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CASE-STUDY ON THE NATIONAL EXPERIENCE OF CAMEROON, WITH SPECIAL ATTENTION TO THE AREA OF VERTICAL DIVERSIFICATION

Report by the UNCTAD secretariat

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ABBREVIATIONS

A. National, Foreign and International Organizations/Institutions

ACDI/CIDA	Assistance Canadienne pour le Developpement Internationale
ADB	African Development Bank
APDF	African Project Development Facility (Joint IFC/ADB facility)
BEAC	Bank of the Central African States
CDF	Commonwealth Development Fund
CDI	Centre de Développement industriel (EEC)
CFCE	Centre Français du Commerce exterieur (Paris)
CFD	Caisse française de Développement (ex Caisse centrale de Cooperation économique, CCCE)
CICC	Conseil interprofessionnel du Café et du Cacao
CIRAD	Centre de Coopération internationale en Recherche agronomique pour le Développement
DEG	German Development Corporation (Deutsche Entwicklungs Gesellschaft)
FOGAPE	Fonds d'Aide et de Garantie des Crédits aux petites et moyennes Entreprises camerounaises
GTZ	German Corporation for Technical Cooperation (Gesellschaft für Technische zusammenarbeit)
IFC	International Financial Corporation
IRA	Agro Research Institute Institut de Recherche agronomique (Nyombe)
IRZ	Institut de Recherches zootechniques
MINAGRI	Ministry of Agriculture of Cameroon
MINDIC	Ministry of Industry and Commerce of Cameroon
OECD	Organisation of Economic Co-operation and Development
ONCPB	Office national de Commercialisation des Produits de Base
ONCC	Office national du Café et du Cacao
PROPARCO	Private investment arm of CFD (France)
PSDU	Private Sector Development Unit (operated jointly by UNDP and ADB)
SNI	Societé nationale d'Investissements
SRC	Societé de Recouvrement des Créances
UCCAO	Union centrale des Coopératives agricoles de l'ouest
UCCA Sud	Union centrale des Coopératives Agricoles du Sud
UDEAC	Central African Customs and Economic Union Union douanière et économique de l'Afrique centrale

B. Commodity producing and processing companies/enterprises

ALUMINIUM

ALUCAM	Aluminium du Cameroun
SOCATA	Societé camerounaise de transformation de l'Aluminium
SOCATRAL	Societé camerounaise de transformation de l'Aluminium
ALUBASSA	Aluminium de Bassam

COCOA

SIC-CACAO	Societé industrielle du Cacao
CHOCOCAM	Chocolaterie Confiserie du Cameroun
RESICAM	Residus Cacao du Cameroun
SODECAO	Societé de Developpement du Cacao

COTTON

SODECOTON	Societé de Developpement du Coton
CICAM	Cotonnière industrielle du Cameroun
SOLICAM	Societé Textile du Cameroun pour le ligne de maison
SYNCATEX	Societé camerounnaise des textiles synthetiques
SICABO	Societé industrielle camerounaise de Bonneterie

FRUITS AND VEGETABLES

SCN	Societé des Conserves du Noun (tomato sauce, canned)
CABECO	Cameroon Beverage Corporation (Douala)
SITRAF	Societé industrielle de Transformation des Fruits (Maroua)
SPNP	Societé des Plantations nouvelles du Penja (Bananas)
PHP	Plantations du Haut Penja (Bananas)
SBM	Societé bananiere du Moungo
OCB	Office camerounais de la Banane

HIDES AND SKINS

TANICAM	Tannerie industrielle du Cameroun (Ngaounderé)
NOTACAM	Nouvelle Tannerie du Cameroun (Maroua)

PALM OIL

SOCAPALM	Societé camerounnaise des Palmeraies
SAFACAM	Societé agricole et forestière du Cameroun
SPFS	Societé des Palmeraies de la Ferme Suisse
SRL	Societé des Raffineries du Littoral
CCC	Complexe chimique camerounais

RICE

SODERIM	Societé de Développement du Riz
UNDVA	Upper Noun Development Valley Authority

RUBBER

CAMDEV	Cameroon Development Corporation (also involved in bananas, palm oil and tea)
HEVECAM	Heveas du Cameroun
SAFACAM	Societé agricole et forestière du Cameroun
CIAC	Compagnie des Industries africaines du Cameroun
SORECAM	Societé de Rechappage du Cameroun

SUGAR

CAMSUCO	Cameroon Sugar Corporation
SOSUCAM	Societé sucrière du Cameroun
NOSUCA	Nouvelle Sucrerie du Cameroun

TOBACCO

SCT	Societé de Commercialisation du Tabac

WOOD

SFID	Societé forestière et industrielle de la Doumé (Dimako)
SEPBC	Societé d'Exploitation des Parcs à bois du Cameroun
COCAM	Contreplaqués du Cameroun
SOFIBEL	Societé forestière et industrielle de Belabo
ECAM PLACAGE	Ebenisterie du Cameroun
CPPC	Cameroon Pulp and Paper Corporation

FOREWORD

1. The Committee on Commodities, in its Fourteenth Session, November 1990, decided that priority should be given to the study of the impact of market conditions on importing and exporting countries with regard to diversification, including government policies, structural adjustment, forms and methods of trading and technical assistance.[1] The Standing Committee on Commodities, in its First Session, February 1993, decided, in the same vein, that national experiences in horizontal and vertical diversification, including possibilities of crop substitution, should be analysed, and that an examination was required of the best ways to achieve diversification, taking into account competitiveness, market trends and opportunities.[2]

2. In accordance with these mandates, a number of country-studies are being undertaken in Cameroon, Colombia, Fiji, Senegal, the Solomon Islands and the United Republic of Tanzania. The experience of these countries in the diversification of their commodity exports (mainly vertically into semi-processed and processed products in the case of Cameroon, or both vertically and horizontally into non-traditional primary commodities in other countries), as well as the conditions influencing this are analysed. These conditions fall into two broad areas: the macroeconomic and international environment (including market access conditions), and the commodity-specific supporting framework (in terms of government -- or otherwise -- supplied infrastructure, services, etc.).

3. This approach attempts to identify the key factors which led to commodity export diversification, or those which prevented the exploitation of diversification possibilities. This includes questions as to what were the important factors that led to and facilitated the set-up of new export-oriented productive activities; what were the problems related to these new activities, and, if these problems were solved, how was this done? If problems were not solved, were there gaps in the supporting environment, and in particular, in government policies? It is difficult to assess separately the impact of each policy measure because of their complementary nature and the influence of weather conditions on agricultural production. The studies thus attempt to analyse which package of conditions is necessary to make export diversification viable, and which package of policy measures seems to enhance the chances of export diversification efforts, rather than to determine, for example, whether cheap credits are more useful for an exporting company than good market information networks.

4. Therefore, the goal of these studies is not to formulate general theoretical statements or specific policy recommendations for the countries being studied. Rather, it is to draw conclusions on the sorts of policy that would facilitate diversification, the support services that are necessary to enable local entrepreneurs to make use of existing possibilities, and the ways a country can improve the benefits it receives from marketing its commodities. Currently, many countries are in a process of policy reform; diversification of exports is generally one of the envisaged outcomes. However, the resources available to stimulate this diversification are scarce, and, in general, countries do not have the information necessary to determine how their resources can be used optimally. It is hoped that these studies will support the process of policy formulation in developing countries in this area.

5. Cameroon was selected for a country-study as it is one of the two beneficiary countries of the pilot project coordinated by UNCTAD on commodity processing being financed by the Government of Japan and UNDP for selected developing countries. This project is encouraging the participation of private investors in processing activities in selected highly commodity-dependent developing countries on the basis of a realistic assessment of possible viable projects, of government policy implications and of related technical and financial assistance needs. Its implementation provides an opportunity to make use of the cooperation of various international agencies with competence in related areas (UNCTAD, UNDP, FAO, UNIDO, the World Bank and regional development banks), as well as beneficiary governments and foreign and local investors.

6. Taking into account the importance of expanding commodity-based processing activities for the development of Cameroon and the existing prospects for successfully assisting the efforts of government and private entrepreneurs in this area, this paper pays special attention to the Cameroonian experience in the area of vertical diversification. The first step in implementing the above-mentioned project consisted of an independent and realistic assessment of the commodity sector of Cameroon in terms of its vertical diversification potential. Statistical and other information used here is based on that provided by Mr. H. Younes,[3] who worked as a consultant for the project and visited Cameroon in 1993.

SUMMARY AND CONCLUSIONS

7. Cameroon is characterized by a wide range of climatic zones, population densities, ecological conditions and natural resources. It also has a large share of commodities in total export earnings and a relatively wide range of commodity exports. While the country benefits from a favourable geographical location, not far from the European market and with access to the Atlantic Ocean, it has a limited domestic market (though sizable for an African country) which still absorbs only a fraction of the production of many major cash crops, traditionally oriented to external outlets. The direction of exports of both primary and processed commodities is largely influenced by close economic links with France, as well as by preferences granted under the Lomé Conventions and, to a lesser extent, by preferential arrangements with neighbouring countries.

