of the Bamenda facilities). CDC will consider participating in the equity to finance equipment purchases. The participation of other shareholders can be considered.

There should be a separate Manager for the company. There will be close day-to-day contact between this Manager and the General Manager of NWCA. The company will maintain independent accounts for all its activities.

The company will operate from the site of the present NPMB Bamenda depot.

Support to be obtained from CDC will include,

recruitment of the full-time Manager (probably an Accountant by profession) and Technical Manager (a Coffee Processing Engineer) for three years, and other posts if any additional needs are identified. Plus support with specialist short-term assistance as approved by the ACTC Board.

support from the CDC Marketing and Purchasing Departments.

long-term loan finance for ACTC's investments in buildings, equipment and transport.

a possible equity participation in the company, particularly for the mark of confidence that this will bring.

Assistance with the payment of the CDC technical assistance input will be sought from the EDF.

1989/90 Season

Because of the short time that is available to prepare before the start of the purchasing season in January 1990 interim arrangements may need to be established for the first season of the ACTC's activities. These need to be identified now with NWCA, and a minimum set of conditions established for the launch

110

A detailed assessment of the Company's needs, its precise form and its relationship with any remaining Government intervention in the arabica marketing business needs to be made. CDC could be requested to undertake this assessment.

ANNEX E

ISSUES TO BE ADDRESSED DURING PAAD DEVELOPMENT

ANNEX E
ISSUES TO BE ADDRESSED DURING PAAD DEVELOPMENT

This Annex contains further detail on the issues to be addressed during the three studies needed to support preparation of the PAAD (see Section V).

A. Production Constraints

The Mission needs to develop a better understanding of: (1) the relative costs and benefits of coffee production versus those of other alternative crops assuming complete elimination of all input subsidies; (2) the requirements for and cost of increasing the quality and quantity of arabica production at the farm level; and (3) the availability or near term prospects for developing and extending improved coffee production technology.

B. Economic Impact of a Liberalized Market

The Mission needs to further develop its understanding of both the internal and external marketing systems for arabica coffee in the North West and West Provinces and the economic impact that can be expected from liberalization and privatization. Some of the key questions to be addressed are:

(1) What impact will the reforms currently under consideration have in reducing marketing inefficiencies? Do they meet both necessary and sufficient conditions? Can significant reductions in marketing costs be achieved?

(2) Are there other policy or institutional reform measures not now being considered that would further reduce arabica marketing costs?

(4) To what extent is the UCCAO marketing system in the Western Province an appropriate model for NWCA in the NW Province?

(4) If marketing costs are significantly reduced through policy reform what percentage of the benefits are likely to accrue to the producer?

(5) Is a quasi-liberalized or fully liberalized market structure compatible with any from of administered pricing? If so, what are the essential elements that must be embodied in an administered pricing structure?

(6) If the NWCA's marketing rights are expanded to include export marketing, will serious competition from private commercial buying agents be effectively precluded? If so, would this significantly limit the efficiency gains of the reform effort?

(7) Are there feasible and cost effective means for ensuring export quality in the absence of a direct ONCPB role in quality control?

(8) Are there dependable means by which stabilization can be achieved in the absence of a direct ONCPB role?

(9) What has been the impact of the current marketing system on income and employment, the generation of foreign exchange and the generation of government revenues?

C. Constraints to Cooperative Development

The study of the constraints to cooperative development will examine two related issues: (1) the constraints to cooperative development imposed from outside the cooperatives and (2) the constraints internal to the cooperatives themselves. The primary source of external constraints is the existing cooperative law and the power it gives to the state to intervene in the internal affairs of the cooperative. Thus a major component of the study will be to assess the adequacy of the changes to the law already proposed by the GRC and to identify any additional changes that may be needed to enable cooperatives to perform as independent commercial enterprises serving the best interests of their members. To this end, the study will need to address the following issues:

(1) How should/can a liberalized cooperative law deal with the significant variation in organizational capacity that exists among cooperatives/pre-cooperatives in Cameroon?

