Proj. 6310019 - (2)
PD-AAB-757-A1

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

CAPITAL ASSISTANCE PAPER

Proposal and Recommendations
For the Review of the
Development Loan Committee

CAMEROON: TRANSCAMEROON RAILROAD (Phase II)

631-22-330-019
698-H-006

[illegible]

AID-DLC/P-[illegible]

OPTIONAL FORM NO. 10
JULY 1973 EDITION
GSA FPMR (41 CFR) 101-11.6

UNITED STATES GOVERNMENT

Memorandum

TO : Reference Center, Ms. Joanne Paskar DATE: August 2, 1977

Floyd R. Spears

FROM : AFR/EMS, Floyd R. Spears

SUBJECT: Declassification of A.I.D. Documents

This memorandum addresses the following A.I.D. documents:

a. Measles Control and Smallpox Eradication Program dated Jan. 5, 1970

b. CAP on Trans-Cameroon Railroad (Phase II)

c. Mali -- Proposal and Recommendations on Veterinary Laboratory

d. CAP -- Liberia -- Improvements of Roberts International Airport, Phase II (Construction)

e. CAP -- Swaziland -- Agricultural Development Loan

f. CAP -- Ethiopia -- Malaria Eradication -- Phase I

g. CAP -- Somalia -- Mogadiscio Water Supply

h. CAP -- Tanzania -- Agricultural Projects Support

i. CAP -- TANZAM Highway Phase III

j. CAP -- Uganda -- Livestock Development

The above listed documents have been reviewed by appropriate staff personnel assigned to Africa Bureau to determine if these documents should be declassified. Based on this review, no justifications have been identified for the continued classification of these documents. Therefore, this memorandum hereby authorizes the declassification of all documents listed.

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

UNCLASSIFIED
LIMITED OFFICIAL USE

AID-DLC/P-710
May 24, 1968

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Cameroon - Transcameroon Railroad (Phase II)

Attached for your review are the recommendations for authorization of a loan in an amount not to exceed $10,000,000 to be reloaned to the Regie des Chemins du Fer du Cameroon (the Cameroon Railway Authority) to assist in financing the foreign exchange costs of equipment, materials and services required to construct Phase II of the Transcameroon Railroad from Belabo to Ngaoundere, in Cameroon.

This loan proposal is scheduled for consideration by the Development Loan Staff Committee at a meeting on Wednesday, May 29, 1968.

Rachel C. Rogers
Assistant Secretary
Development Loan Committee

Attachments:
- Summary and Recommendations
- Project Analysis
- ANNEXES I, III, IV and V
- ANNEX II - to be distributed

UNCLASSIFIED
LIMITED OFFICIAL USE

TABLE OF CONTENTS

May 24, 1968

SUMMARY AND RECOMMENDATIONS

CAMEROON: Transcameroon Railroad (Phase II)

1. Borrower: The Government of the Federal Republic of Cameroon (GFRC) for the Regie des Chemins de Fer du Cameroon (REGIFERCAM, the Cameroon Railway Authority).

2. Amount of Loan: $10,000,000

3. Total Cost of Project:

Country	Agency	Grant	Loan	Total Contribution
	(In Millions of US Dollars)			
United States	A.I.D.		$10.0	$10.0
European Economic Community	European Development Fund	$15.0	5.0	20.0
France	FAC	2.8	5.1	7.9
Cameroon	GFRC	5.1		5.1
Total				$43.0

4. Description of Project: The project involves extending the Transcameroon Railway from Belabo to Ngaoundere, a distance of 207 miles.

5. Purpose of A.I.D. Loan: To finance the procurement of United States services, construction equipment and material required for the project.

6. Background of the Project: In 1962 A.I.D. loaned the GFRC $9.2 million to cover about 25% of the cost of Phase I which entailed expanding the Transcameroon Railroad from Yaounde to Belabo, a distance of 183 miles. Phase I is under construction and is scheduled to be completed in January 1969. On April 2, 1965 A.I.D. received a formal loan application from the GFRC requesting assistance for the construction of Phase II.

7. Export-Import Bank Clearance: Received December 23, 1965.

8. Mission Views: The Mission strongly endorses the project.

9. Statutory Criteria: Satisfied. See Annex I.

10. Issues: None.

11. Recommendation: Authorization of a development loan to the GFRC in an amount not to exceed $10 million with the following terms:

A. Interest: 2% per annum for the first ten years; $2\frac{1}{2}$% per annum thereafter.

B. Maturity: 40 years, including a 10-year grace period.

C. Currency: Interest and principal payable in United States dollars.

This amount to be reloaned by the GFRC to REGIFERCAM with the following terms:

A. Interest: $3\frac{1}{2}$% per annum (see Annex V).

B. Maturity: 25 years, including a 5-year grace period.

C. Currency: Interest and principal payable in CFA francs.

CAPITAL ASSISTANCE COMMITTEE:

Capital Assistance Officer:	J. Haimes
Engineer:	C. J. Chidester
General Counsel:	J. Phippard
Country Desk Officer:	W. Wren

AFR/CDF, JHaimes:hk:lmg 5/24/68

CAMEROON: Transcameroon Railroad (Phase II)

SECTION I. INTRODUCTION

1. Project Description. The proposed 207-mile extension of the Transcameroon Railroad from Belabo to Ngaoundere will be part of an improved transport corridor which will connect the Douala-Yaounde area with the northern part of East Cameroon and the Fort Lamy area in Chad. The individual sections of this planned route are shown in the following table.

Planned Transcameroon Corridor

Section	Road or Rail	Distance (Miles)	Financed by	Status
Douala-Yaounde	RR	191	Germany France	In operation.
Yaounde-Belabo	RR	182	FAC1/ FED2/ AID GFRC	Under construction should be completed in January 1969.
Belabo-Ngaoundere	RR	207	FAC FED AID GFRC	Plans and specifications being completed by OCFT.
Ngaoundere-Garoua	Road	178	IDA (Final design)	Presently being designed.
Garoua-Mora	Road	156	FED	In existence.
Mora-Fort Foureau	Road	92	West Germany GFRC	Construction should be completed by 1969.

2. Project History. In 1960 the Cameroon Government (GFRC) asked the United States, France, Germany, and the European Economic Community to assist in financing an extension of its railroad system from Yaounde to Ngaoundere. It soon became apparent that the GFRC could not obtain at one time all of the $80 million needed to accomplish this task. Therefore, the GFRC decided to undertake the extension in two phases. Phase I would extend the existing railway from Yaounde to Belabo, a distance of 183 miles, while Phase II would extend the railway another 207 miles to Ngaoundere.

1/ French aid organization.
2/ European Development Fund of the European Economic Community.

Construction of Phase I which began in November 1964 is presently being carried out by the Italian firm COGEFAR. The estimated completion date for Phase I is January 1, 1969. Financing for this phase is as follows:

Source	Loan or Grant	Amount (In Mil. $)
A.I.D.*	Loan - 40 years with initial 10-year grace on amortization and interest rate of 3/4 of 1%	$ 9.2
EEC	Grant	17.25
France	$7.2 million Grant and $1.2 million Loan	8.4
GFRC		2.0
Total		$36.85

*See A.I.D. Capital Assistance Paper No. DLC/P-60.

COGEFAR's bid for Phase I construction contained an option clause under which the GFRC could award the construction of Phase II to COGEFAR at a 2% discount from COGEFAR's unit prices for Phase I. COGEFAR has since tried to initiate discussions with the consortium concerning new unit prices. Since COGEFAR does not appear willing to proceed under the terms of its original option, it has been decided that the option will not be exercised. Therefore, construction of Phase II will be open for international bidding.

On April 2, 1965 A.I.D. received a formal loan application from the GFRC requesting assistance for the construction of Phase II. After Export-Import Bank clearance was obtained on December 23, 1965, A.I.D. proceeded to review the economic feasibility study of the second section submitted by the French organization Societe D'Economie et de Mathematique Appliquees (SEMA) in December 1965. Intensive Review of Phase II was authorized on March 20, 1967.

Although construction cost estimates of the second section were made by SEMA in 1959, all the prospective participants in the project (A.I.D., FED, FAC, and the GFRC) agreed that these should be updated. These were submitted by SEMA in April 1967. A.I.D., on its own initiative, contracted with ARENCO International to evaluate and review SEMA's estimates. ARENCO concluded that SEMA's estimated total cost of $48.2 million was correct. This estimate assumed that $10 million of construction equipment and materials would be purchased from the United States.

After the new estimates were reviewed and found to be satisfactory, representatives of FED, FAC, A.I.D. and the GFRC met in Brussels in June 1967 to draw up a financial plan for Phase II. Unfortunately, after all of the prospective contributions were added up, there remained a shortfall of about $8 million. Nevertheless, the representatives of FED and FAC suggested that there be a call for bids for the second section. The United States representatives, however, disagreed and in turn proposed that (i) a technical review be made of the second section to ascertain whether cost reductions could be achieved by making minor changes in design, and (ii) additional financing be sought by querying other aid donors. After considerable discussion, both FED, FAC and the GFRC accepted and endorsed the United States position.

The proposed engineering review was carried out by a team of five experts in the fields of projectization, track laying, earth moving, bridges and culverts, and soil mechanics. This review dealt only with quantities of work and design; it utilized the unit prices established by SEMA and ARENCO. The final report submitted by this group on September 30, 1967 revealed that cost reductions of about $5.2 million were possible. This would reduce the total cost of Phase II to $43.0 million.

After this report was reviewed, another meeting was held in Brussels on November 12, 1967. At this meeting, representatives of the GFRC revealed that rather than further delay the project by bringing in other financial participants, it would close the remaining financial gap by increasing its contribution by about $3 million. The representatives agreed that the final project specifications prepared by the OCFT should conform to those recommended in the September 30, 1967 report.

Prequalification of bidders will begin on or about June 1, 1968. It is expected that all required drawings, plans and specifications will be completed and accepted by all concerned parties to permit a call for bids by October 1, 1968.

3. The Borrower. The Borrower is the Federal Republic of Cameroon (GFRC). The loan proceeds will be controlled by the Office du Chemin de Fer Transcamerounais (OCFT), an industrial and commercial entity owned by the GFRC. The OCFT was established in 1961 for the purpose of administering and supervising the design and construction work on the Transcameroon Railway (Yaounde-Ngaoundere) and on possible extensions and branches to this railway. Management of the OCFT is carried out by a six-member Board of Directors which is presided over by the Deputy Prime Minister. It also includes the Director of Planning, the Director of Public Works in Eastern Cameroon, and the Director of the Regie des Chemins de Fer du Cameroun (REGIFERCAM). After construction of the Transcameroon Railway is completed, the OCFT will be dissolved and its assets turned over to the REGIFERCAM.

The REGIFERCAM is a state-owned entity which enjoys civil and financial autonomy from the GFRC. It was established in 1947 to take over the management and operation of the entire railway system of Cameroon.

REGIFERCAM is managed by a 14-member Board of Directors which represents the organization in dealings with third parties. The Board also contracts all loans and makes major decisions regarding general operating, replacement, and investment programs.

The By-Laws of the REGIFERCAM provide that it shall assume responsibility of meeting all costs of operating, maintaining, and expanding the railway system of Cameroon. Therefore, REGIFERCAM will not only manage and operate the proposed extension of the Transcameroon Railway from Belabo to Ngaoundere, it will assume the expense of paying the principal and interest on all loans which will be contracted to finance the construction of this extension.

REGIFERCAM's staff includes 780 administrative and operating personnel, 117 auxiliary personnel, and 2,004 day laborers. Technical assistance has been and still is being provided by the French Office Central des Chemins de Fer d'Outre-Mar (Central Bureau for Overseas Railways). There are presently 44 technical assistants working with REGIFERCAM.

LIMITED OFFICIAL USE

4. Relation to A.I.D. Strategy and Policy. A.I.D. assistance in the financing of the second phase of this project is a logical extension of our participation with the European Economic Community and France in financing the Phase I extension of the same railroad.

The United States is interested in the Cameroon because of its dominant position in central Africa and the significant influence it exerts on the other countries in the area. We are looking to Cameroon for leadership in the development of regional projects by means of which our assistance can be channelled into central Africa.

A.I.D. would like this project to lead to intensified cooperation among aid donors on other needed projects in Africa. Because the EEC has become a leading source of funds for Africa, we especially wish to encourage the coordination of its activities with our own.

LIMITED OFFICIAL USE

SECTION II. Economic Analysis

1. The Economy of East Cameroon. East Cameroon has a population of about 4.1 million. It is relatively well-endowed with agricultural resources and also has hydroelectric and mineral wealth just beginning to be exploited. (Only East Cameroon shall be dealt with, for it alone has a direct bearing on the railway project.)

The main export crops raised in the south are cocoa, coffee, and bananas. In the north cotton and groundnuts predominate. The major food crops grown in the north are cassava, millet and sorghum. In contrast, the south raises taros, plantains, corn, yams, and sweet potatoes. At present only about 10% of the region's food production is marketed, the remainder being consumed directly by the growers. Forestry has a good development potential in the south, while the fish and cattle industries in the north should expand considerably once low cost, reliable transport links to the south are available.

Industrial production is very limited in East Cameroon, employing a total of only 7,500 workers. The most important industry is the 53,000-ton capacity aluminum smelter at Edea. Other types of industrial plants such as sawmills, breweries, rice mills, cold storage slaughter houses, and cotton-ginning works are primarily centered around Douala and Yaounde in the southern region.

East Cameroon's trade balance has been favorable since 1958. The surplus in 1964 was around $9 million on exports of $123 million. Cocoa and cocoa by-products, coffee, timber, aluminum, cotton, and groundnuts comprise 90% of total exports. The north, however, accounts for only about 10% of these exports. Imports are divided generally as follows:

Type	Percent Of Total
Finished consumer goods	33
Equipment	25
Raw materials and semi-finished goods	25
Food products and fuel oils	17
Total	100%

Again, imports for northern Cameroon are estimated at slightly less than 10% of the total.

One of the main reasons for the disparity between economic activity in the northern and southern regions is the lack of an adequate transport network between the two areas. A solution to this problem is the extension of the Transcameroon Railway from Belabo to Ngaoundere.

2. Existing Transport Facilities in Cameroon.

A. Rail. The railway network in Cameroon consists of the following lines:

a) The Northern line which connects Douala with Nkongsamba. This line, built at the beginning of the century, is 106 miles in length.

b) The Central line which connects Douala with Yaounde, a distance of 190 miles. Construction of this line began at the beginning of the century and reached Yaounde in 1927.

c) A branch of the Central line which connects Otele station with Mbalmayo, a distance of 22 miles. It was built in 1927 and converted to meter gauge in 1933.