8. The limited size and underdeveloped nature of Cameroon's domestic capital market is a barrier to its efficient economic development. Economic activity is also constrained by a shortage of local, trained personnel, weaknesses in the national banking system and administrative red tape. An additional factor limiting the development of vertical diversification and export-oriented activities is the lack of appropriate support services. The dramatic fall in domestic savings and investment capacity from the mid-1980s, accompanied by capital flight, has significantly aggravated the problem of inadequate financial resources, which limits the ability of both government and private entrepreneurs to finance diversification-related projects and support services and facilities. Moreover, the deep economic crisis has led to a degradation of existing facilities, including transport and storage facilities that are needed for the production of processed commodities.

9. While the economy's export structure is relatively diversified, none of the processed local commodities contributes significantly to the overall export earnings of Cameroon, reflecting thus the failure of attempts to create any important local resource-based industrial activity. However, the scope of these attempts and the emphasis placed in the current government policy on obtaining a greater value added from natural resources, confirm the fact that the further processing of commodities, in particular for export, is a key element for diversification efforts and a major way to stimulate the commodity sector's contribution to Cameroon's economic development.

10. The character and viability of efforts to develop processing and other diversification-related activities were heavily influenced by government economic policies and measures. After independence, Cameroon, like many other developing countries with large internal markets, followed inward-looking import-substitution development policies, supported by protectionist measures, which resulted in the creation and maintenance of inefficient activities and high internal prices. These policies were limited to products of mass consumption and were followed without consideration of economic linkages, production costs and coordination with neighbouring countries. At the same time, the pre-eminent role given to the public sector at the expense of the development of private entrepreneurship led to a proliferation of highly protected and subsidized parastatals in major sectors of the economy. Although import-substitution policy has, to a certain extent, contributed to enhancing economic self-reliance and to the development of a number of mainly inward-oriented small- and medium-scale

processing activities, the costly and inefficient production system could not survive under the conditions created by a dramatic aggravation of the country's economic situation in the second half of the 1980s.

11. The structural adjustment programmes, which started in 1988 though contributing to a liberalization of the country's traditional protectionist policies, were not specifically directed at the development of export-oriented processing and other diversification-related activities. Instead, they were focused on domestic prices and trade liberalization, and on restructuring the banking system and the production structures with a view to reducing the government's direct involvement in the national economy. However, the economic policy strategy has been changed and the government has started to emphasize the promotion of the local private sector and to pay more attention to the encouragement of foreign investors and to the development of export-oriented activities. It has recently promulgated a new investment code, providing incentives to national private entrepreneurs and foreign investors through a "one-stop shop" institution and promoting natural resource-based value added activities, in particular those with an export orientation.

12. The policy of clearing more economic space for the private sector and creating a favourable environment for its development is still far from achieving significant results. The parastatals continue to play an important role in the economy, while the government's attempts to encourage the development of the private sector by providing investment initiatives has not yet resulted in a significant inflow of local and foreign investments to selected areas. It is clear that the investment decisions of private companies depend not only on the introduction of direct investment incentives, but also on the availability of appropriate basic support services and facilities, provided either directly by the government or through measures that encourage the private sector to undertake them. These are needed in particular in the areas of infrastructure, development of skilled labour, market information, finance, marketing support and extension services. The provision of these services, together with sustainable investment promotion initiatives in stable macroeconomic and political conditions, would likely create an environment conducive to private investment.

13. The government's coordinating role is crucial for the viability of diversification efforts. A delicate interplay of sound macroeconomic management, specific commodity-related policies and support measures and services, provided by the Cameroonian Government, would help to create an attractive economic and political environment for potential investors in appropriate areas, effectively promote national investment opportunities at home and abroad and mobilize both domestic resources and adequate financial and technical support from the international community.

Chapter I

THE RESOURCE SITUATION AND BASIC CHARACTERISTICS OF THE NATIONAL COMMODITY SECTOR

1. Diversification potential and the development of the commodity sector

14. Cameroon is a comparatively well-endowed country in the sub-Saharan region due to its favourable geographical location, diversified mineral resource base, wide range of climatic zones, and a sizable (for Africa) domestic market. The country has the 10th largest population in the region and the second highest level of gross domestic product (GDP) (after Nigeria). Cameroon has one of the most diversified natural resource endowments in the region and a significant potential for further expansion and diversification of commodity-related activities. This particularly applies to agriculture (including livestock), forestry and mining. The country also has important energy resources, including petroleum and natural gas, and hydroelectric potential.

15. The agricultural sector remains the backbone of the economy though its relative importance has substantially declined since 1978 (to about 27 per cent of the GDP in 1990) with the advent of petroleum exploitation which, for its part, declined significantly in the second half of the 1980s, contributing about 10 per cent of the gross national product (GNP) in 1990. At the same time, commodity-related processing activities represented 13 per cent of the GDP, or nearly half of the total value added by the industrial sector.[4]

16. On a commodity basis, the present pattern of production in the agricultural sector can be described as follows:

(a) production entirely or almost entirely oriented towards the domestic market: a wide range of cereals (including sorghum, maize, millet, coarse grains and rice), cassava roots and tubers, palm oil, sugar, livestock, fishery products and tropical fruits, except bananas.

(b) production for both domestic and export markets: cotton, tobacco, cotton seed oil, bananas and wood.

(c) production entirely or almost entirely for export: coffee, cocoa, tea, rubber, hides and skins.

17. Smallholders contribute more than 90 per cent of the total agricultural output, the remaining 10 per cent being produced by plantations that are mostly government owned or controlled. The situation in the agricultural sector, which is characterized by low mechanization and low utilization of fertilizers, has not changed much over the past two decades. Information on commodity structure and forms of production in the agricultural sector is given in tables 1 and 2.

18. Most food crops for domestic consumption are produced by smallholders. Parastatals (SEMRY, SODERIM and UNDVA) are involved only in rice production, where they control the bulk of production for milling. The expansion of maize

production in recent years has attracted some private foreign investment. One of such joint venture projects, for instance, has a production capacity near Ngaoundere and two mills for processing maize into maize flour, maize oil and animal feed.

Table 1

Production of main agricultural commodities in Cameroon
(in 000 metric tons, unless otherwise specified)

Production	1979/81	1989	1990	1991	1992 (estimated)
FOOD CROPS					
Maize	418	371	380	450	465
Sorghum	301	343	350	400	..
Millet	98	65	65	63	66
Roots/tubers	1,663	1,828	1,906	1,946	..
Cassava	977	1,137	1,200	1,230	..
Plantains	1,022	835	850	860	..
Coarse grains	204	220	245	290	..
Rice (paddy) a/	56	86	90	90	65
CASH CROPS					
Groundnuts (in shell)	137	100	100	110	115
Seed cotton	81	167	113	114	113.3
Palm kernels	43	41	42	42	..
Palm oil	77	102	108	105	110
Sugar cane	1,072	1,300	1,500	1,400	..
Sugar (raw)	61	66	81	75	72
Bananas (for export)	60	49	75	112	120/130
Coffee (green)	108	186	102	58	..
Cocoa beans	120	126	99	95	88
Tea	2.0	2.5	2.4	2.6	2.8
Tobacco	2.9	3.4	3.1	3.2	3.9
Pineapples	33	34	35	35	..
Avocados	24	34	35	36	..
Natural rubber	17	36	38	40	..
Roundwood b/ (in 000 cubic metres)	1,800	2,120	2,476	2,290	2,200

Source: *FAO Production Yearbook, 1992,* and various national publications.

a/ Data of the Ministry of Agriculture for crop years (1 July-30 April).

b/ Ministère de l'Environment et de la Forêt (1992), République du Cameroun/Banque Mondiale, *Etude sur le Système d'Attribution et de Suivi des Titres d'Exploitation Forestière pour les Bois d'Oeuvre,* consultants report from COMETT, Bonneuil-Matours.

Table 2

Structure of production of major primary commodities (as of January 1993)

Commodities/ structure	Coffee	Cocoa	Bananas	Palm oil	Sugar	Rubber latex	Wood	Tea	Cotton	Tobacco	Rice
Smallholders	100%	100%	..	20-25%	25%	10%	10% d/	.. 100%	100%	100%	100%
Industrial plantations	..	..	100%	75-80%	75%	90%	90% e/	..	..	..	..
Ownership a/								..			
- government b/	..	..	..	75-80%	100%	90%	7%	100%	..	..	..
- foreign	..	..	80%	20-25%	..	10%	72%	..	..	..	..
- private nationals	100%	100%	20%	..	..	..	21%	..	..	..	..
Employment (persons)	325,000	320,000	12,000	160,000	183,000	12-15,000	8,817	6,000	200,000	150,000	60,000
Supporting organizations											
- parastatals c/	..	SODECAO	..	..	..	..	..	..	SODECOTON	SCT	SEMRY SODERIM UNDVA
- Co-ops	UCCAO NWCA	SW;CA UCCA-SUD	..	..	..	..	..	..	..	..	..

Source: Estimates based on different reports prepared for UNIDO by Etude economique Conseil, UNIDO (as of January 1993), and information provided by MINDIC and MINAGRI.

a/ Ownership applies to industrial plantations or forestry concessions.

b/ Wholly owned or government controlled (majority shareholder).

c/ Parastatals providing technical support services to the growers of a specific commodity (fertilizers, pesticides, training, small equipment and, in the case of cotton, rice and tobacco, also involved in collecting, marketing, processing and exporting activities.

d/ Private nationals holding generally small forestry concessions for logging only.

e/ Forestry concessions with integrated processing capacities (generally sawmills).