(2) How can/should a liberalized cooperative law protect cooperative members against financial loss (from illegal or ill-informed) actions of its leadership without being overly intrusive in the operations of cooperatives?

(3) Are reforms in the cooperative law necessary to permit cooperatives to own profit-making enterprises?

(4) How can/should a liberalized cooperative law provide some protection for unsophisticated farmer-members from the risks and uncertainties imposed by a business operation of the size and complexity of UCCAO's current operation and NWCA's expanded operations following the implementation of the reforms supported by RAMS I?

(5) How can/should a liberalized cooperative law establish a legal environment which provides incentives for commercial banks to provide credit to cooperatives by reducing the transaction costs of collecting on bad debts?

In examining the internal constraints to cooperative development, the study will consider how external factors (the law), contextual factors (history, objectives), structural factors (organization of the cooperative structure, by-laws), technical factors (activities performed by the cooperatives), and operational factors (internal management and accounting procedures) all interact to encourage or retard the development of the cooperatives. The study will also assess the extent to which UCCAO provides a model for use in restructuring NWCA marketing operations. In addressing this issue, some of the key questions to be answered are:

114

(1) How effective are the systems of accountability given the institutional arrangements under which NWCA and UCCAO are functioning? i.e., to what degree are the cooperative structure's leadership at all levels accountable to cooperative membership at the lowest level?

(2) How efficiently are NWCA and UCCAO managed as measured by the of ratio operating costs to total budget, the ratio of administrative costs to overall operating costs, the ratio of salary costs to overall operating cots?

(3) How transparent are NWCA and UCCAO accounting systems? Are these systems adequate to satisfy generally accepted accounting standards?

(4) Is NWCA's technical capacity adequate to effectively operate maintain and repair the capital equipment that is required for marketing and processing arabica coffee? If not, what needs to be done to establish/develop this capacity in the short and medium terms?

(5) Does NWCA have the capacity to handle the export of arabica coffee? If not, what needs to be done to establish/develop this capacity in the short and medium terms?

(6) Does NWCA have the management/technical capacity to ensure adequate quality control over exported arabica coffee? If not, what should be done, if anything, to establish/develop this capacity in the short and medium term?

(7) Does NWCA have the capacity to manage a stabilization fund following the pattern established under the UCCAO model? If not, can/should such a capacity be developed?

It should be noted that many of these issues are of fundamental concern to CDC as they move forward with the establishment of the joint-venture with NWCA to market arabica coffee.

ANNEX F

INITIAL ENVIRONMENTAL EXAMINATION

ANNEX F

INITIAL ENVIRONMENTAL EXAMINATION

Country:	Cameroon
Title of Activity:	Non-Project Assistance initiative Phase I to Reform the Agricultural Marketing Sector; (RAMS I)
Activity No:	631-0068
Funding:	FY 1990: $14,000,000 (LOP: $20,000,000)
IEE Prepared By:	David M. Songer, Mission Environmental Officer
Environment Action Recommended:	Categorical Exclusion

Discussion: This activity meets the criteria for a categorical exclusion in accordance with section 216 (2) (c) of A.I.D. Regulation 16 and is therefore, excluded from further review. The goal of the activity is to liberalize the marketing of those agricultural products where government intervention is inappropriate and inefficient. The activity will have two separate, but inter-related, interventions: (1) RAMS I -- liberalize internal and external marketing of arabica coffee, establish framework for liberalization of other export crops and inputs; and, (2) RAMS II -- liberalize internal and external marketing for robusta coffee and cocoa, and restructure the crop stabilization system. This IEE deals only with Phase I.

The use of activity resources is tied solely to policy, economic, and market liberalization and thus may be considered as an "action which does not have an effect on the natural or physical environment". This according to section 216.2(c) (1) (i) is criteria for a categorical exclusion. In addition, this activity is not subject to further review on the basis of Section 216. (c) (2) (xiv) which refers to exemption of "studies, projects or programs intended to develop the capability of recipient countries to engage in development planning, except to the extent designed to result in activities affecting the environment (such as construction, etc)".

Approved:________________________
Ellsworth Amundson
Acting Director

Disapproved:________________________

Date:________________________