The railway network services approximately 12% of the total area of Cameroon and 30% of its population. Total tonnage of freight carried rose by an annual average of 3.5% between 1958 and 1964, while the number of ton-kilometers increased at an annual rate of 4.6%. Since 1958 passenger traffic has remained at around 1.3 million people carried per year.

B. Road Transport. The road system in East Cameroon consists of less than 4,000 miles of improved roads. Road transport between Douala on the coast and Ngaoundere in the north goes by three routes, each about 1,000 miles long. Only one of these roads, however, is frequently used; this is the so-called Highway 1 which passes through Yaounde, Bartoua and Garoua-Boulai.

There are 33,000 vehicles registered in East Cameroon. Although it is difficult to estimate the growth in tonnage handled by road traffic, an indication of growth might be the increase in diesel fuel consumed by trucks in East Cameroon which in recent years has increased by 6.5% per annum.

C. River Transport. The Benue River is the only navigable river which links the northern part of Cameroon with the sea. However, Garoua, the only significant port in the northern region, is accessible only during the two-month rainy season. Nevertheless, traffic on the river through this port has increased by 10% annually since 1959, with 62,000 tons being handled in 1964. However, this growth rate may shortly be curtailed due to limitations of navigability on the river.

D. Air Transport. Incoming and outgoing air freight at the various airports in East Cameroon decreased from 14,700 tons in 1958 to 13,200 tons in 1964. On the other hand, passenger traffic nearly doubled during the same period.

E. Comparison of Transport Rates. The following table summarizes the approximate average freight rates of the four types of transport.

Mode	Per Ton-Kilometer
Railway	$ .033
Roads	.050
River	.035
Air	.087

Rates for the railroad are generally uniform throughout the system. However, goods going to or from northern Cameroon, Chad and the Central African Republic receive a special transit rate which is slightly lower than that shown above. Rates for road transport vary widely, with the highest being around $ .09 per T-Km and the lowest around the average rate charged by the railroad. Although river rates are shown as being approximately the same as rail, no account is taken for the time delay in river shipments. In some cases this delay is as long as 10-11 months. Such delays increase the economic cost of shipping since the producer or consumer must absorb the additional cost of goods being tied up in inventory.

The impact on the economy due to a reduction in the existing transport rates can be shown by the following illustration: If the average cost of transport from the north to the south were decreased by 1½¢ per T-KM (i.e. from average road transport rate to average railway rate), a northern producer could receive 12¢ per kilogram of peanuts versus the present price of 10½¢, and pay 10½¢ for a liter of gasoline compared with the present price of 13¢. Before transport improvement then, a northern producer could obtain .80 liter of gasoline per kilogram of peanuts while after he could obtain 1.14 liters per kilogram of peanuts. This is an increase in his real income of 43%.

3. Traffic Projections of an Improved Transcameroon Corridor

A. Internal North to South Traffic. North to south traffic projections are based solely on the estimated production of five major products: cotton, groundnuts, livestock, fish and rice. Projects of these commodities (and their by-product such as groundnut oil, cotton oil, cotton oil cakes and skins) are based on data presented in the SEMA report. The following table summarizes these estimates:

Mode of Transport	Total Tons of Goods to be Transported Annually			
	1963-64	1970-71	1975-76	1985-86
Railroad or road	15,400	62,100	79,000	127,300
Benue River	18,000	19,000	22,000	24,000
Nigerian Railroad and Other	32,000	8,000	11,000	14,000
Total	65,400	89.100	112,000	165,300

The above estimates indicate a relatively modest growth in total tons to be transported, only 4.6% per year. The share going to rail or road, however, is estimated to increase eight-fold.

B. Internal South to North Traffic. Forecasts of the movement of goods from the southern to the northern region of Cameroon are based on the following predictions:

a) Population growth rates will remain at present levels;

b) per capita income will increase by 3.5% per year; and

c) per capita consumption of imported goods will increase by 3.5% per year.

Projections of traffic tonnage destined for the northern region are summarized in the following table. This tonnage will consist of fuel and lubricating oil, metallurgical products, foodstuffs, manufactured goods, fertilizers and timber.

Mode of Transport	Total Tons of Goods Requiring Transport Annually 1963-64	1970-71	1975-76	1985-86
Railroad	16,600	42,000	69,300	158,500
Benue River	22,700	18,500	20,700	24,400
Nigerian Railroad and Other	-	-	-	-
Total	39,300	60,500	90,000	182,900

Note that tonnages to be transported to the northern region are projected to increase more rapidly than those to be shipped from north to south (i.e. 7.3% as opposed to 4.6%). The explanation for the more rapid growth in the projected south-to-north traffic is that the northern region will import primarily heavy products (fuel oil, metals, fertilizers and wood), whereas tonnages projected to move south are products with less weight per volume (e.g. cotton, peanuts, palm oil and by-products of these).

C. Traffic with Chad. In addition to the internal traffic between the northern and southern sections of East Cameroon, goods to and from the Mondou and Fort Archambault areas of southern Chad probably will be shipped over the proposed railroad. (Most commodities to and from the area of Fort Lamy, Chad probably will continue to move over the Nigerian Railway.)

It is estimated that 80,000 tons per year are moved to and from Chad via East Cameroon. However, only 4% of the total or 3,000 tons is presently being shipped over the Transcameroon Railroad. With the proposed railroad extension to Ngaoundere, a much greater volume of traffic should move by rail. Traffic from Chad will mainly consist of groundnuts, cotton, livestock and meat while traffic to Chad will consist of fuel oil, cement, metal products and manufactured goods.

The amount of goods to and from Chad which will be carried by the Transcameroon Railroad will depend on the construction of either an all-weather road or a railroad extension from Ngaoundere to Mondou. The SEMA report bases its traffic projections of commodities to and from Chad on the assumption that this heavy-traffic route will be constructed by the end of 1973. Indeed, if this link is not completed, traffic volumes to and from Chad moving over the Transcameroon Railroad probably will not exceed 25,000 tons per year.

If this link is constructed, traffic to and from Chad is estimated to increase to 93,100 tons in 1974. This amount will represent 42% of the total volume of goods moving over the Transcameroon Railroad in that year. By 1986 Chad traffic on that railroad is estimated to reach 197,600 tons or 41% of the total volume. However, if the Ngaoundere-Mondou link is not constructed, total yearly traffic volumes will be about 30% less than the amounts estimated by SEMA.

D. Traffic Summary. The vast majority of tonnages forecasted above will travel the whole distance between Belabo and Ngaoundere. This is so because very few people live in the area through which the railroad will pass. (The average population density of that area is 2.9 persons per square kilometer.) It is assumed, therefore, that the projections of tonnages can be converted to ton-kilometers by multiplying them by the distance of the proposed railroad or road alternative between Belabo and Ngaoundere. The following table summarizes these projections via rail or road alternatives.

Growth of Freight Traffic (In Both Directions)

	Amounts Transported in Tons			Millions of Ton-Kilometers	
Year	North Cameroon	Southern Chad	Total	Railroad (334 KM x Tons)	Road (371 KM x Tons)
1971	104,100	23,500	127,600	42.6	47.3
1972	111,800	24,700	136,500	45.6	50.6
1973	120,000	26,000	146,000	48.6	54.2
1974	128,800	93,100 a/	221,900	74.1	82.3
1975	137,300	98,000	235,300	78.6	87.3
1976	148,500	105,000	253,500	84.7	94
1977	158,600	113,100	271,700	95.9	100.8
1978	169,300	121,300	290,600	97	107.8
1979	180,900	129,900	310,800	103.8	115.3
1980	193,200	138,600	331,800	110.8	123.1
1981	206,400	147,700	354,100	118.2	131.4
1982	220,400	157,000	377,400	126	140
1983	235,400	166,600	402,000	134.3	149.1
1984	251,300	176,500	427,800	143	158.7
1985	266,600	186,800	453,400	151.3	168.2
1986	285,800	197,600	482,400	161.4	179.3

a/ Opening of the Ngaoundere-Moundou heavy-traffic route is expected in 1974.

E. Possible Additional Traffic. There are two other potential sources of traffic. Although these are not included in this paper's traffic projections, they could significantly increase the forecasted tonnage of goods to be moved between northern and southern Cameroon. One of these sources is the bauxite deposits at Martap-Ngaoundal in the northern region. These deposits probably would be worked if the capacity of the aluminum smelter at Edea were increased to two or three times its present capacity. Consideration of this possibility has been given serious attention by the GFRC and by the French interests in the Edea smelter, but no decision has yet been reached.

The other source for increased traffic is based on the possible construction of a dam at Mbakaou, also in the northern section. This proposed dam which would provide water for an intensive irrigation scheme would appreciably increase the amount of products grown in the area. It is estimated that the implementation of this scheme would result in an additional 50,000 tons of traffic annually.

4. Alternative Transport Solutions for the Transcameroon Corridor

A. General. Given the traffic projections between Belabo and Ngaoundere, it is necessary to determine the most economic means of transporting these forecasted tonnages. The possible alternatives are:

a) Extending the Transcameroon Railroad to Ngaoundere;

b) constructing a new road along the same general path as the proposed railway; and

c) reconstructing the existing road, that lies east of the proposed new road route to all-weather,heavy traffic standards.

Of the three possibilities, reconstructing the existing road can be rejected readily as the least economic. First, because this route would be nearly twice as long as a new road, user operating costs would be considerably greater than they would be over a new road. Secondly, because the existing road is in such poor condition and traverses much rugged terrain, its reconstruction cost would be greater than the cost of building the direct road. This alternative, therefore, should be eliminated.

B. New Road Alternative. The possible direct road between Belabo and Ngaoundere would generally follow the route proposed for the railway extension. It would divert from this route in a few places. Because a road requires a wider bed than a railway (28' vs. 13'), and because a road can withstand greater horizontal and vertical curvature, it would be better to have it follow ridgelines to avoid heavy earthwork and drainage problems. The proposed direct road would therefore be about 226 miles long (371 kilometers).

The estimated cost for construction of the direct road is $23.2 million. These costs should be spread over a four-year construction period (1968-1971).

SEMA states that it would not be necessary to acquire additional trucks to carry the estimated tonnages until 1977 at which time four trailer trucks (each with an 18 ton capacity) would be purchased. Additional trailer trucks would be needed each year henceforth. This number would increase from five in 1978 to eleven in 1986. From 1977 to 1986 a total number of 69 trailer trucks would be purchased costing a total of $1.5 million.

Ordinary yearly road maintenance costs are estimated at $230 per mile or $85,500 per year for the entire road. In addition, the road would need resurfacing once every five years before 1985 and from then on once every three years. Each resurfacing would cost about $2 million. It is also estimated that the average cost of hauling one ton a distance of one kilometer on the proposed road (asphalt surface) would be 3.20 cents. This amount includes vehicle depreciation. Therefore, the cost of replacing rolling stock is included in operating costs. By multiplying this figure by the projected annual ton-kilometers of traffic shown previously, a total yearly operating cost can be determined for comparison with the railroad alternative. The initial year that the road is in operation, this cost would be $1.59 million. It would increase to $6.49 million by 1987.

The following table presents total capital costs, user operating costs, normal maintenance costs, and resurfacing costs of the direct Belabo-Ngaoundere road. These costs have been projected for 50 years, the assumed life of the road and railroad. After 1986 user operating costs are constant since traffic projections have only been made through 1986. From 1986 the cost of resurfacing the road is taken on an annual basis. Note that the estimated amounts for the purchase of additional trucks have been omitted on purpose in order to forestall the objection that additional vehicles could be financed by the depreciation charges on all the trucks in Cameroon. These amounts total $1.53 million.

Capital and Operating Costs for the Direct Belabo-Ngaoundere Road
(In Millions $)

Year	Construction Cost	Re-surfacing	Normal Maintenance	User Operating Costs	Total Cost per Year
1968	5.6	-	-	-	5.6
1969	5.6	-	-	-	5.6
1970	6.0	-	-	-	6.0
1971	6.0	-	-	-	6.0
1972			.0856	1.514	1.599
1973			.0856	1.619	1.704
1974			.0856	1.734	1.820
1975			.0856	2.634	2.716
1976			.0856	2.794	2.879
1977		2.0	.0856	3.008	5.098
1978			.0856	3.225	3.311
1979			.0856	3.449	3.535
1980			.0856	3.689	3.775
1981			.0856	3.939	4.025
1982		2.0	.0856	4.204	6.294
1983			.0856	4.480	4.565
1984			.0856	4.771	4.856
1985			.0856	5.078	5.164
1986		2.0	.0856	5.382	7.472
1987		.668	.0856	5.737	6.491
2021		.668	.0856	5.737	6.491

C. Cost of the Transcameroon Railroad Extension. The capital cost of the Belabo-Ngaoundere extension of the Transcameroon Railroad is estimated at $43 million. This includes $3.0 million for additional rolling stock consisting of:

3 - 2,200 h.p. locomotives,

8 - small switching engines, and

69 - freight cars.

The estimated total operating costs are based on the following forecast of the number of trains weekly between Belabo and Ngaoundere:

1971-1973	3 trains weekly
1974-1976	5 trains weekly
1977-1979	6 trains weekly
1980-1982	7 trains weekly
1983-1984	8 trains weekly
1985 and thereafter	9 trains weekly

The total operating costs for the railroad include depreciation of all capital facilities; wages and fringe benefits of railroad personnel; maintenance and repair of stations, engines and rolling stock; and fuel. These costs would total $800,000 per year initially, increasing to $1.42 million by 1987.

D. Optimum Solution. The preceding analysis shows that the railroad alternative has a higher capital cost than a road built along the same general path ($43 million vs. $23.2 million). However, the operating expenses of the railroad are considerably lower, being $800,000 per year initially for the railroad vs. $1.59 million for the road and rising to $1.42 million in 1987 for the railroad compared with $6.49 million for the road. When capital, operating, and maintenance costs over the assumed 50-year life are added together, the following results are obtained:

Railroad	$104 million
Road	$315 million

However, a more meaningful comparison can be made between the two alternatives if the total yearly costs for each alternative are discounted back to the present and the 50 resultant present values added together. The present worth values of the road and the rail alternatives can then be compare SEMA did this for three interest rates - 6%, 10%, and 14%. The results are as follows:

Discount Rate	Present Value of Costs of Railroad	Present Value of Costs of Road
6%	$48 million	$80 million
10%	38 million	47 million
14%	32 million	32 million

The railroad alternative has the lower present value at discount rates up to 14%. Since it is highly unlikely that the actual opportunity cost of capital in East Cameroon is greater than 14%, it would appear that the railroad is the best alternative.