19. In the second half of the 1980s, export-oriented production of cash crops was badly hit by the fall in world commodity prices, depreciation of the US dollar and several internal factors (including high production costs), which contributed to a sharp decline of the Cameroonian economy. Coffee and cocoa have always been the two main cash crops, followed by palm oil, cotton, bananas, sugar and rubber. Tobacco, tea and other tropical fruits still play a marginal role though their importance is growing.

20. Coffee and cocoa are produced exclusively by smallholders. Production is entirely for export and has been backed by a parastatal (SODECAO) and cooperatives. Government-controlled industrial plantations with integrated processing capacities account for about 80 per cent of palm oil and rubber production and for the entire production of sugar and tea. Cotton production, which involves several thousand smallholders, is supported by a parastatal structure (SODECOTON), which provides technical assistance to growers and buys their crops for processing and marketing.

21. Until 1987, the production of bananas for export originated from two parastatal industrial plantations -- Organisation camerounaise de la Banane (OCB) and the bananas sector of the Cameroon Development Corporation (CAMDEV). Since then, these plantations have been taken over by three foreign-controlled companies: Société des plantations nouvelles du Penja (SPNP), Société bananière du Moungo (SBM) and Plantation du Haut Penja (PHP), which made substantial investments to modernize equipment and improve conditioning, packaging and marketing. This resulted in a significant increase of exports of bananas which, in 1991/92, amounted to 120,000 tons, almost displacing coffee and cocoa as the largest foreign-exchange earners after petroleum.

22. The significant potential of livestock resources is still far from being realized. The 5 million head of beef and some 8 million head of sheep and goats that constitute the Cameroonian herd continue to be raised according to traditional practices which, together with other negative factors, such as limited surface of pasture lands, overgrazing, inadequate access to water supplies and transport problems, have resulted in great losses, both in quantity and quality of livestock products. In addition, the country has only two modern slaughterhouses (in Douala and Yaounde), and the shortage of such facilities has contributed to a high level of unrecorded slaughtering. Undressed hides and skins also represent an important and so far largely underexploited resource for processing.

23. The potential for the development of the fishery industry is limited because Cameroon's offshore waters are not rich in fish stock. Offshore fishing is currently carried out at both limited industrial and artisanal levels, with freshwater fishing and aquaculture at an early stage of development. Cameroon's overall fish catch is around 100,000 tons a year, of which only 15,000 to 20,000 tons originate from industrial fishing. The country is also a net fish importer (60,000 to 80,000 tons a year) though some shrimps and minor quantities of fish have occasionally been exported in the past. The country's old fish-canning plant, cold-chain and freezing facilities require major rehabilitation and modernization in order for it to be in a position to contribute to an expansion of modern fishing capacities.

24. Cameroon has the sixth largest forest area in the sub-Saharan region, covering 233,000 sq.km., or nearly half of the total territory of the country. Less than 40 per cent of the forest potential is at present exploited. This exploitation, however, is done in an inefficient manner without effective control and reafforestation. Production of roundwood in 1990/91 amounted to around 2.2 million cubic metres, placing Cameroon among the major wood producers and exporters in Africa. Because of problems related to capital intensity, inadequate infrastructure and transportation, the forestry sector is dominated by a few foreign companies that have the required financial capacities and technical skills to overcome these constraints. At the beginning of the 1990s, about 50 foreign firms operated in the modern export-oriented forestry sector, which coexisted with a number of small enterprises producing wood products for the domestic market.

25. Petroleum exploitation has had a far-reaching role in the development of the economy from the late 1970s to the mid-1980s. Its production increased steadily from 1978 to a peak of more than 9 million tons produced in 1986, when it contributed up to 17 per cent of the GDP, 45 per cent of budgetary resources and about two thirds of the total foreign-exchange earnings of the country. Increasing oil revenues contributed to a significant increase of investment activity and a rapid growth of non-oil sectors, in particular the manufacturing industry and construction. Oil production fell significantly after 1986 due to a sharp decline of oil prices on the world market, a continuing erosion of the exchange rate of the US dollar to the CFA franc and a persistent slow-down of the world demand for oil. In 1991/92, oil production was only 6.6 million tons, while the oil sector contributed less than 8 per cent of the GDP, 22 per cent of budget revenues and less than one third of total export earnings. This was accompanied by a drastic reduction of investments in petroleum exploration which aggravated further the economic prospects of the country. Indeed, it was then estimated that on the basis of known oil reserves, Cameroon would cease to be a net oil exporter by the mid-1990s. New arrangements with a view to promoting investments and research in the petroleum sector are now under consideration by the government and oil companies.

26. Besides petroleum, Cameroon has identified deposits of various minerals including limestone, gold, marble, bauxite, silver, lead and zinc, cobalt, nickel, rutile, iron ore, uranium and natural gas. So far, however, only limestone deposits (3 million tons) in the northern provinces are being exploited together with a marble deposit at Figuil and some uncontrolled gold production by individual prospectors.

27. In 1991/92, 120,000 tons of limestone were extracted as input for a large integrated cement plant which produces nearly 100,000 tons of cement a year, of which 40,000 tons are exported to neighbouring Chad. The production of marble (about 2,000 tons a year) is destined entirely for the domestic market. Bauxite reserves of around 1,100 million tons have been identified in Adamaoua province, as well as unquantified bauxite deposits in West province. A pilot project to exploit rutile was funded with French assistance in the late 1980s but has not been developed further. A major project to exploit offshore gas reserves near Kribi has been frozen for more than a decade due to depressed world energy prices, while an iron ore-mining project has similarly been on hold since the early 1980s.

28. The only operational large-scale mineral-related enterprise is the production of aluminium by ALUCAM at Edea. Despite the existence of huge bauxite resources, ALUCAM processes alumina which is imported exclusively from Guinea. The economic rationale for this activity is the use of the large hydroelectric power resources of Cameroon, as the production of aluminium is a highly energy-consuming process.

2. Main developments in commodity processing

29. Although in the 1980s, Cameroon made some progress in processing its raw materials, progress was slow, and unprocessed materials or their elementary processed forms still constitute the bulk of the value of its merchandise export earnings.[5] While the extent of processing varies from one commodity to another, the share of raw forms, on the whole, is still high, especially in the case of commodities for which processing techniques are complex and involve several stages.

30. Table 3 contains an assessment of the degree of commodity processing achieved in Cameroon, which ought to be interpreted with caution due to the poor state of production statistics available and discrepancies between different sources of information. Moreover, this table provides a static picture of processing activities in 1991/92 and does not reflect the dramatic decline of many of these activities since 1985/86, which resulted in consequent underutilization of installed capacities.

31. On the basis of the information shown in Table 3, the following conclusions can be drawn:

(i) in the case of sugar and tea, a 100 per cent degree of processing has been achieved: there are no further downstream processing activities, besides packaging and blending or grinding of tea. Although these activities could hardly be considered as additional processing activities, their importance should not be overlooked, taking into consideration the value added.

(ii) for coffee, natural rubber and hides and skins, the degree of processing ranges from 2 to 40 per cent and reflects almost entirely the very first stage of primary processing.[6] If feasible, further downstream processing activities could contribute to further value adding in these commodity sectors.

(iii) The other five primary commodities -- cocoa, palm oil, cotton, aluminium and wood are involved, though to varying extents, in vertically integrated processing activities which extend to the final stage of producing end-products for consumption -- chocolate/confectionery for cocoa, refined palm oil, finished and manufactured cotton goods, aluminium end-products for construction, kitchenware, cables and wires, as well as the whole range of processed timber. In the latter case, further downstream processing activities (wooden end-products for furniture and other household purposes) are undertaken mainly in the traditional sector, which is largely supplied by uncontrolled wood felling, for which available statistics are scant.[7]

Table 3

Degree of primary commodity processing
(production in 1991/92 except if otherwise specified)

Commodity	Production	Processing activities	Production of processed products	Degree of processing achieved
Coffee (raw)	71,400 tons	Roasting Instant	2,000 tons 300 tons	5% a/
Cocoa (beans)	99,000 tons	Butter paste/liquor chocolate/ confectionery	4,500 tons 2,800 tons 7,100 tons	15 to 18% b/
Sugar (cane)	88,000 tons of refined sugar	Refined sugar - cubes - powder - granulated	65,000 tons 23,000 tons	100%
Palm nuts	91,800 tons of raw palm oil	- Raw palm oil - Refined palm oil; soaps/detergents	91,800 tons 12,800 tons 12,000 tons	13% 12.5%
Rubber (latex)	40,000 tons of latex	- processing into natural rubber - tyres for all vehicles	40,000 tons 500 tons	less than 2%
Wood (logs)	2,290 (000 cubic metres) (1990/91) of which - loss 340 - net production 1,950	- sawnwood - plywood - veneer - lathes, moulding Total above - wood products (carpentry, furniture)	c/ d/ 277 775 164 164 26 26 6 6 473 971	48.7% by law, at least 60% of local wood production must be processed before export
Tea	2,600 tons	Treating tea leaves	no added value to normal tea trading	100%
Hides & skins	3.5 million units available annually. Less than half are collected.	Tanning, wet blue - traditional tanning - leather handicrafts, shoes and bags	1,300,000 units 150,000 units 25,000 units	1st stage processing 40% 1-2%
Seed cotton	113,400 tons	- ginning - spinning - weaving finishing/ manufacturing cotton seed oil	cotton fibre 46,500 tons 4,600 tons refined 10,600 tons	10% used to be more than 15% in previous years
Aluminium	Exclusively alumina imports	- Aluminium - downstream processing activities	81,100 tons 19,100 tons	Aluminium: up to 100% downstream processing: up to 24%

Source: Estimates on the basis of information provided by different companies and contained in various consultant reports.

a/ On a raw coffee basis.

b/ On a cocoa bean basis after deduction of intermediate cocoa butter consumption and of other cocoa products used as inputs in the processing of chocolate (in order to avoid double counting).

c/ Actual volume of individual products (000 cubic metres).

d/ Volume of individual end products in log volume equivalent.

32. The pattern and structure of commodity processing in Cameroon provide a better understanding of past policies and performance in this area. They highlight the role played by individual commodity-based activities and permit the tracing of some of the reasons behind relative successes or failures in different areas.

33. Table 4 recapitulates relevant information available with regard to 12 commodity-based processing activities, namely coffee, cocoa, natural rubber, sugar, tea, cotton, palm oil, tobacco, hides and skins, wood, rice and aluminium. This information reflects essentially the companies involved, their capital structure and ownership (government, private, national or foreign participation/ shareholding), main processing activities, equipment and installed capacities, respective production and market share in 1991/92, level of employment, etc. Specific comments are also made where relevant.

34. The following conclusions can be drawn from Table 4:

(i) In six commodity-based processing areas - sugar, natural rubber, cotton, palm oil, tea,[8] and rice - parastatals were dominant, though private (mainly foreign) participation is substantial.

(ii) Six other commodity-based processing areas - coffee, cocoa, hides and skins, tobacco, wood and aluminium - were controlled by private shareholders. It should be noted, however, that private national capital represented about 30 per cent of some capital in cocoa- and tobacco-processing companies, 21 per cent in logging and only 6.4 per cent in primary and secondary wood processing, while foreign capital shareholders controlled, respectively about 70 per cent of cocoa- and tobacco-processing firms and 72 to 82 per cent of wood processing. Only in the sector of aluminium production was the share of foreign capital holding as low as 56 per cent. In the case of hides and skins, one of the two major companies was entirely owned by a private national capital and the other by a foreign group.

(iii) While parastatals involved in processing activities have diversified upstream into activities related to the production of other commodities, e.g. palm oil, rubber or sugar plantations, privately owned companies or companies with private majority shareholding have diversified mainly into downstream activities, thus contributing to the extension of commodity-based processing chains from the stage of raw material production to the production of products for final consumption. This applies particularly to cotton (with many firms involved in the production of clothing, hosiery and household linen), palm oil (with refining capacities newly established), cocoa (with some chocolate and confectionery production), wood and aluminium.

(iv) Almost all commodity-based processing companies are operating much below their installed capacities. In many sectors (textiles, hides and skins, palm oil, cocoa) the actual rate of capacity utilization does not exceed 50 per cent, while several plants operate at one quarter and sometimes even at one tenth of their installed capacities. This situation stems primarily from the critical economic conditions faced by the country since 1985/86, though several cases of overdimensioning of installed capacities may also be noted.

Table 4

Structure and status of commodity processing facilities (as of January 1993)

Main companies by commodity branch	Location	Date of creation	Capital ownership	Main processing activities	Installed equipment/capacity	Production 91/92 volume in tons	Share in total prod. 91/92 <%>	Employment 1991/92	Comments
COFFEE									
Main co-ops	North west/west		growers' co-ops	roasting and grinding instant coffee	for domestic market	2.000T	100%	—	—
CAMEX	Douala	1992	private nationals		1.000T/Y	300T	100%	—	Started operating in mid-1992
COCOA									
SIC-CACAO	Douala	1966	Priv. Nat: 29.3% Barry S.A. (Italy) 55.6% SNI (gvt) 15.1%	Cocoa butter, powder, Chocolate/confectionary	30.000 T/beans/Y	15/18.000	100%	—	Privatization of govt. participation of 15.1% decided since 1991 but still not effected. The Barry S.A. linked with the French Trading Group SUCDEN is now controlled by an Italian group.
CHOCOCAM	"	1967			12.000 T/Y	7.100	100%	—	
RESICAM	"	1989	Private foreign (NL) 70% Private national 30%	Cocoa residue, processing/recycling	4-5.000 T/Y	(1.200)	100%	—	
NATURAL RUBBER									
CDC	Limbé	1975	SNI (Gvt.) 100%	Process. latex into nat. rubber	17.500 ha; 7 factories	22.400	56%	3.000	Under rehabilitation/perform contract
HEVECAM	Nieté	1975	SNI (Gvt.) 100%	Process. latex into nat. rubber	15.000 ha; 30/35.000T/Y			4.500	
SAFACAM	Dizangué	1962	Group Rivaud (F) 60.75%; Gvt. & SFI 17.6% each; Cofirmer: 3.85%	Process. latex into nat. rubber	3.000ha + 1 plant with 6T/day capacity of natural rubber	13.600 3.200	34% 8%		
Others: CIAC	Douala	1972	—	—	—	800	2%	..	Lost 3/4 of the market since 1988
SORECAM	"		—	Tyres for all vehicles		400	100%	60	
Three others	"		—	Tyres retreating Plastic/rubber shoes	1.500T/Y	..	100%	..	3 firms have closed down
SUGAR									
CAMSUCO	Nkoteng	1975	Cap. 1.3 bn CFAF of which Gvt. 98.12%; private 0.88%	Sugar refining in pieces or in powder	1 plant of 50.000T/Y	41.200	52%	..	Under privatization since October 1991
SOSUCAM	Mbandjock	..	52% Gvt.; foreign 48%	Same as above	1 plant of 30.000T/Y	32.800	41%	..	Same as above
NOSUCA	Douala	1986	Private foreign majority shareholding	Granulated sugar mostly from imported sugar powder	15.000T/Y	(5.000)	7%	..	Processes cheaper imports of sugar powder
COTTON									
SODECOTON	Garoua/ Maroua	1974	4.5bn CFAF; 70% Gvt; CFDT (F) (30%)	Ginning; cottonseed oil refining cottonseed cake and animal feed	8 ginning plants of 130.000 T/Y capacity; 3 cottonseed oil refineries of 15.000 T/Y, plus animal feed	46.500 (fibre) 10.600 (cotton-seed oil) 11.246 (animal feed) 4.600 T	100%	500 (2.000 in 1990)	Half of ginning equipment more than 10 years old; now being restructured.
CICAM	Douala/ Garoua	..	Gvt. (51%); DMC (F) 35%; DEG (Germany) (14%)	Weaving, spinning, finishing, colour printing	2 plants; 7000 T/Y of yarn and 60 million metres of cotton fabric, equipment more than 20 years old	..	100% 100%	1.100 (2.100 in 1986)	Used to process 8000T of fibre/year into a range of products with the highest value added in the country (70%). Should be pivotal in the restructuring scheme
SOLICAM	Douala	..	A subsidiary of CICAM	Printing on imported unbleached cotton material	..	..	..	..	—
SYNCATEX	Douala	(1979)	Private, national and foreign	Synthetic and sponge material from imported synthetic yarns	Sponge material 800-1000T/Y + 1.5 million metres of tergal	300T plus 1.2 million metres	..	..	In 1990 24 enterprises were still involved in downstream activities; many of them since closed down or switched to textile import business, or reduced their activities by more than half
SICABO	Douala	..	Private, national and foreign	Blankets from mixed fibres Hosiery	10-15000 blankets/year	1000 units	100%	—	