5. The Economic Benefits Resulting from Extending the Transcameroon Railroad.

A. General. It has been shown that the extension of the Transcameroon Railroad is the minimum cost alternative for the transport of the estimated tonnages of goods between Belabo and Ngaoundere. However, it is still necessary to demonstrate that given the estimated capital and recurrent costs of the railway extension, that the economic benefits to the Cameroon economy resulting from the proposed rail extension will be large enough to yield a rate of return equal to or greater than the marginal productivity of capital in Cameroon (i.e. the opportunity cost of capital in Cameroon).

Therefore, we must compare the time profile of the costs of extending the railroad with a time profile of the incremental quantitative benefits resulting from such an extension. These two time profiles of costs and benefits will then be discounted at various interest rates. The rate that equalizes the present value of costs and benefits will be the internal rate of return of the project. This rate may then be compared with the opportunity cost of capital in Cameroon to determine if the proposed investment is economically justified.

B. Reduction in Transport Costs. If the Transcameroon Railroad is not extended, the unit cost of shipping goods between the northern and southern regions will continue at the existing freight rate - about 5¢ per ton-kilometer. It also must be noted that the present road route between Belabo and Ngaoundere is 166 miles longer than the proposed railway extension. Taking these two factors into consideration (i.e. higher unit costs and longer distance), a comparison can be made between the total user costs over the existing road vs. the total user costs via the proposed rail extension from Belabo and Ngaoundere.

The SEMA study estimates that tonnage on the existing road between Belabo and Ngaoundere would not exceed the 1971 projection of 127,600 tons. Were this traffic carried over the 373-mile existing road, it would equal 76.69 million ton-kilometers of traffic. At an average cost of approximately 5¢ T-KM, the total transportation cost would be $3.7 million annually. The comparable cost of transporting this tonnage via the proposed railway extension would be $1.4 million annually. The difference between the two figures ($2.3 million) represents the annual user savings due to the extension of the railroad. These savings would accrue every year of the 50-year estimated life of the railroad.

The present value of a $2.3 million annuity to be received for 50 years starting in 1971 at various rates of interest is as follows:

of Interest	Present Value
6%	$30.45 Million
10%	17.13 Million
15%	10.07 Million

C. Increased Agricultural Production. By bringing about a large reduction in the costs of transporting bulky agricultural produce from the area around Ngaoundere to Douala, the main ocean port, the proposed railroad extension will stimulate greater production and shipment of these commodities from this area. SEMA states that 75% of the estimated yearly additional agricultural production originating in north Cameroon after 1986 can be used as an approximate indicator of the additional yearly real output resulting from the proposed project. Its estimates of this production are as follows:

Commodity	Yearly Increase in Production by 1986 (Tons)	Wholesale Price (CFA Franc/ton)	Value (Millions of CFA francs)
Groundnuts	14,000	15,000	210
Groundnut Oil	200	120,000	24
Cotton Fibre	16,000	110,000	1,760
White Rice	12,500	40,000	500
Meat	3,000	100,000	300
Live Cattle	2,000	100,000	250
Skins	500	80,000	40
Dried Fish	5,000	100,000	500
			3,584

.75 x 3,584 = 2,690 million CFA francs

SEMA reduces the resultant figure (2,690 million CFA francs) by 20% in order to take into account costs of production. The value added is, therefore, 2,150 million CFA francs (.80 x 2,690) which is equivalent to $8.6 million per year. This extra yearly output of $8.6 million represents a substantial benefit. The present value of a $8.6 million annuity to be received for 35 years starting in 1986 and ending in 2021 at various rates of interest is as follows:

Rate of Interest	Present Value
6%	$43.69 million
10%	14.96 million
15%	4.56 million

However, extra agricultural production of a smaller magnitude should occur between 1975 and 1986. SEMA estimates the net value of this extra production to be about $2.7 million per year. The present value of a $2.7 million annuity to be received for 11 years beginning in 1975 at various rates of interest is as follows:

Rate of Interest	Present Value
6%	$14.17 million
10%	8.99 million
15%	5.32 million

The total discounted benefits for the proposed project consisting of user cost savings and additional net agricultural production can now be presented:

Rate of Interest	Present Value of Total Benefits
6%	$88.31 million
10%	41.08 million
15%	19.95 million

D. Discounted Costs of the Rail Extension. The $43 million capital costs will be disbursed over a three year construction period (June 1969 - June 1972). It is assumed that these disbursements will be as follows:

Year	Capital Expenditure
1969	$12 million
1970	12 million
1971	12 million
1972	7 million

The present value of this cost stream at various rates of interest is as follows:

Rate of Interest	Present Value of Capital Costs
6%	$37.58 million
10%	34.66 million
15%	31.36 million

E. Internal Rate of Return. The present value of costs and benefits can now be compared as follows:

Rate of Interest	Present Value of Capital Costs	Present Value of Benefits
6%	$37.58 million	$88.31 million
10%	34.66 million	41.08 million
15%	31.36 million	19.95 million

The internal rate of return is that rate of interest which makes the present discounted value of costs and benefits equal. This was computed to be 11.5%. Since the social marginal productivity of capital in Cameroon probably does not exceed this rate, it can be concluded that the Belabo-Ngaoundere railway extension is economically justified.

III. TECHNICAL ANALYSIS

1. Background. During the early part of the twentieth century, preliminary engineering studies were made by the French Government to establish the location of the Railroad from the port of Douala in Cameroon to Mondou in Chad by way of Ngaoundere in north-central Cameroon. By 1933, the rail line was complete from Douala to Yaounde. In late 1964, an Italian construction firm (COGEFAR) was awarded the construction contract to extend this rail line toward Ngaoundere from Yaounde to Belabo). This is commonly known as the first phase of the extension of the Transcameroon Railroad. Completion of the construction of this section is scheduled for early 1969. Belabo, therefore, is the starting point of the project now under consideration and is known generally as the second phase. This section extends from Belabo to Ngaoundere (207 miles) and is to be funded in part by this loan. The present track location is a refinement of a preliminary survey completed in 1959. Subsequently, the French financed the final design of the extension to Ngaoundere. The alignment as now established is considered the shortest and most economical route, as well as being the most favorable to the development of the regions traversed.

2. Design. The design standards of the Second Section of track are the same as those used on the First Section; i.e. it will be a one-meter gauge track using wood and steel ties under 66 pound rail. It will have a maximum radius of 300 meters (985 feet) and the minimum length of tangent between curves will be 75 meters (245 feet). Vertical curves will have a 5,000 meter radius (16,350 feet). The cuts and the fills for the track bed will be brought to an elevation which will allow for the placing of two inches of sand cushion (under ballast) and six inches of ballast under the ties. It is estimated that this section of track will require approximately 5,700 tons of corrugated metal culverts and 2,600 lineal feet of structural steel, including seven major river crossings. Five depots with sidings are to be constructed and, additionally, nine passing sidings where stops may be made. In addition to approximately 1,085,000 feet of main line track, there will be about 64,000 feet of siding and depot track. The rail weight of 66 pounds per meter has been determined to be the lightest that can satisfactorily carry the anticipated loads. Using the criteria applied in the United States for estimating the life

of the rail; i.e. twice its weight per yard in millions of tons, this rail should service a traffic volume of 120 million gross tons before its replacement becomes necessary.

After the completion of the initial bidding documents for this section of the track, the donors concluded that further cost study should be made of the original design before requesting bids for the Second Section. Accordingly, FED, in early 1967 with the approval of A.I.D., FAC, and the Transcameroon Railway Authority, retained SEMA, a French firm of consulting engineers, to estimate current costs of the Second Section. A.I.D. was concerned that the new estimates were higher than the expected availability of funds and pressed for a further review of the design to bring down costs. A group of five independent consultants checked into the design. This work was accomplished during the summer of 1967, and in November 1967, the suggestions made by the consultants were agreed to by FED, A.I.D., FAC, and the OCFT. The new estimates shown herein reflect the design changes recommended.

The bidding documents are in the process of being revised to indicate the approved changes in the design. From an engineering point of view, the revisions are sound and the design changes proposed and adopted by the responsible agencies appear to meet the requirements for a railroad of this character. Basically, the changes proposed by the consultants and accepted include a reduction change in the number of ties from 1,500 to 1,333 per kilometer of track; a design change aimed at eliminating sliding in the deep cuts; elimination of ballast pans on the bridges; and replacing some of the arches and box culverts with semicircular pipe culverts or with small reinforced concrete bridges. The change in the design of the deep cuts and the elimination of ballast pans are conservative proposals and are beneficial for the railroad as a whole. The other changes adopted may require a greater concentration on track maintenance than would otherwise be the case. With the assistance of the French, the rolling stock will include the necessary equipment and facilities to handle the additional maintenance responsibility imposed upon the Railway Authority.

3. Procedure for Construction. The final plans, specifications and bidding documents have been prepared and will be approved by the Economic Development Fund of EEC, FAC and by A.I.D. before bids are requested.

The following categories of construction firms will be eligible to bid:

1. United States Firms
2. EEC Country Firms
3. Associated states including African Community Firms
4. Joint Ventures of the above

Construction is to be executed under a competitive bid with a single unit price contract to be awarded subject to GFRC, EEC, FAC, and A.I.D. approval. A performance bond of 100% will be required.

Construction will be directed by the Office of Chemin de Fer du Trans-Cameroonais (OCFT), which has been specifically created for this purpose. Cost of OCFT direction will be financed by the GFRC. The principal employees of the OCFT are five railroad design and construction engineers, each of whom has a curriculum vitae on record with A.I.D. and is judged to be well qualified for his assignment. In addition, there will be technical supervision handled by a "Controleur" appointed and financed by FED who will check the work performed and will supervise expenditures for the project.

Each bidder will be required to submit a financial plan with his bid which will list all procurement proposed from sources outside the Cameroon and showing the procurement from the United States under the $10,000,000 A.I.D. Loan.

The Railway Authority estimates that all required bidding documents will be ready and approved to meet the following schedule:

a.	Preselection of bidders	- June 1, 1968
b.	Opening preselection proposals	- August 1, 1968
c.	Call for Bids	- October 1, 1968
d.	Opening of Bids	- March 1, 1969
e.	Start of Construction	- June 1, 1969

LIMITED OFFICIAL USE

4. Estimated Costs. The estimated costs of the project are as follows:

Cost of Track Construction -

Clearing and Grubbing	$ 750,000
Excavation	7,750,000
Culverts and Small Arches	9,500,000
Steel Bridges	1,520,000
Reinforced Concrete Structures	400,000
Track Laying and Ballast	4,550,000
Track and Track Equipment	5,600,000
Effect of Expenditures in United States	330,000
Total Estimate	$30,400,000
Contingency Price, Escalation, Etc.	5,300,000
Estimated Cost - Track Construction	$35,700,000

Other Costs -

Wooden Ties - OCFT Purchase	$ 1,200,000
Stations and Telecommunications (French)	2,100,000
Rolling Stone (French)	3,000,000
Technical Supervision (OCFT)	1,000,000
TOTAL COST OF PROJECT	$43,000,000

The $35,700,000 construction cost includes $23,000,000 in foreign expenditures.

On the basis of this estimate of cost, the suitability of project to needs of the country, as well as the care taken on the preliminary and design engineering, the technical requirements of Section 611 have been complied with.

IV. Financial Analysis

1. Financial Plan. The financial arrangements for the project, which were agreed upon at the November 12, 1967 meeting in Brussels, are set forth in the following table.

Phase II - Financial Plan
(In Millions of Dollars)

Cost	FED	FAC	A.I.D.	CFEC	Total
Construction (30.4) plus Contingencies (5.3)	20.0	2.8	10.0	2.9	35.7
Rolling Stock	-	3.0	-	-	3.0
Stations and Tele-communications	-	2.1	-	-	2.1
Wooden Ties	-	-	-	1.2	1.2
Supervision of Work (OCFT)	-	-	-	1.0	1.0
Total	20.0	7.9	10.0	5.1	43.0

FAC, the French aid organization, already has financed the engineering design costs of Phase II. In addition, it is providing a total of $7.9 million for the project. This includes a $2.8 million grant and separate loans for (i) rolling stock and (ii) stations and telecommunications. Terms for both of these loans will be as follows:

Amortization: 15 years including a grace period of 5 years.
Interest: 4½%.

The European Development Fund (FED) of the European Economic Community is providing a total of $20 million for the project. This includes a $15 million grant and a $5 million loan to be administered by the European Investment Bank with the following probable terms:

Amortization: 40 years including a 10 year grace period.
Interest: 1%

The Bank's loan terms will not be finalized until early June 1968. There is a possibility that FED will make a $16 million (as opposed to $15 million) grant and a $4 million (as opposed to a $5 million) loan with the following terms:

> Amortization: 40 years including a 10-year grace period.
> Interest: 1% during the grace period and 2½% thereafter.

The GFRC was initially going to contribute $2.2 million to the project. In November 1967, however, the GFRC announced that it would increase its contribution to $5.1 million.

A.I.D. originally intended to seek the President's approval for authority to negotiate a loan of approximately $12 million for the second section. This amount would have included provision for local cost financing. However, because of the sensitivity of the United States Treasury to local cost financing in the franc zone, A.I.D. decided that its $10 million contribution to the project would be made strictly on the basis that all loan proceeds would be used to purchase United States machinery and material.

2. <u>Repayment Prospects</u>

A. <u>Financial Analysis of REGIFERCAM</u>. A summary of REGIFERCAM's revenues and expenditures from 1963 through 1966 is set out in a table below. (Note that this follows the French accounting system.)

During fiscal years 1965-1966 and 1966-1967 freight traffic remained static owing to a drop in the exports of certain commodities (e.g. bananas and cocoa) and to a temporary slowing down in the activities of the ALUCAM company. Agricultural programs now in operation and the project to expand the hydro-electric generating plant at Edea should result in a renewed increase in traffic. Traffic will be considerably increased within the next few years as a result of the opening of the extensions now being built. (e.g. the Mbanga-Kumba branch and Phases I and II of the Transcameroon Railroad.

Passenger traffic fell off by approximately 10% during fiscal years 1963-1964 and 1965-1966, probably owing to competition by small short-distance road carriers. In contrast, the introduction of railcar service has enjoyed increasing success. Fiscal year 1966-1967 recorded a net rise in the number of passengers transported, an increase in first class traffic, and a further increase in the length of the average trip.