Table 4

Main companies by commodity branch	Location	Date of creation	Capital ownership	Main processing activities	Installed equipment/capacity	Production 91/92 volume in tons	Share in total prod. 91/92 <%>	Employment 1991/92	Comments
ALUMINIUM									
ALUCAM	EDEA	1957	Gvt. 44%, Pechiney (F)56%	Aluminium from alumina imports	84.000T/Y	81.100	100%	960	Modernized in 1979/81
SOCATRAL	EDEA	1961	ALUCAM subsidiary	Sheets discs, roof coverages, tanks	Hot rolling 30.000T/Y cold rolling 6.000T/Y	19.100			
ALUBASSA	Douala	..	Gvt. 15%	Cooking utensils	2000T/Y	1.000	100%	..	
SOCATA	Douala	1960	Cap. 0.75bn CFAF of which 49% AlUCAM	Corrugated sheets, alu strips and rolled discs	..	..	..	..	Some downstream integration but no upstream integration since alumina and all other inputs are imported
METALU	"	"	..	Aluminium building and architecture material	400/Y	280	100%	..	
PALM OIL a/									
SOCAPALM	Douala	1968	Gvt. 100%	Palm oil raw, fractionned; palm kernel oil	21.000 ha plantations; 4 oil plants of 130T/per hr capacity; 3/4 of equipment over 20 years old. A 12.000T/Y plant for palm oil fractionning set up in 1993	52.000 (6.400) a/	52%	4500	Under restructuring with CFD assistance, SOCAPALM produces red palm oil and stearin; no refined palm oil is produced
CAMDEV	—	1947/82	Gvt. 100%	Palm oil raw	Six plantations totalling 12.140 hr, 2 oil plants of 60T/h capacity; 2/3 of equipment over 20 years old	21.000	21%	2500	A new oil plant will be set up by 1994/95. Under contract of performance and financial assistance by CFD
SAFACAM	Dizangué	1962	Rivaud group (Fr): 60.75%; SFI: 17,7%; Gvt.17.7%; Cofimer: 3,85%	Palm oil raw	Started production in 1973; plantation of 4.000 ha + 1 oil plant built in 1981 of 20T/hr capacity	8.000	8%	850	..
PAMOL	..	1967	Owned by Unilever but under liquidation since 1987 and taken over by a private foreign group in 12/92	Palm oil raw	10.000 ha plantations + 2 oil plants of 36T/h capacity, more than 20 years old	12.000	12%	1800	Actively modernized and reequipped for take over and expansion
SPFS	Nyong	1976	SIPH (Fr): 59%; Gvt.: 26%; DEG (G) 4.8%; CFSO (Groupe Sodeci, France): 10.26%	Palm oil raw	2.800 ha plantations; 1 oil plant of 15T/hr capacity + since 1990, 1 palm oil refining plant of 7.500T/Y capacity	7.800	7%	610	Government share wholly privatized in 1992 (probably taken over by other shareholders of the company
SRL	..	1990	Same shareholders as SPFS	Refining palm oil prod. of SPFS + margarine	The above palm oil refining plant constituted as an autonomous firm	(6.400) a/	..	..	
MARHUCAM	..	end 1992	SOCAPLAM (Gvt.) and FOTSO (nat. private)	Refined palm oil	14.000T of refined oil/year	..	..	..	Project not yet operational in August 1993
TEA									
CAMDEV	..	1947/92	Gvt. 100% / CDC*	Drying, crushing and other treatment of tea leaves	Tea plantations + 1 plant for tea processing	3.100	100%	..	(*CAMDEV tea sector transferred to CDC under a technical financial arrangement, in 1992)

Table 4

Main companies by commodity branch	Location	Date of creation	Capital/ ownership	Processing activities	Installed equipment/ capacity	Production 1991/1992				Employment 1991/1992	Comments
						Volume b/		Share (%)			
						Timber	Processed timber	Timber	Processed timber		
WOOD c/											
SFID	Dimako Mbang	..	Majority private, French shareholding	Sawnwood, plywood, veneer	Two sawing mills + dryers	374	151	16.4	15.6	..	Notes: (i) About 45 companies were coperating in the wood sector in early 1993 (ii) Only four were equipped to process timber into sawnwood, plywood and veneer or other processed items (doors, lathes, etc.)
EFC	..	..	"	..	..	127	56	5.5	5.8	..	
GRUMCAM	..	..	"		..	125	32	5.5	3.3	..	
SEPBC	..	..	Gvt. 35%; Comatrans-SDV 24%; CFAO (F) 7% Socopro-SDV (F) 24%; Soaem (Cam) 10%	..	..	123	42	5.3	4.3	..	Gvt. participation partly privatized in 1991 among other shareholders and now reduced to 19%
F. CAMPO	..	..	..	..	..	114	..	5.0	..	..	
SOFIBEL	Belabo	..	Gvt. 79.43%; Ducoroy (F) 13.71%; Sifida 3,43%; Chase Int. Corp. 3,43%	Logging, sawnwood, plywood, veneer, mouldes and carpentry production	210.000ha concessions; 130.000m³ timber; 20.000m³ plywood; 25.000m³ veneer, and 15.000m³ sawnwood	103	66	4.5	6.8	..	Entirely privatized in 1/93 (French). The only one vertically integrated with secondary processing
SIBAF	..	..	..	..	Operates at full capacity	83	53	4.0	5.5	..	..
ALPICAM	Douala	..	Wholy private Italian capital	Sawnwood, plywood and veneer	..	80	83	3.5	8.5	..	The only firm operating at full capacity for exports
ECAM PLACAGES	..	..	GVT. majority shareholder	Same as above	..	..	26	..	2.7	..	
SEFAC	..	..	..	"		73	47	3.2	4.8	..	
COCAM	Mbalmayo	1966	CFAF 2,489bn of which Gvt. 88%; Reysir Holding (Swiss) 12%	Moulds, doors, etc.	119.800ha plantations timber 60.000m³; plywood 14.000m³; lathes 4.400m³	52	32	2.3	3.3	..	Gvt. part. entirely privatized in 12/92 (French); also integrates some secondary processing
Total 11 above	..	..	..	..	..	1254	562	55.2	60.6	..	
All other 36 companies	..	..	..	..	..	1036	409	44.8	39.4	..	
Total Wood	..	..	Logging: nat. 21%; foreign: 72%; Gvt. controlled: 7% Processing: national 6.4%; foreign: 82%; Gvt. controlled 11.6%	..	Major sawmill of 650.000m³/Y (2 working teams per day)	2290	971	100	100	8817	Total processed timber, 971; of which sawnwood 775; plywood 164; veneer 26; matches 6.8
CPPC (ex CELLUCAM) (Cameroon Pulp and Paper Corporation)	..	1992	Consortium including Gudang Garam (Indonesia) Comas (Italy) KorBer (Germany) R.H.C. (France) Reetone (U.K.) Lafimar (Japanese holding) and representational (Singapore)	Pulp and paper sawnwood, plywood	100.00 hectares concession of former Cellucam	..	..	..	..	..	The privatization/restructuring exercise has transferred the former Cellucam (closed in 1985) to this new industrial setting with invested capital of 56 billions CFAF. The plant is registered as a free zone area; production is expected to start in 1994 with 1500 new jobs

Table 4

Main companies by commodity branch	Location	Date of creation	Capital ownership	Main processing activities	Installed equipment/capacity	Production 91/92 volume in tons	Share in total prod. 91/92 (%)	Employment 1991/92	Comments
HIDES AND SKINS TANICAM	Ngaoundéré	1977/85	Set up by Gvt. in 1977, bankrupt in 1982, taken over in 1985 by SEPM and CFAO (French)	First rough tanning (pelt and wet blue) and some hardwork gloves	Over-dimensioned capacity of about 3 million skins or 14 million square feet	500.000 U	35%	..	Production declining in recent years (despite high efficiency and modern know-how) due to difficulties in securing supplies. Closed in July 1993.
NOTACAM	Maroua	1988	Private National (SIDIKI family)	First rough tanning (pelt)	Can treat 1.2 million units	800.00 U	57.7%	..	Good network for collecting hides and skins but lack of experience.
Traditional Tanners	Maroua	..	Individual tanners around Maroua	Tanning up to leather stage	100-150.000 units/year	100.000 U	7.3%	..	Mainly for domestic market
TOBACCO SITABAC	Douala	..	Private national and German shareholders	Cigarette manufacturing from imported tobacco	..	..	62%	..	Planned investments of 7bn FCFA for equipment to process and blend tobacco before manufacturing cigarettes
BAT	Douala	1987	BAT took over in 1987 the former BASTOS from the French group BOLLORE	Blending imported tobaccos and cigarette manufacturing	..	..	38%	..	Plans to expand upstream activities by developing production of required varieties of tobacco
RICE SEMRY	Douala	..	Government 100%	Rice husking	SEMRY and SODERIM each have 2 rice mills (total capacity of 75.000 tons of husked rice	40 - 50.000T	60% to 80%	300	Under performance contract with Government.
SODERIM	..	..	Government 100%	Rice husking	..	..	..	210	To be privatized after auditing by World Bank
UNDVA	..	..	Government 100%	Rice husking. Rice washed and packed in boxes of 2kg	..	..	..	80	..
CHOCOCAM	..	1967	See as under cocoa						Recent diversification activity

Source: Based on information provided by various ministers of Cameroon.

a/ For palm oil, figures in parentheses refer to refined or simply fractionned (red) palm oil.

b/ Processed timber: sawnwood, plywood, veneer and other processed wood expressed in log equivalent and in units of 000 cubic metres.

c/ Information for wood is taken from "COMETT" Report (September 1992). Production figures are for 1990/91 and reflect operations of companies, each producing more than 3 per cent of total timber production.

Note: ( ) - estimate.

(v) In most government-controlled companies, as well as in many privately owned enterprises of the wood-processing sector, the installed equipment is obsolete. In several other cases, e.g. in cotton ginning and palm oil sectors, the equipment is more than 10 years old and sometimes more than 15 years old. The situation is also aggravated by the lack of adequate maintenance and shortages of spare parts, which has led to frequent breakdowns in recent years.

(vi) The information in table 4 suggests that the privatization and/or rehabilitation process of parastatals engaged in processing activities has made little progress so far. Several government-controlled enterprises, however, have recently been fully privatized, e.g. in the wood sector. Government participation in other enterprises have been partially transferred to private investors, while a number of parastatals have signed contracts of performance with the government, committing themselves to achieve a number of rehabilitative objectives in return for financial support from the government and/or bilateral or multilateral financial institutions.

3. Export experience

35. The production and processing of commodities in Cameroon could be oriented mainly to the external or domestic market. In both cases, the successful development of new diversification activities, either vertical or horizontal, will contribute to the improvement of the balance-of-payments and of the general economic situation of the country, as they will allow achieving an increase in export receipts or in savings on imports. However, the importance of this contribution will depend on the volume of operations and economic performance of a specific enterprise.

36. As in the majority of other developing countries, the production of most primary and processed products in Cameroon is highly dependent on export markets. As can be seen from Table 5, 7 out of 10 main primary commodities produced in the country depend on exports for more than three quarters of their output. The bulk of export revenues from processed agricultural products is attributed to cotton fabrics, cocoa products and wood products which are, for their part, also characterized by an important dependency on external markets. It should be noted, however, that in quantitative terms, none of the processed products[9] contributes significantly to the overall export earnings of the country.

37. The commodity structure of exports from Cameroon is shown in Table 6, which reflects high fluctuations in the receipts from exports of both primary and processed commodities due to variations in world-market prices, volumes of production in Cameroon and demands on external markets. It should be noted that, with the exception of coffee, cocoa and bananas,[10] all other commodities exported from Cameroon play a marginal role in world trade (less than 1 per cent).

38. The foreign trade pattern of Cameroon is characterized by high geographical concentration. Countries of the European Union (EU) account for about three quarters of total exports and for more than 60 per cent of total imports (Table 7) with France the leading bilateral trade partner. The historical patterns of currency links, economic interactions, and other close relationships (in particular with major French trading-houses) suggest that a large proportion of "exports to France" are re-exported at a later stage with little or no

intermediary processing. Similarly, a certain portion of "imports from France" originates outside France but is channelled through France to Cameroon. The Central African Customs and Economic Union (UDEAC) subregion, despite a significant decline in its role in recent years, still continues to absorb a substantial share of Cameroonian exports.

Table 5

Export dependency of selected primary and processed products (Three-year average: 1989/90, 1990/1991, 1991/92) a/

Commodity	Export/ production ratio (%)	Processed products	Export/ production ratio (%)
Cocoa beans	77.7 b/	Cocoa butter, powder Chocolates/confectionery	90 50
Coffee: Arabica Robusta	95.8 90.9	Coffee (roasted and instant)	34
Cotton fibre	88.5	Cotton, woven fabrics	39
Natural rubber	94.8		
Bananas (from industrial plantations)	99.7		
Tea	96.2		
Tobacco (leaves)	68.3		
Palm oil (raw)	17.3		
Timber	41.0 c/	All wood processed of which: - plywood/veneer sawnwood	57 94 38
		Sugar (refined)	12
Aluminium (refined)	75.0	Aluminium (plates, sheets and strips)	24

Source: Based on information provided by various ministries and contained in the national statistical sources of Cameroon.

a/ The three-year average basis has been used in order to even out fluctuations in processing activities in recent years.

b/ In the case of cocoa, the difference of 22.3 per cent does not necessarily correspond entirely to domestic consumption; substantial quantities (5-8 per cent) of broken beans and particles of beans unfit for marketing and hitherto wasted and lost are now being increasingly recycled through RESICAM, a plant which was set up with Dutch capital and know-how.

c/ The ratio for timber has been computed on the basis of the annual log production (log felling may be 20 to 25 per cent higher than the amount of this production, reflecting a high percentage of waste in forestry).

39. Exports of primary and processed commodities (excluding petroleum) are thus geographically highly concentrated, with 75 to 80 per cent being shipped at the beginning of the 1990s to the EU, 8 to 10 per cent to other developed Organization of Economic Co-operation and Development (OECD) countries (mainly Japan and the United States), about 6 per cent to neighbouring UDEAC countries

and the remaining 4 per cent to other developing countries. France is by far the largest single trading partner of Cameroon, absorbing about one-third of the total primary and processed commodities imported by the EU.

Table 6

Selected commodity exports from Cameroon (in billion CFA francs)

Exports	1988	1989	1990	1991
Cocoa (beans)	43.9	43.9	36.7	27.3
Cocoa products	7.5	9.6	10.0	5.8
Coffee: Arabica	13.4	10.2	9.1	5.4
Robusta	31.9	36.1	38.1	24.9
Bananas	0.6	13.6	7.2	15.2
Natural rubber	8.5	5.6	6.7	8.4
Wood in logs	2.2	35.2	36.1	34.5
Sawnwood/plywood/veneer	6.2	11.7	15.3	15.7
Cotton fibre	9.7	29.7	18.9	18.9
Aluminium	27.7	43.3	34.7	27.5
Palm oil (raw)	2.2	2.3	4.0	3.0
Soaps	3.1	3.6	5.7	4.1
Cement	7.4	10.7	8.1	1.7
TOTAL ABOVE	184.3	255.5	230.6	192.4
TOTAL EXPORTS	275.1	548.8	566.5	517.4
of which: Petroleum a/	24.8	228.8	281.7	262.2

Source: *Marchés Tropicaux*, 11 December 1992.

a/ A significant increase in export resources after 1988 was due to the fact that in 1988 export statistics showed petroleum revenues at a level of only CFAF 24.8 billion or well below their actual level of about CFAF 200 billion. The difference was reflected in a separate extrabudgetary account.

40. On an individual product basis, most fish products, natural rubber and aluminium, more than a half of cotton fabrics, as well as almost all bananas, were imported by France while most tobacco leaves (for cigars mainly) were imported by the United States.[11] This pattern is heavily influenced by foreign shareholdings in the enterprises concerned, such as Pechiney's stake in ALUCAM or British-American Tobacco's ownership of the former BASTOS. The bulk of the other products were imported by other EU member countries. Japan was the other substantial OECD importer of Cameroonian products, in particular of cotton fibres, timber, cocoa and coffee.

41. The direction of commodity exports from Cameroon is largely influenced by the preferential trade arrangements of successive Lomé Conventions and, to a lesser extent, by the UDEAC preferences, applied to trade with neighbouring Congo, Gabon, Chad and the Central African Republic. It is evident that traditional and historical relationships with both France and neighbouring countries, all members of the franc zone, continue to weigh heavily on the present pattern of trade. The Generalized system of preferences (GSP) does not seem to have a significant impact on the export pattern of Cameroon.

Table 7

Main export/import markets of Cameroon
(millions FCFA)

	1988				1990				1991			
Origin/ destination	**Exports**	**%**	**Imports**	**%**	**Exports**	**%**	**Imports**	**%**	**Exports**	**%**	**Imports**	**%**
EU	200,122	72.74	238,375	62.94	433,656	76.55	292,589	64.86	399,252	77.17	207,266	62.63
UDEAC	37,564	13.65	2,319	0.61	31,878	5.63	811	0.18	30,008	5.80	623	0.19
Nigeria a/	10,096	3.67	2,895	0.76	9,500	1.67	1,513	0.33	9,067	1.75	3,457	1.04
Others	27,336	9.94	135,138	35.69	91,460	16.14	156,204	34.63	79,060	15.28	119,608	36.14
TOTAL	275,118 b/	100.00	378,727	100.00	566,494 b/	100.00	451,117	100.00	517,387 b/	100.00	330,954	100.00

Source: *Marchés Tropicaux*, 11 December 1992.

a/ Wide-scale smuggling of goods from Nigeria into Cameroon is unrecorded and, hence, in reality, Nigeria's share of trade with Cameroon is larger than shown above.

b/ See table 6, footnote a.

Chapter II

MACROECONOMIC ENVIRONMENT AND GENERAL GOVERNMENT POLICIES AFFECTING THE COMMODITY SECTOR

1. General economic environment

42. The multidimensional crisis which Cameroon has had to confront since 1985/86 had both endogenous and exogenous origins. Their combined effects were further aggravated by tense political debates which, in April 1991, culminated with a general strike (operation "villes mortes") which practically paralysed the country's economic activity.

43. Between 1985/86 and 1991/92, the GDP of Cameroon shrank by almost 30 per cent in current prices, which corresponds to a drop of around 50 per cent in constant 1985/86 prices. In terms of GDP per capita, this drop was even more important due to high population growth, estimated at a rate of at least 10 per cent over 1985-1992. Government revenues over the same period declined by 35 per cent in current prices, while the cumulated budget deficit reached 1,500 billion CFA francs.[12] In 1991/92, the outstanding foreign debt amounted to 1,900 billion CFA francs (about US$ 7 billion) and the internal public debt to 1,000 billion CFA francs (approximately US$ 3.3 billion). Between 1986/87 and 1991/92, public investments declined by about 57 per cent.[13]

44. In the second half of the 1980s, the drastic decline in world market prices for many major export commodities of Cameroon was coupled with a continued climb in domestic production costs, induced primarily by the overvaluation of domestic currency and the high cost of living. The CFA franc was freely convertible within the franc zone and, until early 1994, had been tied to the French franc at a fixed parity rate (CFAF 50 = FF 1) from 1948. Consequently, movements in many principal economic indicators of countries members of the zone were largely influenced by both economic trends in Francs e and the internal situation in the particular country. For example, at the beginning of the 1990s, wage levels in most industrial sectors of Cameroon were similar to those in France and were even higher than in some of the poorer European countries, while revenues of Cameroonian peasants and farmers, who contributed a large portion of agricultural output, were dependent on the level of government-fixed producer prices. At the same time, the economic boom of the late 1970s to the first half of the 1980s has seen an escalation of wage rates in the public sector which accompanied the rapid expansion of government revenues.[14] This situation was allowed to continue for several years after the eruption of the economic crisis and, until the introduction of pay cuts in the public sector in early 1993, private enterprises had to compete for qualified personnel under conditions of artificially high salaries and benefits given to civil servants and employees of parastatals.