The Net Income of REGIFERCAM has been positive primarily because its annual interest and amortization payments have been relatively small. These relatively small payments have been the result of REGIFERCAM obtaining considerable grant financing for improvements and expansions. In 1947 REGIFERCAM received an initial capital inflow from France of $11.2 million. Since that time 68% of its total external financing of $53.2 million has been in the form of grants or subsidies. (See Annex 3, Table I for details.)

Annex 3, Table 2 presents the expected future grants and loans to REGIFERCAM. Annex 3, Table 3 presents REGIFERCAM's debt service payments resulting from previous loans. Table 4 of Annex 3 presents the probable debt service payments that will result from future loans to REGIFERCAM for Transcameroon (Phase II). The Net Income estimates shown in Annex 3, Table 5 are taken from the October 1966 report by SEMA entitled "Budgetary and Financial Forecasts for the Regie des Chemins de Fer du Cameroon from 1966 to 1986." The operating figures of the SEMA report contained a depreciation allowance. Unfortunately, the report did not separate out depreciation from the other operating cost components. Therefore, there was no way to prepare an adequate cash flow table for REGIFERCAM.

Based on SEMA's estimate of the future Net Income of REGIFERCAM, it appears that the Railway Authority will be able to meet all debt service payments on its existing and Transcameroon, Phase II loans and in addition have a sufficient surplus to meet the financial costs of the expected future loans listed in Table 2 of Annex 3.

Financial Results of the REGIFERCAM (1963-1966)
(Millions of Dollars)

	1963	1964	1965	1966
1. Total Revenues	6.69	7.55	7.77	8.22
2. Wages and Salaries	3.05	3.22	3.66	3.83
3. Fuel and Materials for Operations	1.80	1.77	1.90	2.03
4. Interest and Amortization Payments	.04	.16	.62	.65
5. Total Expenditures	4.89	5.15	6.18	6.51
6. (1-5) Net Income	1.80	2.40	1.59	1.71
7. Expenditures on Maintenance and Improvements	2.08	2.40	1.54	1.62
8. (6-7) Surplus for Reserve Fund	-.28	-	.05	.09

B. GFRC Budget. A consolidated statement of the budgetary operations of the Federal Government and the two Federated Governments since 1960 is given in Annex 4, Table 1. This shows that both total revenue and total expenditure have expanded in recent years and also that Cameroon's budgetary position has improved beginning with 1962. Since that year, current revenue has increased more rapidly than current expenditures. As a result, Cameroon has been able to eliminate the budgetary deficit on current account and also to devote some domestic resources to the financing of capital expenditures. In the preceding years, the current deficit had been financed largely by budgetary grants from abroad and by drawing from reserve funds.

In the four-year period ended June 30, 1964, total current revenue increased by some 60%. Apart from the introduction in 1963-1964 of a tax on business transactions, the increase in revenue stemmed largely from the expansion of economic activity rather than from any significant increase in tax rates. In the same period, current expenditures rose basically because of a large increase in military expenditures to maintain law and order internally, the establishment of the Federal Government in 1962-1963, and the creation of new as well as the expansion of existing services. However, wages and salaries for Government personnel have been kept practically unchanged since 1960, and the Government has strictly limited other administrative expenditures to what is considered a bare minimum consistent with the normal functioning of the Government machinery.

The Government no longer receives financial assistance in the form of current budget support. Capital expenditure approved as part of the annual budget represents about 30% of investment in the public sector. It excludes all public investment expenditures by the principal external donors, FAC and FED. The principal items of such expenditure are public buildings, infrastructure and capital goods imports for both the federated governments and the Federal Government.

C. External Debt of the GFRC. The external public debt of the GFRC was $42.9 million at the end of 1965. At that time debt services averaged $1.6 million annually or 1.1% of export earnings. These figures exclude guaranteed debt as well as debt of public enterprises such as REGIFERCAM. The total debt outstanding of public enterprises or agencies is estimated at about $24.5 million. This debt carries rates of interest ranging from 2½ to 3½% and is repayable over periods from 8 - 35 years. The low level of debt service of the GFRC in spite of the substantial inflow of capital in the past, reflects the large proportion of grant aid which Cameroon has received and continues to receive.

D. Foreign Trade. Since 1958, Cameroon's foreign trade accounts have shown an overall surplus. However, this surplus has been diminishing gradually. One important factor behind this decline has been a deterioration in the terms of trade.

Price indices for foreign trade are available only for East Cameroon. They indicate that East Cameroon's average export prices declined sharply by over 20% in 1960 and 1961 and have not recovered in the years thereafter. Import prices have increased by about 7% over the same period. As a result, the terms of trade have deteriorated. In 1964 there was some slight improvement due to a decline in import prices and exceptionally high coffee prices.

Between 1960 and 1964 the value of exports rose by 17%. The expansion was largely the result of rapidly growing coffee and cotton exports and, to a smaller extent, an increase in exports of aluminum, groundnuts and palm products. Exports of bananas, however, did not develop favorably owing to the loss of West Cameroon's privileges in the British market. Earnings from this source have now settled at a level about 40% below previous averages. Cocoa exports, which have been affected to only a small extent in volume, have dropped in value by some 20% since 1963, while coffee exports have increased in volume and value, particularly benefiting from the favorable prices enjoyed in 1960 and 1964.

The increase in the value of imports has resulted primarily from larger imports of consumer goods other than foodstuffs as well as imports of semi-finished products and capital goods. (Imports of foodstuffs have actually declined.)

Foreign trade continues to be heavily oriented toward the franc zone particularly toward France which accounts for some 55% of Cameroon's total exports and about 50% of her total imports.

E. Balance of Payments. Estimates of the balance of payments appear in Annex 4, Table 2. These estimates are based on rough approximations and incomplete information and are subject to considerable margins of error. In general, the small favorable merchandise trade balance which Cameroon has enjoyed since 1959 has been offset by the growing deficit of invisible transactions. Thus, the balance of payments on current account has been unfavorable since 1960. On capital account there have been substantial inflows from FAC, FED, Caisse Centrale, A.I.D., Germany and Great Britain for investment in the public sector. Although in recent years there have been substantial amounts repatriated by individuals and by foreign enterprises operating in Cameroon, the balance of payments nevertheless has shown a net inflow of private capital over the last five years.

While the volume of exports can be expected to continue to grow at past rates, the growth of export earnings for the foreseeable future is unlikely to exceed 3% per annum. With imports growing at some 6% per year, reflecting the growing demand for capital goods in particular, the current account deficit is expected to more than double in the next five years. In the absence of any new development or emergence of any new products, which seems unlikely in the short run, the prospects for merchandise exports are not good up to 1970. The projections of Annex 4, Table 2 take account of: a) the main estimates of production prospects; b) growing difficulty in exporting certain products, such as coffee and cocoa now in excess supply; c) need to eliminate any preferential prices enjoyed by Cameroon exports on the French market, by 1968; and d) estimates for future price trends.

F. Conclusion. From the previous discussions, it can be concluded that prospects for repayment of the loan by both REGIFERCAM and the GFEC are reasonable.

3. Other Sources of Financing. Although France has provided the major share of official capital to Cameroon, other donors have made substantial contributions. (France still provides most of the technical assistance to Cameroon). For example, in March 1967, a $7,000,000 IBRD loan and an $11,000,000

IDA credit were made to the Cameroon Development Corporation and the GFRC respectively to assist in financing the Corporation's plantation program in West Cameroon. In January 1968 IDA made a credit of $550,000 to the GFRC to assist in financing detailed engineering and associated studies for the improvement of the Ngaoundere-Garoua road in East Cameroon and the Tiba-Victoria road in West Cameroon. The European Development Fund has been the most important source of capital assistance to Cameroon. It has granted or loaned over $62,000,000 for about 42 projects. These include construction of economic and social infrastructure, agricultural improvement and diversification programs and economic and engineering studies.

Other sources of financing for this project are not available. During the course of discussion with the other donors and the GFRC on financial arrangement for this project, A.I.D. suggested that the GFRC attempt to seek financial assistance from the Government of Canada and the IBRD. The GOC and the IBRD, however, admitted privately to A.I.D. that they were reluctant to assist in financing, since their involvement in the project would necessitate their reviewing all the technical, economic and financial aspects of the project which would result in substantially delaying the proposed construction schedule. The GFRC in turn was somewhat reluctant to bring in these other sources of financing for it feared that because the GOC and the IBRD were considering the financing of other projects in the Cameroon, these donors probably would or could not agree to commit additional funds to Transcameroon, Phase II.

V. Effect on Private Enterprise

The proposed loan will benefit United States manufacturers of heavy construction machinery, culverting material, structural steel, steel rails and other construction materials. Without the tied A.I.D. loan funds, a contractor probably would not purchase this construction material from the United States. This is so because (according to the ARENCO report) the prices of this material purchased in the United States are about 7% higher than the prices of similar material purchased in Europe. Similarly, because a European contractor probably will be low bidder (There is the possibility that a United States construction contractor would participate in a joint venture arrangement with a European firm), and because European contractors either tend to purchase European equipment or purchase equipment of United States subsidiaries located in Europe, little United States equipment would be purchased without the tied A.I.D. loan.

VI. Impact on the United States Balance of Payments

The $10 million A.I.D. loan will only be used to finance goods and services of United States source and origin. Unlike the previous $9.2 million A.I.D. loan for Phase I, no local costs will be financed under the new loan.

Based on the discussion presented in the previous section, it can be stated that the $10 million of United States equipment and materials financed under the A.I.D. loan represent additional United States exports. In other words, without the A.I.D. loan, United States exports to Cameroon would be $10 million below what they would be with the loan. In addition, the future interest and principal payments of the GFRC will benefit our future international payments.

VII. Issues.

None.

Project No.
A.I.D. Loan No. 631-H-003

Capital Assistance Loan Authorization

Provided from: Development Loan Funds
Cameroon - Transcameroon Railroad Phase II

Pursuant to the authority vested in the Administrator of the Agency for International Development (hereinafter called "A.I.D.") by the Foreign Assistance Act of 1961, as amended, and the delegations of authority issued thereunder, I hereby authorize the establishment of a loan pursuant to Part I, Chapter 2, Title I, the Development Loan Fund, to the Government of the Federal Republic of Cameroon ("Borrower") of not to exceed $10,000,000 to be reloaned to the Regie des Chemins du Fer du Cameroon (the Cameroon Railway Authority) to assist in financing the foreign exchange costs of equipment, materials and services required to construct Phase II of the Transcameroon Railroad from Belabo to Ngaoundere, in Cameroon. This loan is subject to the following terms and conditions:

1. Interest Rates and Terms of Repayment.

A. The Regie des Chemins du Fer du Cameroon (REGIFERCAM) shall repay the loan to the Borrower in CFA francs or in such currency as is at the time of payment legal tender in Cameroon within twenty-five (25) years from the date of the first disbursement under the loan, including a grace period of not to exceed five (5) years. REGIFERCAM shall pay to the Borrower interest at the rate of three and one-half percent ($3\frac{1}{2}$%) per annum on the unrepaid principal and any interest accrued thereon.

B. Borrower shall repay the loan to A.I.D. in U.S. dollars within forty (40) years from the date of the first disbursement under the loan, including a grace period of not to exceed ten (10) years. Borrower shall pay to A.I.D. interest at the rate of two percent (2%) per annum during the grace period and two and one-half percent ($2\frac{1}{2}$%) per annum thereafter.

2. Other Terms and Conditions.

   A. Equipment, materials, and services financed by the loan shall be of United States source and origin.

   B. The loan shall be subject to such other terms and conditions as A.I.D. may deem advisable.

____
Administrator

____
Date

PREVIOUS GRANTS AND LOANS TO REGIFERCAM

	Donor	Date	Grant	Loan	Interest Rate	Amortization Period	Purpose
1.	France (FIDES & FAC) and FED	-	$11,600,000	-	-	-	Total amount of subsidies to Regifercam from Jan 1, 1948 to June 30, 1966
2.	France (FIDES)	N.A.	-	$ 4,500,000	interest-free	N.A.	N.A.
3.	European Common Market (FED)	1963	17,250,000	-	-	-	Phase I Transcameroon Railroad
4.	France (FAC)	1963	7,200,000	-	-	-	Phase I Transcameroon Railroad
5.	A.I.D.	1963	-	9,200,000	3/4 of 1%	40 years	Phase I-Transcameroon Railroad
6.	France (CCCE)	1964	-	800,000	3%	9 years	Purchase of two locomotives and rolling stock for Trans-Cameroon Railroad
7.	France (CCCE)	1964	-	400,000	3%	9 years	Same as above
8.	France (COFACE)	1964	-	1,200,000	5-3/4%	5 years	Purchase of 10 switch engines & 2 locomotives.
9.	Private short term funds from Cameroon sources	N.A.	-	400,000	5-5/8%	2 years	To build up liquid assets
10.	Private medium term funds from Cameroon sources	N.A.	-	600,000	6-5/8%	3 years	To finance construction of Mbanga-Kumba branch line
	Total		$36,050,000	$17,100,000			

EXPECTED FUTURE GRANTS AND LOANS TO REGIFERCAM *

	Donor	Grant	Loan	Interest Rate	Amortization Period	Purpose
1.	European Common Market (FED)	$15,000,000	$5,000,000	1%	40 years, including grace period of 10 years	Transcameroon (Phase II)
2.	France (FAC) (CCCE)	2,800,000	5,100,000	$4\frac{1}{4}$%	15 years, including grace period of 5 years	Transcameroon (Phase II
3.	A.I.D.	-	10,000,000	$3\frac{1}{2}$%	25 years, including grace period of 5 years	Transcameroon (Phase II
4.	European Common Market (EIB)	-	1,400,000	3%(or less)	21 years, including 6-year grace period	Modernization of repair and maintenance shops plus rolling stock
5.	European Common Market (FED)	1,120,000	-			Construction of Mbanga-Kumba branch to link East and West Cameroon
6.	Medium-term Bank Loan	-	"600,000"			Same as above
7.	FED	-	1,800,000			New station at Douala
8.	German bilateral aid/Cameroon Development Bank	-	1,200,000			Yaounde freight station

* Numbers set off in quotes are assumptions only.

Interest and Amortization Payments of REGIFERCAM
on Outstanding Loans as of June 30, 1966

FY	Amount Payable (CFA Francs)	U.S. Dollars
1967	172,849,233	$ 705,507
1968	172,300,243	703,266
1969	121,888,280	497,503
1970	75,299,226	307,343
1971	74,542,569	304,255
1972	73,762,442	301,071
1973	66,797,027	272,640
1974	46,207,825	188,603
1975	105,994,755	432,631
1976	102,708,970	419,220
1977	101,989,572	416,283
1978	102,503,510	418,381
1979	103,021,308	420,495
1980	103,542,995	422,624

Anticipated Loan Amortization for Loans to REGIFERCAM for Transcameroon (Phase II)

Year	FED $5,000,000 Loan	CCCE $5,000,000 Loan	A.I.D. $10,000,000 Loan	Total Amortization Payments for Transcameroon (Phase II) Loan
1972	50,000	$ 216,750	$ 350,000	$ 616,750
1973	"	636,633	350,000	1,036,633
1974	"	636,633	703,610	1,390,243
1975	"	"	"	"
1976	"	"	"	"
1977	"	"	"	"
1978	"	"	"	"
1979	193,740	"	"	1,533,983
1980	193,740	"	"	1,533,983

Ability of REGIFERCAM to Service
Past and Transcameroon (Phase II) Loans

Year	Net Income (Revenues-Costs) CFA Francs	Net Income (Revenues-Costs) U.S. Dollars	Total Interest and Amortization Payments for Old & New Loans	Surplus
1972	605,800,000	$ 2,472,653	$ 917,821	1,554,832
1973	641,000,000	2,616,326	1,309,273	1,307,053
1974	792,000,000	3,232,653	1,578,846	1,653,807
1975	722,000,000	2,946,938	1,822,874	1,124,064
1976	722,300,000	2,948,163	1,809,563	1,138,700
1977	879,000,000	3,587,755	1,806,526	1,781,229
1978	922,100,000	3.763,673	1,808,624	1,955,049
1979	1,332,700,000	5,439,591	1,954,478	3,485,113
1980	975,400,000	3,981,224	1,956,607	2,024,617

Federal Budget of Cameroon

(Millions of Dollars)

Revenue	1959	1962	1963	1964	1965
Direct Taxes	10.2	19.2	22.4	19.6	26.5
Import Duties	16.3	33.5	37.1	40.4	46.1
Export Duties	10.6	11.0	13.1	12.7	13.1
Excise Taxes	3.7	5.7	18.4	14.7	16.7
Misc Revenues	4.5	9.4	9.4	8.2	8.6
Total Current Revenue	45.3	78.8	100.4	95.6	111.0
Current Expenduture	51.4	82.9	87.8	93.9	104.1
Current Surplus (+)	-6.1	-4.1	+12.6	+1.7	+6.9
Capital Expenditure	3.3	8.2	7.8	8.6	18.0
Budget Deficit (-) Surplus (+)	-9.4	-12.3	+4.8	-6.9	-11.1

Balance of Payments

(Millions of U.S. Dollars)

			Projected		
	1964	1965	1966	1967	1968
Current Account					
Exports (FOB)	+140.8	+143.3	+145.3	+149.0	+155.5
Imports (CIF)	-134.3	-142.0	-147.8	-156.7	-165.3
Trade Balance	+6.5	+1.3	-2.5	-7.7	-9.8
Net Invisibles and Unilateral Transfers	-9.8	-11.4	-9.8	-7.8	-8.6
Balance on Current Account	-3.3	-10.1	-12.3	-15.5	-18.4
Capital Account					
Official Loans	+2.0	+6.1	+10.6	+13.9	+18.4
Debt Repayments	-1.6	-1.6	-2.0	-2.0	-2.0
Private foreign Investment (incl. errors and omissions)	+1.6	+9.0	+6.1	+6.1	+6.1
Total Capital Account	+2.0	+13.5	+14.7	+18.0	+22.5
Change in Monetary gold and foreign exchange reserves (+ = decrease)	+1.3	+3.4	-2.4	+2.5	+4.1

JUSTIFICATION FOR CHARGING REGIFERCAM 3½% PER ANNUM RATHER THAN 6%, THE MINIMUM RATE TO REVENUE PRODUCING ENTERPRISES AS ESTABLISHED BY MANUAL ORDER 1052.1

The summary of previous grants and loans to REGIFERCAM (Table 1 of Annex 3) reveals that 70% of the capital supplied to the Railway Authority has been in the form of grants. Given this fact and the extremely soft terms of the other donors for Phase II, it is inappropriate for A.I.D. to charge 6%. Based on an amortization period of 25 years which includes a 5-year grace period, the annual debt service payment on a $10 million A.I.D. loan would be $703,610 if the interest rate were 3½%. However, if the interest rate were 6%, the annual debt service payments would be $871,845. The additional annual cost to the Railway Authority due to increasing the interest rate from 3½% to 6% is therefore $168,235.

If FAC and the FED both went along with A.I.D. in adopting a hard credit policy and insisted that their combined $28 million contribution to the project consist of 6% loans, then REGIFERCAM's annual debt service payments for the project would increase by about $1.9 million. This additional burden could seriously endanger the Authority's financial position. Accordingly, we believe that A.I.D. should not charge 6%, but should bring its interest rate more into line with that of the other donors. Such a rate would be 3½%. If all future capital to REGIFERCAM were to consist of 6% loans, the Railway Authority would have to attempt to increase its revenues by raising its transport rates. (These already are greater than those of the Nigerian Railway.) Depending upon the value of the price elasticity of demand for railroad transport in Cameroon, an increase in transport rates would bring about a rise, fall, or no change in the total revenues of the Authority. If the price elasticity is assumed to be unitary, a reasonable assumption, a 10% rise in transport rates would cause a 10% reduction in the ton/miles of goods carried by the railroad. Therefore, total revenues of the Authority would remain unchanged. Because of the availability of other modes of transport, the price elasticity of demand is more likely to be greater than one than less than one. With an elasticity greater than 1, the attempt to increase revenues by increasing rates will fail since the percentage decrease in ton-miles carried will be greater than the percentage increase in rates. Traffic to and from Chad (which is estimated to constitute 42% of Transcam's total traffic in 1975) will be especially vulnerable to rate increase since this traffic can also move (i) through Ft. Lamy and then over the Nigerian Railroad or (ii) to Bangui and down to Congo (B).

The amount of increased agricultural production stimulated by the construction of the Phase II extension will depend upon the extent to which transport costs are reduced to the population in and around Ngaoundere. When SEMA estimated the increase in agricultural production which would result from the construction of the Phase II extension, it assumed that the Railway Authority would continue to charge its present rates. If the Railway Authority, however, were to increase its present rates, the reduction in transport costs that would result from shipping over the Phase II extension as opposed to shipping over the existing road, the Benue River or the Nigerian Railway would be less than originally anticipated. As a result, the increase in agricultural production probably would be less. Thus, an increase in the existing railroad rates not only may fail to bring about increased revenues to the Railway Authority, it probably will reduce the amount of external economies generated by the railroad extension.

One further reason for charging less than 6% is that the Railway Authority must use the proceeds of the A.I.D. loan for procurement of United States goods and services. It has been determined that the equipment and materials to be procured under this A.I.D. loan cost about 7% more from United States sources than from the least-cost free world sources of these goods.

A further justification for more liberal terms to this project is that when the EEC considered lending to the project in 1967 it planned to make its loan on the same terms as the then-existing concessional terms of A.I.D., i.e., 2½% and 1% during the grace period. The EEC has gone ahead on this basis assuming that A.I.D. would be as liberal in financing the project. In fact BUSEC Brussels on May 22, 1968 reported that the EIB has threatened to reconsider its participation in the project unless the A.I.D. terms to REGIFERCAM are 2 and 2½%.

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

LIMITED OFFICIAL USE

AID-DLC/P-710
June 12, 1968

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Cameroon - Transcameroon Railroad (Phase II)

Attached is a revised page to be inserted in the subject Capital Assistance Paper. Also attached are ANNEX II, an additional ANNEX VI, and an Addendum relating to ANNEX IV.

The recommendations for authorization of a loan in an amount not to exceed $10,000,000 to be reloaned to the Regie des Chemins du Fer du Cameroon (the Cameroon Railway Authority) to assist in financing the foreign exchange costs of equipment, materials and services required to construct Phase II of the Transcameroon Railroad from Belabo to Ngaoundere, in Cameroon were discussed by the Development Loan Staff Committee at a meeting on Wednesday, May 29, 1968.

Rachel C. Rogers
Assistant Secretary
Development Loan Committee

Attachments:
Summary and Recommendations, p. i (Revised June 12, 1968)
ANNEXES II and VI and an Addendum

Previously Distributed: May 24, 1968
Summary and Recommendations
Project Analysis
ANNEXES I, III, IV and V

LIMITED OFFICIAL USE

Revised June 12, 1968

SUMMARY AND RECOMMENDATIONS

CAMEROON: Transcameroon Railroad (Phase II)

1. Borrower: The Government of the Federal Republic of Cameroon (GFRC) for the Regie des Chemins de Fer du Cameroun (REGIFERCAM, the Cameroon Railway Authority).

2. Amount of Loan: $10,000,000.

3. Total Cost of Project:

Country	Agency	Grant	Loan	Total Contribution
	(In Millions of United States Dollars)			
United States	A.I.D.		$10.0	$10.0
European Economic Community	European Development Fund	$15.0	5.0	20.0
France	FAC	4.9	3.0	7.9
Cameroon	GFRC	5.1	--	5.1
Total				$43.0

4. Description of Project: The project involves extending the Transcameroon Railway from Belabo to Ngaoundere, a distance of 207 miles.

5. Purpose of A.I.D. Loan: To finance the procurement of United States services, construction equipment and material required for the project.

6. Background of the Project: In 1962 A.I.D. loaned the GFRC $9.2 million to cover about [illegible]% of the cost of Phase I which entailed expanding the Transcameroon Railroad from Yaounde to Belabo, a distance of 183 miles. Phase I is under construction and is scheduled to be completed in January 1969. On April 2, 1965 A.I.D. received a formal loan application from the GFRC requesting assistance for the construction of Phase II.

7. Export-Import Bank Clearance: Received December 23, 1965. Reaffirmed May 31, 1968.

8. Mission Views: The Mission strongly endorses the project.

9. Statutory Criteria: Satisfied. See Annex I.

10. Issues: None.

11. Recommendation: Authorization of a development loan to the GFRC in an amount not to exceed $10 million with the following terms:

A. Interest: 2% per annum for the first ten years; $2\frac{1}{2}$% per annum thereafter

B. Maturity: 40 years, including a 10-year grace period.

C. Currency: Interest and principal payable in United States dollars.

This amount to be reloaned by the GFRC to REGIFERCAM with the following terms:

A. Interest: $3\frac{1}{2}$% per annum (see Annex V).

B. Maturity: 25 years, including a 5-year grace period.

C. Currency: Interest and principal payable in CFA francs.

CAPITAL ASSISTANCE COMMITTEE:

Capital Assistance Officer:	J. Haimes
Engineer:	C. J. Chidester
General Counsel:	J. Phippard
Country Desk Officer:	W. Wren

AFR/CDF, JHaimes:hk:lmg 5/24/68

AID 1240-1 (1-68)

CHECKLIST OF STATUTORY CRITERIA

Development Loan Fund

In the right-hand margin, summarize for each item the information or conclusion requested. As necessary reference the section(s) of the Capital Assistance Paper, or other clearly identified and available document, in which the matter is further discussed. This form may be made a part of the Capital Assistance Paper. Additions and revisions to this Checklist are indicated by an asterisk (*).

The following abbreviations are used:

FAA - Foreign Assistance Act of 1961, as amended by the Foreign Assistance Act of 1967

App. - Foreign Assistance and Related Agencies Appropriations Act, 1968

*1. *FAA §.102. Assistance wherever practicable consists of U. S. commodities and services furnished consistent with efforts to improve the U. S. balance of payments.*

Satisfied. Loan will finance the procurement of United States services, construction equipment and materials.

2. *FAA §.201(b)(1). Information and conclusion on availability of financing from other free-world sources, including private sources within the United States.*

Satisfied. A.I.D. loan of $10 million will finance 23% of the total costs of the project. France, EEC, and the GFRC will finance the remaining costs. Cameroon's need for money on soft-terms precludes borrowing from private U.S. sources. See also IV-3.

3. *FAA §.201(b)(2). Information and conclusion on activity's economic and technical soundness, including the capacity of the recipient country to repay the loan at a reasonable rate of interest.*

Satisfied. See Sections II, III, and IV.

4. *FAA §.201(b)(3). Information and conclusion on existence of reasonable promise activity will contribute to development of economic resources or increase of productive capacities.*

Satisfied. See Section II-5.

5. *FAA §.201(b)(4). Information and conclusion on activity's relationship to other development activities, and its contribution to realizable long-range objectives.*

Satisfied. See Section I-1 and Section II.

6. *FAA §.201(b)(5). Country's self-help measures. See Items 28 through 30 re new FAA § 208.*

See attached statement.

7. FAA §.201(b)(6). *Information and conclusion on possible effects on U. S. economy, with special reference to areas of substantial labor surplus.*	Satisfied. See Section V.
8. FAA §.201(b)(7). *Information and conclusion on the degree to which the country is making progress toward respect for the rule of law, freedom of expression and of the press, and recognition of the importance of individual freedom, initiative, and private enterprise.*	Satisfied. See attached statement.
9. FAA §.201(b)(8). *Information and conclusion on the degree to which the country is taking steps to improve its climate for private investment.*	Satisfied. See attached statement.
10. FAA §.201(b)(9). *Information and conclusion on whether or not the activity to be financed will contribute to the achievement of self-sustaining growth.*	Satisfied. See Section II, 5, C.
*11. FAA §.201(b). *Compliance with requirement that funds not be used to make loans to more than twenty countries in any fiscal year.*	Satisfied. This is a multilateral project not subject to the country limitation.
12. FAA §.201(b). *Information and conclusion on reasonable prospects of repayment.*	Satisfied. See Section IV - 2.
13. FAA §.201(d). *Information and conclusion on legality (under laws of the country and the U. S.) and reasonableness of lending and relending terms.*	Satisfied. Loan will be on minimum terms permitted under FAA. Provision on terms of relending will be in loan agreement.
14. FAA §.201(e). *Information and conclusion on availability of an application together with sufficient information and assurances to indicate reasonably that funds will be used in an economically and technically sound manner.*	Satisfied. See Section I-2,3; Section III; and Section II, 5, E.