45. Despite the strength of the currency which should have, in theory, offered some relief from the cost of imported equipment, spare parts and other inputs, the cost of these items was inflated by relatively heavy taxes imposed under the UDEAC treaty. This did not allow national entrepreneurs to benefit fully from the fact that due to the convertibility of the local currency, they did not encounter foreign-exchange constraints. The new recently signed UDEAC treaty should lighten the tax burden imposed on importers of machinery and inputs.

46. The above factors have seriously eroded the ability of local manufacturers, including those operating in commodity-processing industries, to compete in international and regional export markets. In the case of unprocessed primary commodities, this situation was further exacerbated by the steady weakening of the dollar (the currency of reference for world market prices of oil, cocoa and coffee) against the French franc and, hence, the CFA franc until its devaluation in early 1994 (Table 8). Moreover, the economic situation in Cameroon has been further gravely undermined by neighbouring Nigeria, which, against the background of its own continuously depreciating currency, succeeded in flooding the Cameroonian market with vast quantities of both official and (more often) illegal imports, ranging from petrol and semi-processed agricultural products (such as palm oil) to locally assembled motor vehicles and manufactured consumer goods, such as clothing or household items.

Table 8

Exchange rate fluctuations of the US Dollar *vis-à-vis* the CFA Franc

	1985	1986	1987	1988	1989	1990	1991	1992	1993
1 US$ = CFAF 1	378	323	267	303	289	257	259	275	295

Source: IMF, *International Financial Statistics*, Washington, D.C.; various issues.

47. The drastic devaluation of the CFA franc in early 1994 (to the level of CFAF 100 to FF 1) should, in principle, induce a reduction of official and uncontrolled imports and hence increase the demand for locally produced items.

48. With the development of the crisis situation, domestic savings have fallen dramatically (from over 23 per cent of the GDP in 1984/85 to less than 8 per cent in recent years), accompanied by massive capital flight away from the country resulting from widespread fears of the imminent devaluation of the CFA franc.[15] Financial constraints therefore are a major obstacle to investment in Cameroon.

49. The dramatic contraction of liquidity within the domestic banking system is the major factor behind the very restricted access to credit currently experienced by entrepreneurs. In addition, both the national development bank (Banque Camerounaise de Développement) and the Fonds d'Aide et de Garantie des Credits aux petites et moyennes Entreprises camerounaises (FOGAPE) which acted as a guarantor on lending operations to small and medium-size enterprises (SMEs), were liquidated in the late 1980s.[16] The newly established bank, Credit Agricole du Cameroun, is designed to provide loans to the agricultural sector, while very little has been done yet in order to reduce the gap in lending institutions in other sectors of the economy. However, it is expected that the restructuring of the financial sector of Cameroon, which is now under way with French assistance, will result in a more transparent and efficient banking system,[17] and that the improvement and consolidation of the position of this

system will lead to improved access to credit. However, the problem of confidence building and of domestic public debt (about CFAF 1000 billion) will continue to weigh heavily on future private investments.

50. For many years, Cameroon was a relatively modest borrower of external finance. However, with the unfolding of the economic crisis from 1986/87 onwards, the level of external borrowing has increased substantially, while the amount of the country's external debt rose from $US 2.9 billion at the end of 1985 to $US 6.3 billion at the end of 1991, a figure equivalent to 58 per cent of GNP.

51. The pace of lending from multilateral donors has slowed in recent years and has been concentrated mainly on structural adjustment and sectoral loans, rather than on individual projects. The EU remains the most important multilateral donor, followed by the World Bank and the African Development Bank (ADB). Much of the EU funding is allocated for compensation for adverse price movements in basic commodities through the System of Stabilization of Export Earnings (STABEX) schemes which, in the case of Cameroon, have been used mainly to restructure the coffee and cocoa sectors. The largest World Bank loan in recent years was a $US 150 million structural adjustment loan (SAL), granted in 1989. In 1992, the African Development Bank granted two loans for the development of small and medium-size agricultural industries and for a drainage project in Douala. It also granted a relatively modest loan for a fertilizer plant in Camèroon as part of its nascent private-sector activities.

52. France remains the most important bilateral donor (over 70 per cent of the total bilateral aid) and has been the main financial supporter of structural adjustment efforts of Cameroon. Cumulative financial commitments of France distributed through the Caisse francaise de développement (CFD) in 1988-1992 amounted to over FF 4,700 million (Table 9). The United States, Germany and Canada are the other three leading bilateral donors of Cameroon. Agriculture is the most favoured sector for official development finance, which is followed by social and physical infrastructure.

53. A number of bilateral development financing agencies are contributing to the development of commodity-related enterprises by providing financial support mainly in the form of loans and, to a lesser extent, equity participation. The latter usually consists of rather limited and, especially in the case of German Development Corporation (DEG) assistance, transitional equity participation, which is envisaged to be handed over to Cameroonian interests at a relatively early stage. As influence on management and operation decisions is crucial for these financial institutions, they try not to limit their participation to the financing of a loan.

54. Table 10 shows that the main bilateral financing agencies have made no new investment commitments in fisheries, livestock products or the coffee/cocoa chains. At the same time that new developments in bananas were being promoted by PROPARCO, Commonwealth Development Corporation (CDC) was continuing with its traditional interests, mainly in plantation crops, and DEG was concentrating on palm oil and textiles/weaving activities.

Table 9

Financial commitments by the Caisse Française de Développement (CFD) of Cameroon, 1988-1992
(in FF million)

Sector / Year	Agriculture & agribusiness	Industrial projects	Energy & Water	Transport & Communications	Others	Financial Sector	SAP Public Finance	Total	of which SAP
1988	196.00 a/	5.40	-	-	-	-	400.00	601.40	400
1989	360.00 b/	18.92 c/	188	182.00	-	-	-	748.92	200 (coffee/cocoa)
1990	370.00 d/	76.58 e/	-	70.00	-	-	-	516.58	200 (coffee/cocoa)
1991	165.00 f/	64.10 g/	120.00	70.00	20.00	340.00 h/	260.00	1,039.10	600.00
1992	217.98 i/	152.00	212.00	195.00	20.44	8.00	1,020.00	1,825.42	1,200.00
TOTAL	1,308.98	317.00	520.00	517.00	40.44	348.00	1,680.00	4,731.42	2,600.00

Source: Based on data provided by the CFD office in Yaoundé.

a/ of which: SODECAO (FF 50 million); SPFS (palm oil) (FF 8 million); HEVECAM (natural rubber) (FF 118 million); and ALUBASSA (aluminium) (FF 4 million).

b/ of which: SODECOTON (FF 110 million); SOCAPALM (FF 50 million); coffee and cocoa (FF 200 million).

c/ entirely for privatization of the former OCB (bananas).

d/ of which: coffee and cocoa (FF 200 million); SEMRY (rice) (FF 125 million); and rural development (FF 45 million).

e/ of which: SFID (timber) (FF 13,50 million); SPNP (bananas) (FF 7 million); the rest for several industrial development projects.

f/ of which: CDC (FF 140 million); AGRO Research Institute, IRA (Garoua) (FF 25 million).

g/ of which: privatization of former OCB (bananas) (FF 17 million); SEFN (forestry) (FF 6 million).

h/ restructuring of the banking sector.

i/ of which: SODECOTON (FF 40 million); CICAM (cotton) (FF 140 million); and HEVECAM (natural rubber) (FF 44 million).

Table 10

Commitments of the main bilateral financing agencies in commodity-related development projects (as of 31 December 1991)

Agencies	Firm	Activity	Location	Nature and size of investment
PROPARCO (France)	Société des bananes de Moungo	Banana plantations	Moungo	10% of equity (FF 2mn) loan for privatization of the OCB co-financing with EIB (FF 17 min)
	SPNP	Banana plantations	Noun	12,75 % of equity
	Société d'exploitation forestière du Noun (SEFN)	Forestry		FF 6 mn loan for modernization and increasing capacity
	ALUBASSA	Aluminiun household utensils	Douala	17.2% equity (FF 0.64 mn and shareholders' advance FF 0.2 mn)
	6 projects for intermediate inputs; Fermencam, Nutricam, PCMF, Plasticam, Socaver and Fabasem	Alcohol and spirits, animal feed for poultry pasta products, plastic packaging, glass bottles, cards and labels.	Douala	Total of nearly FF 52 mn of which FF 32 mn loans and FF 5 mn of equity; the rest mainly in advances
DEG (Germany)	Cotonière industrielle du Cameroun (CICAM)	Cotton textiles	Douala	DM 8.1 mn
	Société de Palmeraies de la Ferme Suisse	Palm oil	Edea	DM 5.2 mn
	Société des raffineries du Littoral (SRL)	Palm oil refining	Edea	DM 1.9 mn
	Société textile du cameroun pour le linge de maison (Solicam)	Weaving	Douala	DM 1.7 mn
CDC (UK)	Cameroon Development Co. (CAMDEV)	Palm oil, rubber	Limbe	£9.4 mn loan
	Djuttitsa tea estate	Tea	Djuttitsa	£0.3 mn loan
	Société Hevea Cameroon (HEVECAM)	Rubber products and factory		£17.5 mn loan
	Société Camerounaise de Transformation de l'Aluminium (SOCATA)	Aluminum rolling		£1.2 mn loan
	Inputs: Printing and packaging Co. S.A.	Printing & packaging		£1.7 mn loan (12 % reference share)
FMO (Holland)	Nouvelles sucrieres du Cameroun (NOSUCA)	Sugar refining		FL 3 mn loan
	Société le Grand Moulin du Cameroun	Flour milling		FL 6.76 mn loan
	Printing & Packaging Co., S.A.	Printing & packaging		FL 5.62 mn loan (FL 0.76 mn equity)

Source: Estimates on the basis of information provided by different ministries of Cameroon.