15. FAA §.201(f). *If a project, information and conclusion whether it will promote the economic development of the requesting country, taking into account the country's human and material resources requirements and the relationship between the ultimate objectives of the project and the country's overall economic development.*	Satisfied. See Section II.
16. FAA §.201(f). *If a project, information and conclusion whether it specifically provides for appropriate participation by private enterprise.*	Satisfied. See Section V.
17. FAA §.202(a). *Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources.*	See Section V.
*18. FAA §.207(a). *Information that U. S. assistance places appropriate emphasis on encouraging strong economic, political, and social institutions needed for a progressive democratic society.*	Satisfied. See attached statement.
*19. FAA §.207(b). *Information that U. S. assistance places appropriate emphasis on programs directed at enabling the country to meet the food needs of its people from its own resources.*	Satisfied. See Section II, 5,C.
*20. FAA §.207(c). *Information that U. S. assistance places appropriate emphasis on improving availability in the country of educated manpower by improving education planning and research, training teachers and administrators, developing and constructing educational institutions, and using modern educational technology.*	Not applicable.

*21.	FAA §.207(d). Information that U. S. assistance places appropriate emphasis on programs of malaria eradication, disease prevention, slum clearance, water purification, sewage disposal, health education, maternal and child care (including family planning), and other public health assistance.	Satisfied. See attached statement.
*22.	FAA §.207(e). Information that U. S. assistance places appropriate emphasis on other development activities including industrial development; growth of free labor unions, cooperatives and voluntary agencies; improvement of transportation and communication systems; development of capabilities for economic planning and public administration; urban development; and modernization of laws to facilitate economic development.	Satisfied. See attached statement.
*23.	FAA §.208(a). Information and conclusion on the extent to which the country is taking measures to increase food production and food storage and distribution facilities.	Satisfied. See attached statement.
*24.	FAA §.208(b). Information and conclusion on the extent to which the country is creating a favorable climate for foreign and domestic private enterprise and investment.	Satisfied. See attached statement.
*25.	FAA §.208(c). Information and conclusion on the extent to which the country is increasing the role of the people in the developmental process.	Satisfied. See Section I, 3 and attached statement.
*26.	FAA §.208(d). Information and conclusion on the extent to which the country is allocating expenditures to development rather than to unnecessary military purposes or intervention in other free and independent nations. See also Items 64 and 76.	Satisfied. Major budget allocatic are to development and recurring n defense expenditures.
	.208(e). Information and conclusion on ...tent to which the country is willing ...ntributions of its own to the ... programs for which assistance	Satisfied. The GFRC is financing 12% of the total cost of this pro

*28.	*FAA §.208(f). Information and conclusion on the extent to which the country is making economic, social, and political reforms such as tax collection improvements and changes in land tenure arrangements that will enable it to achieve developmental objectives more efficiently and justly.*	Satisfied. See attached statement.
*29.	*FAA §.208(a). Information and conclusion (other than above) on the extent to which the country is responding to the economic, political, and social concerns of its people and showing a clear determination to take effective self-help measures.*	Satisfied. See attached statement.
*30.	*FAA §.209. Information on multilateral assistance and regional programs, including the extent to which U. S. assistance will encourage regional development programs.*	Satisfied. See Section IV, 1 and Section II, 3, C.
31.	*FAA §.201. Extent to which the loan will contribute to the objective of assuring maximum participation in the task of economic development on the part of the people of the developing countries, through the encouragement of democratic private and local governmental institutions.*	Satisfied. See attached statement.
32.	*FAA §.601(a). Information and conclusions whether loan will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry agriculture, and commerce; (f) strengthen free labor unions.*	Satisfied. See attached statement.
33.	*FAA §.601(b). Information and conclusion on how the loan will encourage U. S. private trade and investment abroad, and how it will encourage private U. S. participation in foreign assistance programs (including use of private trade channels and the services of U. S. private enterprise).*	Satisfied, See Section V.
	FAA §.601(d). Conclusion and supporting ... ation on compliance with the Congressional ... that engineering and profes... U. S. firms and their ... in connection with ... extent	GFEC is providing its own engineering services, which in the context of a multilateral project, less than a fourth of which is being financed by the United States, is considered in the United States national interest.

35.	*FAA §.602.* Information and conclusion whether loan will permit American small business to participate equitably in the furnishing of goods and services financed by it.	To be satisfied in Loan Agreement.
36.	*FAA §.604(a); App. § 108.* Compliance with restriction of commodity procurement to U.S. except as otherwise determined by the President and subject to statutory reporting requirements.	All commodities financed by A.I.D. will be of United States source and origin.
37.	*FAA §.604(b).* Compliance with restriction that no funds be used to procure bulk commodities at prices higher than the market price prevailing in the U.S. at time of purchase.	Inapplicable.
38.	*FAA §.604(d).* Compliance with requirement that marine insurance on commodities be purchased on competitive basis or, if the participating country discriminates against any marine insurance company authorized to do business in any State of the United States, that insurance be placed in the U.S.	Will be satisfied in Loan Agreement.
*39.	*FAA §.608(a).* Information as to the utilization of excess personal property in lieu of procurement of new items.	Will be satisfied in Loan Agreement.
40.	*FAA §.611(a)(1).* Information and conclusion on availability of engineering, financial, and other plans necessary to carry out the assistance and of a reasonably firm estimate of the cost of the assistance to the United States.	Satisfied. See Section III.
41.	*FAA §.611(a)(2).* Necessary legislative action required within recipient country and basis for reasonable anticipation such action will be completed in time to permit orderly accomplishment of purposes of loan.	No legislative action appears to be required. Will be satisfied in Loan Agreement.

42. *FAA §.611(b); [illegible] If water or water-related land resource construction, [illegible] project or program [illegible] evaluation on a benefit-cost computation.*	Not applicable.
43. *FAA §.611(c). Compliance with requirement that contracts for construction be let on competitive basis to maximum extent practicable.*	Satisfied. Construction contracts will be let on a competitive basis
44. *FAA §.611(e). Compliance with the requirement that for all projects estimated to cost in excess of $1,000,000, the principal officer of AID in the country in which the project is located certify as to the capability of the country [illegible] to effectively maintain and utilize the [illegible] among other [illegible] utilization of [illegible] the country previously financed [illegible] by the U. S. (Such certification [illegible] by the Administrator or [illegible] administrator per Delegation of Authority 873 before assistance is authorized.)*	Satisfied. See attachment.
45. *FAA §.612(b) and 636(h). Appropriate steps that have been taken to assure that, to the maximum extent possible, the country is contributing [illegible] and foreign currencies owned by the U.S. are utilized to [illegible] contractual and other services.*	Not applicable.
46. *FAA §.619. Compliance with requirement that [illegible] newly independent countries be furnished through multilateral organizations or in accordance with multilateral plans to the maximum extent appropriate.*	This is a multilateral project. See Section IV, 1.
FAA §.620(a); [illegible] Compliance with [illegible] to Cuba [illegible] furnishes [illegible] to take appropriate steps [illegible] 14, 1964, to prevent ships or aircraft under [illegible] from [illegible] materials [illegible] items of primary strategic significance, or items of economic assistance.	Satisfied. There is no information that GFRC is in violation of these sections.

48.	FAA [illegible]. If assistance to the government of a country [illegible] of [illegible] in [illegible] controlled [illegible] Communist [illegible].	Such a determination was made by the Secretary of State on October 11, 1961.
49.	FAA [illegible] to the government of [illegible] U. S. citizen for [illegible] furnished or ordered [illegible] available [illegible] the debt is not denied or contested by such government or the indebtedness arises under an unconditional guaranty of payment given by such government.	No such indebtedness is known to exist.
50.	FAA [illegible]. In assistance for any productive enterprise [illegible] recipient [illegible] to [illegible] export to the U. S. of more than 20% of the enterprise's annual production [illegible] life of the loan.	Not applicable.
51.	FAA [illegible]. If assistance to the government of a country, extent to which it [illegible], after [illegible] 1962, taken steps to [illegible] contracts or taken any [illegible] effect of nationalizing, expropriating, or otherwise seizing [illegible] of U. S. citizens [illegible] owned by them [illegible] appropriate steps to discharge [illegible] obligations.	No such actions are known to have been taken by the GFRC.
52.	FAA [illegible]. Compliance with prohibition [illegible] to any Communist country.	The Federal Republic of Cameroon is not a Communist-country.
53.	FAA [illegible]. Compliance with prohibition against use of [illegible] to compensate owners for [illegible] nationalized property.	To be satisfied in Loan Agreement.
54.	FAA [illegible]. [illegible] and [illegible] against use of [illegible] in a manner which, contrary to the best interests of the U. S., promotes or assists the foreign aid projects or activities of the Communist-bloc countries.	To be satisfied in Loan Agreement.

55. FAA [illegible] that [illegible] for [illegible].	[illegible] determination has been made for the Federal Republic of Cameroon.
56. FAA 8.620(i). [illegible] of the [illegible] for the planning of [illegible] of subversion [illegible] U. S. or countries receiving U. S. assistance.	No such information exists.
*57. FAA 8.620(j). Existence of a determination that the country has [illegible] or failed to prevent [illegible] of U. S. [illegible] or has [illegible].	No such determination.
58. FAA 8.620(k). If construction of productive enterprise where [illegible] value of a [illegible] to be funded [illegible] U. S. will exceed $100 million, identification of statutory authority.	Not applicable.
59. FAA 8.620(l). [illegible] which has been given [illegible] 1966, has failed to [illegible] specific risk of [illegible] or confiscation.	Cameroon has such a program.
60. FAA 8.620(m); [illegible] Compliance with [illegible] against assistance to countries which traffic or permit trafficking [illegible].	Cameroon is in compliance.
61. FAA 8.620(o) [illegible] any U. S. fishing [illegible] of its fishing activities [illegible] information [illegible] which has been given to [illegible] from assistance.	No such situation is known to exist.
62. FAA 8.620(p) [illegible]	Not applicable.
63. FAA 8.620(q). [illegible] of default in payment [illegible] loan to the country.	No such default in payment.

*64.	FAA [illegible] military expenditures, or is [illegible] unnecessary percentage of [illegible] for military purposes, or [illegible] for military equipment [illegible] materially [illegible]	Satisfied. It has been determined that GFRC is not expending an unnecessary or excessive portion of its budget for military purposes. See May 28, 1968 Memorandum for [illegible] Interagency Committee [illegible] from [illegible], Robert A. Klein.
*65.	FAA [illegible] with prohibition on aid if country has severed diplomatic relations with U. S. unless agreements have been negotiated after resumption of relations.	GFRC has not severed relations with the United States.
*66.	FAA [illegible] delinquent [illegible] other obligations [illegible]	GFRC is not delinquent on its UN obligations.
*67.	FAA [illegible] prohibition on [illegible] vehicles [illegible] and [illegible] authorized.	Satisfied. Loan is limited to procurement of goods of United States source and origin.
68.	App.B.[illegible] Compliance with requirement that payments in excess of [illegible] for consultants and engineering services on any one project be reported to Congress.	Satisfied. Such payments will be reported.
69.	App.B.[illegible] Compliance [illegible] funds to pay [illegible] military personnel.	Satisfied. Loan Agreement procedures will prevent such use.
70.	App.B.106. If country attempts to create distinctions because of their race or religion among Americans in granting personal or commercial access or other rights otherwise available to U. S. citizens generally, application which will be made in negotiations of contracts [illegible] by Congress.	No such distinctions known to exist.
71.	App.B.[illegible] Compliance [illegible] existing requirements for security clearance of personnel.	To be satisfied in Loan Agreement.
72.	App.B.112. Compliance with requirement for approval of contractors and contract terms for capital projects.	To be satisfied in Loan Agreement.

73. App. [illegible] 114. Compliance with [illegible] of funds to pay assessments, etc., of U. N. member.	To be satisfied in Loan Agreement.
74. App. [illegible] 115. Compliance with regulations on employment of U. S. and local personnel for funds obligated after April 30, 1964 (AID Regulation 7).	Inapplicable.
75. App. § 116. [illegible]	Inapplicable.
76. App. [illegible] Compliance with [illegible] for the purchase of agricultural [illegible] equipment in countries other than Greece, Turkey, Iran, Israel, Republic of China, Philippines, or Korea.	Satisfied. No such purchases have been made.
77. App. § 121. Compliance with prohibition against use of funds for publicity or propaganda purposes within U. S. not heretofore authorized by Congress.	Such use of funds will not be eligible for financing under the Loan Agreement.

~~LIMITED OFFICIAL USE~~

STATEMENT FOR THE STATUTORY CHECKLIST OF
THE TRANSCAMEROON PHASE II LOAN PAPER

Under this able, dynamic, and popular leadership of President Ahidjo, his country has achieved nationhood in spite of active Communist-supported terrorism, tribal, religious and political diversity, and the necessity of building on two different colonial traditions. Having achieved a large measure of political success, the Cameroonian Government is now overridingly concerned with economic development. With a significant development potential, Cameroon has progressed in agriculture, industrialization, and the expansion of infrastruction with a policy known as "planned liberalism", i.e. encouragement of private investment, judicious Cameroonization, and sound fiscal policies.

Over the past several years, the Cameroon gross national product has been increasing at a rate of 4-5% (at current prices), a rate which is consistent with the targets of the U.N. Development Decade. In spite of the necessity to protect the country against the threat of insurgency, the government has been able to increase its non-defense expenditures by about 12% per annum during the period 62/63 through 66/67. Most of these increases have gone into the fields of health and education, which amounted to 20% of current expenditures by 66/67.

In the last two years, the government has taken vigorous action to increase agricultural export production, cut imports of consumer goods and increased imports of producer goods. This has resulted in a reduction of the trade deficit from $[illegible] million in 1965 to $1 million in 1966.

The Five Year Plan under which the government is currently operating emphasizes agriculture and during the period 1962 through 1967 Cameroon agricultural output grew 3.5% per year - more than twice the African average. Indications are that 1968 harvests will again reflect the general upward trend in agricultural output.

A.I.D. has contributed to this development by providing a modest technical assistance program, the major emphasis of which has been on projects in the areas of highway maintenance, agricultural extension, and technical education, and development loans for Phase I of the Transcameroon Railroad and for the reconstruction of 5[illegible] miles of the Kumba-Mamfe road in West Cameroon.

Cameroon has subscribed to all the U.N. declarations in support of human rights. In spite of the need to combat a serious insurgency problem, the government has not interfered with the freedom of speech and permits the publication of newspapers expressing political opinions at variance with its own. President Ahidjo has constantly asserted that pluralism is encouraged within the single major political party, which he feels is necessary to combat the divisive effects of tribalism. The President and other leaders of his government are constantly travelling into the remote areas of the country in a grass-roots campaign to explain the policies of the government to the ordinary people and elicit their support.

President Ahidjo has frequently asserted his belief that a mixed economic system is needed for the economic development of his country and that private enterprise must play an essential role in such a system. Accordingly, his government actively encourages private investment, both domestic and foreign. An excellent investment code has been promulgated and recently a National Society of Investment established for the sole purpose of promoting investment in Cameroon.

CAPITAL ASSISTANCE COMMITTEE:

Capital Assistance Officer:	J. Hadman
Engineer:	C. J. Chidester
General Counsel:	J. Phippard
Country Desk Officer:	A. Wren

AFR/CDF, JHadman:bfk:6/10/68

CERTIFICATION PURSUANT TO SECTION 611(e) OF THE
FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED

I, John C. McLaughlin, the principal officer of the Agency for International Development in Cameroon, having taken into account, among other things, the maintenance and utilization of projects in Cameroon previously financed or assisted by the United States, do hereby certify that in my judgment Cameroon has both the financial capability and the human resources capability to effectively maintain and utilize the capital assistance project, Transcameroon Railroad (Phase II).

The financial and human resources capabilities of Cameroon to maintain and utilize the Transcameroon Railroad are treated in the loan paper for this project in Section I, 3 - The Borrower (which discusses ONCF and Regifercam), Section II, 1 - The Economy of East Cameroon, and Section IV, 2. A - Financial Analysis of Regifercam.

John C. McLaughlin
AID Operations Officer
Yaounde, Cameroon

May 20, 1968

Addendum to Capital Assistance Paper No. AID-DLC/P-710

(Cameroon: Transcameroon Railroad - Phase II)

The source of the data presented in Annex 4, Table 1 - Federal Budget of Cameroon and in Annex 4, Table 2 - Cameroon's Balance of Payments is the IBRD Report No. AF-466 entitled The Economy of the Federal Republic of Cameroon issued on November 3, 1966.

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

UNCLASSIFIED

AID-DLC/P-710/2
July 9, 1968

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Cameroon - Transcameroon Railroad (Phase II)

Attached for your information is an Addendum to the subject Capital Assistance Paper.

The Capital Assistance Paper for the above project distributed to you under date of May 24, 1968, proposed that the terms of the second step (i.s., the terms to REGIFERCAM) of this two-step loan would be 25 years including a 5-year grace period with interest at 3½%. On receipt of later information concerning the financial prospects of REGIFERCAM and in the light of the terms of financing being provided by the EEC for this project, it has been decided that the terms of the loan to REGIFERCAM should be the same as those for the Government of the Cameroon.

Rachel C. Rogers
Assistant Secretary
Development Loan Committee

Attachment:
Addendum

UNCLASSIFIED

Addendum to the Capital Assistance

Paper - Transcameroon Railroad

(Phase II)

Based on the analysis presented in Annex V of the Capital Assistance Paper (AID-DLC/P-710), it was recommended that the interest rate to REGIFERCAM, the Cameroon Railway Authority, be $3\frac{1}{2}\%$ per annum rather than 6%, the minimum rate to revenue-producing enterprises as established by Manual Order 1052.1. It also was recommended that the loan to the Railway Authority have a maturity of 25 years including a 5-year grace period. The proposed terms reflected the desire (a) to bring A.I.D.'s usual second-step loan terms closer to those of the European Economic Community and the French and (b) to maintain a true two-step loan structure in view of the fact that REGIFERCAM is a semi-independent revenue-producing enterprise.

A.I.D. subsequently informed the GFRC and EEC of the proposed loan terms. At this point it was discovered that the EEC had been proceeding on the incorrect assumption that A.I.D.'s terms to both the GFRC and REGIFERCAM would be 40 years including a 10-year grace period with an interest rate of 1% during the grace period and $2\frac{1}{2}\%$ thereafter. With these terms in mind, the EEC was prepared to provide a grant of $15 million and to lend $5 million for the project on 40-year repayment terms at an interest rate of 1% throughout.

During the course of discussions that followed in Brussels, the EEC submitted its analysis of REGIFERCAM's debt servicing capacity. The EEC's revenue projections for REGIFERCAM are considerably lower than those presented in the A.I.D. loan paper. It appears that the EEC based its projections on the lower of the two estimates of the SEMA feasibility study whereas A.I.D. used SEMA's higher estimates. Since the loan paper was written Chad and the Central African Republic have announced that they intend to withdraw from the UDEAC economic and customs union. This could result in a reduced volume of traffic to and from these countries moving over the Transcameroon Railroad. Therefore, we believe that the conservative revenue estimates are more appropriate to use at this time.

In addition, the EEC was able to make a cash flow analysis which took account of REGIFERCAM's requirements for renewal of facilities. The latter were higher than had been anticipated by A.I.D. but appeared reasonable in the light of the fact that REGIFERCAM's reserve account for this purpose showed a slight negative balance at the end of its 1966-67 fiscal year. (These data have only recently become available.) The combination of lower revenue estimates and higher cash requirements for renewals indicated the terms to REGIFERCAM proposed in the loan paper would impose on the Railway Authority a difficult financial burden. Using the lower revenue projections, if A.I.D. were to charge REGIFERCAM the same terms as those to the GFRC, the Railway Authority (a) would run a yearly net deficit on cash flow account through FY 1973 and (b) would run a cumulative net deficit through FY 1976 which would peak in FY 1973 with a value of 261 million CFA francs (approximately $1.0 million). If A.I.D., however, were to charge REGIFERCAM the terms proposed in the capital assistance paper, the Railway Authority (a) would run a yearly deficit on cash flow account through FY 1981 and (b) would run a cumulative net deficit through FY 1987 which would peak in FY 1981 with a value of 1,010 million CFA francs (approximately $4.0 million).

On June 4, 1968 the EEC approved a $15 million grant and a $5 million loan to the GFRC for the project subject to the condition that the terms of the A.I.D. loan to REGIFERCAM would be the same as A.I.D.'s terms to the GFRC. On the basis of the projections indicated above and also because of the need to keep the EEC in the project, it was decided that the A.I.D. loan terms to REGIFERCAM would be reduced so that they are the same as the terms to the GFRC (i.e. 40 years including a 10-year grace period with an interest rate of 2% during the grace period and 2½% thereafter.)

CM
625.1
A265
Amendment
Jan. 1970

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

UNCLASSIFIED

AID-DLC/P-710/3
January 28, 1970

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Cameroon - Transcameroon Railroad (Phase II) Amendment

Attached for your review are the recommendations for an amended loan authorization increasing by $2,000,000 a loan in the amount of $10,000,000 made to the Government of the Federal Republic of Cameroon (GFRC) to be reloaned to the Regie des Chemins de Fer du Cameroon (REGIFERCAM, the Cameroon Railroad Authority) to assist in financing the U.S. costs of equipment, materials and services required to construct Phase II of the Transcameroon Railroad from Belabo to Ngaoundere.

Please advise us as early as possible but in no event later than close of business on Wednesday, February 4, 1970, if you have a basic policy issue arising out of this proposal.

Rachel C. Rogers
Secretary
Development Loan Committee

Attachments:
Summary and Recommendations
ANNEXES I and II

UNCLASSIFIED

Cameroon - Transcameroon Railroad (Phase II) Amendment

I. Problem

To amend the Transcameroon Railroad (Phase II) loan to provide $2,000,000 in additional funds to assist in financing additional U.S. costs of equipment, materials and services required for the project. Additional funds are needed because the low bid for construction, as reduced through negotiations, exceeds funds previously provided by AID and other donors for the project. (FED1/, FAC2/, and GFRC).

II. Discussion

A. Description of Project: The project consists of constructing Phase II of the Transcameroon Railroad from Belabo to Ngaoundere and includes: (1) construction of the railroad; (2) construction of stations and communication and signal systems; and (3) provision of rolling stock. AID is assisting with the other donors in financing the first part of the project, construction of the railroad, while FAC is financing the latter two parts of the project.

B. Background: On July 12, 1968, a Development Loan of $10 million was authorized for Phase II of Transcameroon Railroad and the Loan Agreement was signed on May 24, 1969. The Loan Agreement provides for a two-step loan with the GFRC relending the proceeds to REGIFERCAM. The terms of the AID loan are the same to GFRC and REGIFERCAM and provide for 40 years including a 10-year grace period on the repayment of principal with interest at 2% per annum for the first 10 years and 2½% per annum thereafter.

Phase II of the Transcameroon Railroad project will extend the railway 207 miles from Belabo to Ngaoundere and make accessible areas of Northern Cameroon where economic development heretofore has been impeded by the lack of an adequate transport link to Yaounde, the capital city, and to Douala, the main ocean port. Under a loan signed on August 27, 1963, AID provided $9.2 million to participate in financing Phase I of this project which extended the railway from Yaounde to Belabo, a distance of 183 miles. Construction of that segment of the railroad is now complete and in operation.

Construction cost estimates of the second section were made by the French organization Societe D'Economie et de Mathematique Appliquees (SEMA) in 1959 and updated in a report submitted in April 1967. AID contracted with Arenco International to evaluate and review SEMA's estimates. Arenco concluded that SEMA's estimated total cost of $48.2 million was reasonable. However, total prospective financing was inadequate to meet this estimated cost. Upon the suggestion of AID, a further review was carried out by a team of five experts to ascertain whether cost reductions could be achieved by making

1/ European Development Fund of the European Economic Community
2/ French Fund for Assistance and Cooperation

minor design changes. A report submitted in September, 1967, recommended cost reductions of about $5.2 million. Of the total estimated cost of $43 million, construction costs were estimated at $35.7 million.

After a period of negotiation the donors, at a meeting in Brussels in December 1968, agreed to a number of changes designed to achieve cost reductions. Invitations for Bid were issued to eleven prequalified firms on January 1, 1969. Seven bids were submitted prior to the opening on July 21, 1969. The low bidder was a joint venture composed of Construzioni Generali Farsura (COGEFAR), an Italian company which was the contractor on Phase I of the project and Hochtief Aktiengesellschaft fur Hoch -und Tiefbauten (HOCHTIEF), a German company. The low bid as originally submitted was $47.8 million.3/ Funds available from the various donors for financing the construction contract amounted to $35.7 million.

C. Escalation of Costs: All of the seven bids submitted were from European firms and ranged from the low bid by COGEFAR-HOCHTIEF of $47.8 million to a high of $56.6 million. The available financing for track construction was insufficient to meet the lowest bid price. A conference held among the donors considered it unlikely that a lower bid would be received if the project were to be rebid. Accordingly, the donors agreed to the GFRC negotiating with COGEFAR-HOCHTIEF in order to determine ways for reducing the contract price. Under the general guidance of the donors, the GFRC held a series of meetings with COGEFAR-HOCHTIEF. The changes in the contract which were adopted reduced the final contract price to $42.2 million These changes were approved by the donors to the project who agreed that an additional $5.8 million was needed in order to cover price escalation and unforeseen contingencies during construction.

A comparison of the original estimated total project costs with the increase reflected by the actual low bid as negotiated is as follows:

	Original Cost Estimates		Revised Cost Estimates	
	(In millions of dollars)			
Track Construction	30.4		42.2	
Contingency, Price Escalation, etc.	5.3		5.8	
Sub-Total		35.7		48.0
Stations and Telecommunications		2.1		2.1
Rolling Stock		3.0		3.0
Wooden Ties4/		1.2		1.2
Technical Supervision		1.0		1.0
Total		43.0		55.3

3/ The conversion rate used in this paper is 251 CFA francs to one U.S. dollar. This rate takes into consideration the devaluation of the CFA franc and the revaluation of the deutch mark.

4/ Wooden ties, while included in the actual track construction, are not part of the construction contract, but are to be supplied by the GFRC to the contractor.

D. Financing: At a meeting held in Brussels on December 11, 1969, new financial arrangements to meet the increased costs of construction were agreed upon. These are set forth in the following table.

Revised Financial Plan
(In millions of dollars)

	DONORS			Borrower	
	FED	FAC	AID	GFRC	Total
Construction (42.2) Plus Contingency (5.8)	28.2	3.8	12.0	4.0	48.0
Increase[5/]	(8.2)	(1.0)	(2.0)	(1.1)	(12.3)
Stations and Telecommunications		2.1			2.1
Rolling Stock		3.0			3.0
Wooden Ties				1.2	1.2
Supervision of Work (OCFT)				1.0	1.0
Total	28.2	8.9	12.0	6.2	55.3

The AID amendment will follow the terms of the original loan except that the interest following the grace period will be raised from 2½% to 3% in accordance with the 1968 FAA. The increased contributions by the other donors are to be made on a grant basis.

E. Economic Considerations: Based on the statistics contained in the 1965 SEMA study on the economic evaluation of Phase II of the Transcameroon Railway, the original loan paper (AID-DLC/P-710) concluded that at discount rates of up to 14%, a railway is a preferable alternative to building a new road as a means of transporting freight between Belabo and Ngaoundere. The capital cost of the railroad under that analysis was $43 million. The capital cost for the construction of the Belabo-Ngaoundere extension is now estimated at $55.3 million including $3 million for additional rolling stock. The present worth value of the road and rail alternatives has been recalculated at interest rates of 6% and 10% to include the increased construction costs. All other components of the original SEMA analysis remain the same. The results are as follows:

Discount Rate	Present Value of Costs of Railroad	Present Value of Costs of Road
6%	$63 million	$80 million
10%	$52 million	$47 million

Using this analysis the railroad has a lower present value at discount rates of up to 8.5%. This analysis assumes no cost increase for the construction of a road over prices estimated in the 1965 SEMA study. As in the case with the railroad, construction costs for road building have doubtless

5/ Represents increased contributions by the donors and GFRC to funds originally provided for the track construction based on the original cost estimates.

also risen and it seems likely that the percentage of cost escalation for a road would be comparable to that of the railroad. Thus, it is likely that a new comparison of present values would still approximate the analysis made in the original loan paper justifying the railroad alternative.

Based on a capital cost estimate of $43 million and comparing the cost of the railway extension with its benefits (user cost savings over the present road and additional new agricultural production as estimated in the SEMA study), the original loan paper cost/benefit analysis showed an internal rate of return of 11.5%. The revised capital costs are now estimated at $55.3 million. It is calculated that these will be disbursed as follows:

Year	Capital Expenditure
1970	$22 million
1971	$11 million
1972	$11.2 million
1973	$11.1 million

Using the same basic cost/benefit analysis as in the original loan paper, but substituting the revised cost estimates, the present value of costs and benefits can now be compared as follows:

Rate of Interest	Present Value of Capital Costs	Present Value of Benefits
6%	$47.67 million	$88.31 million
10%	$43.09 million	$41.08 million

The internal rate of return for the project is now computed to be 9.5% which is probably roughly equivalent to the social marginal productivity of capital in Cameroon.

F. Technical Analysis: In negotiations between the GFRC and COGEFAR-HOCHTIEF the bid price was reduced from $47.8 million to $42.2 million.

These negotiations resulted in reduced prices because of various adjustments or changes in the technical and financial requirements of the specifications. The technical changes include major items described hereafter.

Sampling and laboratory work on local materials and compaction in connection with Phase I was actually done by the Public Works Department of the Cameroon Government. PWD then billed the construction contractor for such work which proved to be quite costly. It was agreed that for Phase II the contractor could set up his own laboratory and do all required compaction, sampling and testing of local materials. All such work is to be supervised and results of tests analyzed by the engineering staff of OCFT which is entirely capable of carrying out such responsibility.

Agreement was reached to allow a change in gradation of ballast to permit slightly larger maximum size crushed stone. The increase in maximum size ballast will not affect the structural soundness of the roadbed as the ballast still must be compacted in accordance with the original specifications. However, as traffic increases, it may be necessary to begin maintenance of the ballast at a slightly earlier date. This should pose no problem as replacement ballast choking material is available and the OCFT track maintenance force is capable of performing such routine work.

In seeking ways to further reduce costs, an examination of drainage requirements was made by the OCFT engineering staff. It was found that short span bridges could well be replaced by pipe culverts and still provide ample drainage. This substitution was adopted.

Asphalt paving in the station yards has been reduced. This item is mostly one of convenience and can be deleted until sometime in the future when finances will permit such items.

Ballast pans on long bridges have been eliminated. It is not generally a U.S. practice to use ballast pans. In fact, it was recommended by AID engineers at the beginning of this project that ballast pans not be used.

The Performance Bond has been lowered to 30% of the total contract price rather than 50% as originally required. Mobilization and advance payments have been raised from 30% to 40%. The contract now provides for a 20% payment for mobilization and an additional 20% payment when equipment, materials and supplied are ordered. Since these items are covered by a 100% Financial Bond and there is a 5% retention by the owner from each progress payment made to the contractor, it is believed the owner will have reasonable coverage against any financial failure of the contractor. This reduction to 30% Performance Bond results in sizeable cost savings.

The above changes have been approved by the GFRC and by all donors.

None of the accepted changes reduces the structural soundness of the project nor do they affect the basic technical analysis of the original loan paper. In fact, the negotiated price is based on actual present cost rather than on estimated cost as in the original paper. The technical requirements of Section 611 remain satisfied.

G. Financial Analysis: Despite the additional $2 million loan to assist in meeting the higher construction costs of the project, the favorable analysis of the original loan paper on the prospects for repayment of the loan by both REGIFERCAM and the GFRC remains essentially unchanged. The incremental financing of the other donors is on a grant basis and therefore only the AID loan amendment need be considered in determining repayment prospects.

The net income projection for REGIFERCAM based on the 1966 SEMA report entitled "Budgetary and Financial Forecasts for the Regie des Chemins de Fer du Cameroon from 1966 to 1986", and shown in Annex 3, Table 5 of the original loan paper, shows sufficient surplus to meet the additional debt service payments on the $2 million loan amendment. It appears from the most recent budget and financial estimates of REGIFERCAM that receipts and operating revenue will be considerably higher than projected in the 1966 SEMA study.

Most of the increase will result from increased transportation of timber not contemplated in the earlier freight projections. In September, 1969, the GFRC granted ten new licenses for forest exploitation covering about two and one-half million acres. It is estimated that timber exports will reach about five-hundred thousand tons over the next five years. Most of the timber will be transported to the port of Douala by railroad.

The fiscal position of the GFRC has not changed in any material way that would affect its ability to repay the loan since the analysis made in the original loan paper. In the period between 1962/63 to 1967/68 total current revenue increased by about 80%. From 1963/64 to 1965/66 current surplus was more than sufficient to cover capital expenditures. While current revenues fell off in 1966/67 causing a large overall budgetary deficit in spite of a reduction in capital expenditures, 1967/68 showed an impressive recovery. Since 1966/67 the rate of growth of total expenditure has been reduced while receipts continue to expand, bringing the budget into approximate equalibrium in 1968/69. Between 1966/67 and 1968/69, total expenditure was expected to increase by just over 10% while receipts were expected to rise over 22%. Debt service payments continue to be small, chiefly due to the favorable terms on which aid has been received in the past. In 1968, debt service payments were only about 2% of export earnings.

H. Other Considerations:

1. Other Sources of Financing: A full discussion of other sources of financing available is contained in Section IV.3 of the original loan paper. During initial discussions between the donors and the GFRC on financial arrangements for the project, AID suggested that the Government of Canada and the IBRD be approached to assist in the project. The GOC and IBRD privately advised AID that they were reluctant to become involved at that stage of the project development, for it would require a full review of the technical, economic and financial aspects of the project which would substantially delay the proposed construction schedule. The project has now advanced to a stage that would make it even more unlikely that other sources of financing would be available. Each of the other donors has increased its contribution to this project as indicated in Section II.D.

2. Impact on U.S. Economy: This $2 million amendment, like the $10 million original AID loan, will only be used to finance goods and services procured by the construction contractor which are of U.S. source and origin. To that extent it will benefit United States manufacturers of heavy construction machinery, culverting material, structural steel, steel rails, and other construction material.

3. Effect on Private Enterprise: The loan funds will be used exclusively for the procurement of equipment, materials and services from private U.S. sources under a contract with private European contractors.

4. Statutory Criteria: The then applicable statutory criteria were satisfied in the original loan paper or were covered in the original Loan Agreement for this project. We have reviewed these criteria and conclude that our findings and provisions in those earlier documents are generally applicable with respect to this amendment. To the extent that conditions have materially changed and new statutory criteria have been added, see Annex II.

III. Recommendation

That an amendment to the Loan Agreement be authorized to provide an additional $2 million to the GFRC under the conditions and for the purposes described herein and in accordance with the following terms:

<u>Interest</u>: 2% per annum for the first 10 years; 3% per annum thereafter.

<u>Maturity</u>: 40 years, including a 10-year grace period.

<u>Currency</u>: Interest and principal payable in U.S. dollars.

The amount is to be reloaned by the GFRC to REGIFERCAM with the following terms:

<u>Interest</u>: 2% per annum for the first 10 years; 3% per annum thereafter.

<u>Maturity</u>: 40 years, including a 10-year grace period.

<u>Currency</u>: Interest and principal payable in CFA francs.

ANNEX I
AID-DLC/P-710/3
AID Loan No. 698-H-006

CAPITAL ASSISTANCE LOAN AUTHORIZATION AMENDMENT

Provided from: Development Loan Funds
Cameroon - Transcameroon Railroad Phase II (Amendment)

Pursuant to the authority vested in the Administrator of the Agency for International Development ("A.I.D.") by the Foreign Assistance Act of 1961, as amended, and the delegations of authority issued thereunder, I hereby authorize an amendment to increase the above-captioned loan to the Government of the Federal Republic of Cameroon ("Borrower") by an amount not to exceed two million ($2,000,000) dollars to be reloaned to the Regie des Chemins de Fer du Cameroon (REGIFERCAM, the Cameroon Railway Authority) to assist in financing the United States dollar costs of equipment, materials and services required to construct Phase II of the Transcameroon Railroad from Belabo to Ngaoundere, in Cameroon. This loan is subject to the following terms and conditions:

1. Interest Rate and Terms of Repayment:

a. REGIFERCAM shall repay said increased amount of this loan to the Borrower in CFA francs or in such currency as is at the time of payment legal tender in Cameroon within forty (40) years from the date of the first disbursement under the loan, including a grace period of not to exceed ten (10) years. REGIFERCAM shall pay to the Borrower interest on the disbursed balance of said increased amount at the rate of two percent (2%) per annum during the grace period and three percent (3%) per annum thereafter

b. Borrower shall repay said increased amount of the loan to A I D. in U.S dollars within forty (40) years from the date of the first disbursement under the loan, including a grace period of not to exceed ten (10) years Borrower shall pay to A.I.D. interest on the unrepaid principal and any accrued interest at the rate of two percent (2%) per annum during the grace period and three percent (3%) per annum thereafter.

2. Other Terms and Conditions:

   a. Equipment, materials and services financed by the loan shall be of United States source and origin.

   b. The loan shall be subject to such other terms and conditions as A.I.D. may deem advisable.

Assistant Administrator for Africa

Date

Checklist of Statutory Criteria

Development Loan Fund

The statutory criteria applicable at the time of the original loan authorization were satisfied in the original loan paper or were covered in the original Loan Agreement for this project. The findings and provisions in those documents are generally applicable with respect to this amendment. To the extent that conditions have materially changed and new statutory criteria have been introduced, the provisions and findings below are applicable.

The following abbreviations are used in the checklist:

FAA - Foreign Assistance Act of 1961, as amended, incorporating amendments effected by the Foreign Assistance Act of 1968.

App. - Foreign Assistance and Related Agencies Appropriations Act, 1969.

I. COUNTRY PERFORMANCE

A. Progress Towards Country Goals

1. FAA §§201(b)(5), 201(b)(7), 201(b)(8), 208. Discuss the extent to which the country is:

(e) Willing to contribute funds to the project or program.

The GFRC is financing 11% of the total cost of this project. See Section II.D.

B. Relations with the United States

3. FAA §620(c)(1). Has the country's government, or any agency or sub-division thereof, (a) nationalized or expropriated property owned by U.S. citizens or by any business entity not less than 50% beneficially owned by U.S. citizens, (b) taken steps to repudiate or nullify existing contracts or agreements with such citizens or entity, or (c) imposed or enforced discriminatory taxes or other exactions, or restrictive maintenance or operation conditions? If so, and more than six months has elapsed since such occurrence, identify the document indicating that the government, or appropriate agency or sub-division thereof,

No such actions are known to have been taken by the GFRC.

has taken appropriate steps to discharge its obligations under international law toward such citizen or entity? If less than six months has elapsed, what steps if any has it taken to discharge its obligations?

7. FAA §620(q). Has the country been in default, during a period in excess of six months, in payment to the U.S. on any FAA loan?

No.

D. Military Situation

1. FAA §620(i). Has the country engaged in or prepared for aggressive military efforts directed against the U.S. or countries receiving U.S. assistance?

No.

2. FAA §620(s). What is (a) the percentage of the country's budget devoted to military purposes, and (b) the amount of the country's foreign exchange resources used to acquire military equipment? Is the country diverting U.S. development assistance or P.L. 480 sales to military expenditures? Is the country diverting its own resources to unnecessary military expenditures? (Findings on these questions are to be made for each fiscal year and, in addition, as often as may be required by a material change in relevant circumstances.)

About 20% of the 1968/69 budget was allocated for national defense. Foreign exchange expended on military equipment is negligible. The answer to the second and third questions is no.

3. FAA §620(v); App. 119. Has the country spent money for sophisticated weapons systems purchased since the statutory limitation became effective? If so, identify either (a) the documentation which describes how the withholding of an equivalent amount of A.I.D. assistance has been or will be accomplished or (b) the Presidential determination that such purchase is important to the national security of the U.S. so that no withholding is necessary.

No.

II. CONDITION OF THE LOAN

A. General Soundness

-- Interest and Repayment

1. FAA §§201(d), 201(b)(2). Is the rate of interest excessive or unreasonable for the borrower? Are there reasonable prospects for repayment? What is the grace period interest rate; the following period interest rate? Is the rate of interest higher than the country's applicable legal rate of interest?	Loan terms are low and reasonable. There are reasonable prospects for repayment. (See Section IV.2 of the original loan paper and Section II.G. of this loan paper). The grace period interest rate is 2% followed by an interest rate of 3% for the duration of the loan. Answer to the last question is no.

-- Financing

1. FAA §201(b)(1). To what extent can financing on reasonable terms be obtained from other free-world sources, including private sources within the U.S.?	The total AID loan of $12 million will finance 22% of the total costs of the project. France, EEC, and the GFRC will finance the remaining costs. Cameroon's need for borrowing money on soft terms precludes borrowing from private U.S. sources. See also Section IV.3. of the original loan paper and Section II.H.1. of this loan paper.

-- Economic and Technical Soundness

2. FAA §611(a)(1). Have engineering, financial, and other plans necessary to carry out assistance, and a reasonably firm estimate of the cost of assistance to the U.S., been completed?	See Section III of original loan paper and Section II.D. of this loan paper.

B. Relation to Achievement of Country and Regional Goals

-- Country Goals

6. FAA §281(b). How does the program under which assistance is provided recognize the particular needs, desires, and capacities of the country's people; utilize the country's intellectual resources to encourage institutional development; and support civic education and training in skills required for effective participation in political processes.	This loan will assist the GFRC in meeting transportation needs of the Cameroonian people. It is not applicable to the latter two parts of this Section.

8. <u>FAA §202(a)</u>. Indicate the amount of money under the loan which is: going directly to private enterprise; going to intermediate credit institutions or other borrowers for use by private enterprise; being used to finance imports from private sources; or otherwise being used to finance procurements from private sources.	The entire amount of the loan will be used to finance procurement from private sources. See Section II.H.3.

C. <u>Relation to U.S. Economy</u>

-- Employment, Balance of Payments, Private Enterprise

6. <u>FAA §621.</u> If the loan provides technical assistance, how is private enterprise on a contract basis utilized? If the facilities of other Federal agencies will be utilized, in what way are they particularly suitable; are they competitive with private enterprise (if so, explain); and how can they be made available without undue interference with domestic programs?	Not applicable.

-- Procurement

3. <u>FAA §604.</u> Will any part of this loan be used for procurement of any agricultural commodity or product thereof outside the U.S. when the domestic price of such commodity is less than parity?	No.

D. <u>Other Requirements</u>

5. <u>App.§109(a)</u>. Will any military assistance, or items of military or strategic significance, be furnished to a Communist nation?	No.
10. <u>FAA §620(g)</u>. Will any part of this loan be used to compensate owners for expropriated or nationalized property? If any assistance has been used for such purpose in the past, has appropriate reimbursement been made to the U.S. for sums diverted?	Answer to the first question is no. The loan will be used only for procurement of U.S. goods and services. Second question is not applicable.
11. <u>FAA §201(f)</u>. If this is a project loan, what provisions have been made for appropriate participation by the recipient country's private enterprise?	Cameroonian private enterprise will benefit directly from having this extension of the railway network. See Section V of original loan paper.