55. A number of other bilateral and multilateral agencies have also accumulated different experiences in providing project finance:

- The International Financial Corporation (IFC) closed its Douala offices in mid-1992 when 15 of 17 projects in its portfolio were showing losses and the IFC was experiencing a number of difficulties in obtaining new projects for submission for eventual financing. One of the reasons for this situation was the fact that the IFC had a minimum project size requirement of CFA francs 100 million, which has proved to be too high for most private Cameroonian investors. Moreover, the project development procedure used by IFC was not familiar to the vast majority of would-be investors. Also the IFC limited its potential investment involvement in the development of the forestry sector in line with the World Bank group's insistence on the fulfilment of rigorous environmental conditions.

- The IFC is now providing assistance to Cameroon in conjunction with the ADB within the framework of the African Project Development Facility (APDF), which opened its Douala office in September 1992. Although the size of a project to be submitted for financing from this facility is still relatively high by local standards (ranging from $US 0.5 million to $US 5 million), the project assessment procedure offers better opportunities for a consequent project development.

- Since September 1991 the ADB, in conjunction with UNDP, has operated a Private Sector Development Unit (PSDU), which is explicitly aimed at encouraging domestic entrepreneurs. Two projects in Cameroon have already been approved in the areas of producing fertilizers and shrimps, while two others, related to manufacturing of cigarettes and pharmaceutical products, are under consideration.

- Canadian agencies are focusing their assistance on the development of small-scale processing enterprises (with capital up to CFAF 5 million), which proved to be a promising area -- in 1991-1992 about 30 projects of this type were launched.

- The Centre de Développement industriel (CDI) of the EU is active in providing virtually cost-free technical support for project development. A good example is the initiation in early 1992 of a scheme to export green beans to the European market with participation of a French company (Eurofroid), financial support provided by the CFD and assistance of the CDI in the provision of technical expertise for project studies and operation. The project is envisaged to start with exporting untreated green beans, which will be supplemented by frozen beans at a later stage. The CDI has a framework agreement with all European bilateral financial agencies so that it can work with them on project development. At the moment, the Douala office of CDI has about 40 applications for assistance of which about 10 are serious candidates. The CDI also runs a regional forum every 2 years, where investment proposals can be advanced and business contacts made.

56. There are several other examples of collaboration between different foreign agencies in order to promote the development of commodity-related projects in Cameroon. They are classified as follows:

- **Joint work of bilateral cooperation agencies.** (GTZ) and (ACDI/CIDA), along with the World Bank, have worked together for more than 2 years in developing pilot projects for non-traditional exports. This assistance can be particularly effective for investigating international market opportunities for potential exports. For example, it is expected that thanks to GTZ/ACDI collaboration a pilot venture for horticultural products could obtain a medium-term World Bank financing amounting to $US 20 million.

- **Joint financing through bilateral investment agencies.** PROPARCO, the private sector development arm of the CFD, and the CDC have funded the establishment of a packaging enterprise that could help to circumvent some of the obstacles to the successful marketing of primary and processed products. These agencies are also working together in CAMDEV, in which CDC is an equity holder, while Proparco has provided funding for industrial, financial and managerial rehabilitation.

- **Bilateral financing agency and foreign private enterprise.** An example is the collaboration of the German bilateral financial institution (DEG) and a German bank (Kommerzbank) in the establishment and management of the Crédit agricole du Cameroun (CAC), providing finance for the development of agricultural projects.

- **Joint work of multilateral agencies.** These efforts concentrate on policy leverage in order to improve business conditions. A good example is the World Bank/EC collaboration in preparing proposals for the reform of UDEAC. Each organization was able to work in the fields where it was particularly knowledgeable and their joint presence has added considerable weight to proposals.

- **Mixed agency collaboration.** Although non-governmental organizations (NGOs) have not so far been of much importance as project operators in Cameroon, this may well alter in the future as the emphasis of assistance is shifting to local development projects. CARE is working jointly with the World Bank/GTZ/CIDA in this area and FAO has begun to use a similar practice.

2. Economic policy environment

57. Evidence suggests that the creation of an appropriate economic environment is critical for the successful development of commodity-related diversification activities. This includes a set of macroeconomic policies and measures which usually are not explicitly designed to support the above-mentioned activities. A central role among these policies in Cameroon is now played by a foreign-supported Structural Adjustment Programme (SAP) which seeks to restore macroeconomic equilibria. In September 1988, a stand-by agreement and a compensatory financing facility, together worth SDR 115.9 million were agreed with the IMF. A World Bank structural adjustment loan (SAL) of $US 150 million was subsequently granted in June 1989, which was followed by a CFA franc 41 billion SAL from the ADB and an adjustment credit from the French former Caisse Centrale de Cooperation Economique (now Caisse Francaise de Developpement (CFD)).

58. The Government, for its part, committed itself to make significant changes which would help achieve the following: limiting public expenditures and reducing subsidies; increasing taxes and other revenues accompanied by improved tax collection; restructuring the public sector and reducing government involvement in the economy; and liberalizing the economy and supporting the private sector through promotion of a development-conducive institutional framework.

59. Implementation of this programme, however, proved to be very slow and the progress made was limited. Consequently, the IMF suspended the release of the third instalment of its stand-by facility, which expired at the end of June 1990. The World Bank, none the less, released the second $US 50 million instalment of its SAL in April 1991 in an attempt to speed up the implementation of the envisaged reforms. Since then, however, the World Bank suspended the release of the third instalment of its SAL as negotiations with the IMF had reached a stalemate. This situation even caused a temporary suspension of French aid during the second quarter of 1993; however, efforts were subsequently made to put negotiations with the IMF back on track.

60. In 1989, the Government decided to <u>liberalize the price and trade control regime</u>. One hundred and ten products and services, the prices and margins of which were subject to prior approval, were completely liberalized and only 16 products and services remained subject to price control. Quantitative import restrictions were also removed in 1991. The equalization fund introduced in 1988 for such staple food items as palm oil, sugar and rice was maintained even though its operation proved inefficient in protecting domestic production against cheaper imports.

61. One component of the SAP in 1989 was a sharp <u>reduction in the number of parastatal companies</u> and a significant improvement in the efficiency of those maintained. However, out of about 150 parastatals operating in commodity production and processing, only a few have so far been liquidated. According to ministerial assessments of early 1993, about one third of these firms could eventually be privatized. In fact, by mid-1993 less than 10 of them had been sold, either wholly or partly, and another 10 were being evaluated for privatization. In addition to privatization, "performance contracts" have been an important instrument in bringing a substantial number of parastatals into efficient operation within a relatively short period. So far, 30 such contracts have been signed with parastatals.[18]

62. The reform programmes reviewed above were largely designed to give shape and speed to a process whose objective is little short of a revolution in 'how' and 'by whom' economic activity is conducted. While the Government and foreign agencies have so far occupied a central place in the economy, the longer-term aim is to clear more (and better define) economic space for private economic agents, especially Cameroonians. The external contribution is concentrated on policy leverage and financial/managerial support for selected projects with the government emphasizing policy design/implementation as well as selective reduction of its own direct participation in economic activity. Thus far, these combined efforts have enticed some foreign private investment Cameroon Pulp and Paper Corporation (CPPC) in pulp and paper is by far the biggest), extended operations by large domestic entrepreneurs (investment in industrial alcohols is an example) and investments by medium and smaller groups new to manufacturing (fruit processing and market gardening are their favoured sectors).

63. Despite significant breakthroughs in the setting of an institutional framework more conducive to the promotion of the private sector, major obstacles still inhibit its development. This new institutional framework includes:

- A new labour code which introduces transparency and free negotiations of labour and salary conditions between the parties involved.

- The privatization of hitherto government-controlled cooperatives which can now be managed entirely and directly by their members and no longer by civil servants. Furthermore, cooperatives may now be set up and operate in any area of activity without any limitation.

- A new investment code, promulgated in 1990, which introduces all international standards to attract foreign investments through a "one-stop shop" institution and includes provisions and incentives to promote greater value added from natural resources. A summary analysis of the new investment code is found in Annex I.

- Preparation of a new code for forestry activities.

- A free zone regime, providing facilities and privileges to attract export-oriented investments and companies without obliging them to be located in an area specifically designated for these activities. So far, however, only four firms are operating under this regime, which suggests persisting hesitancy among potential foreign investors. More detailed information on the free zone regime is contained in Annex II.

64. Obstacles continuing to hinder the development of the private sector consist of the still dominant role of parastatals in the economy and of the overlapping activities of state- and private-sector enterprises and organizations; of the inappropriate status of the Chamber of Commerce, which is still headed by a government official, and of the resulting uncoordinated operation of a diversity of newly established and independent business organizations; and of the lack of transparency regarding land ownership and laws and regulations pertaining to contracts. While emphasizing the provision of investment incentives, the Government has paid relatively less attention to providing support activities -- the lack of access to market information, as well as of adequate support in the areas of marketing, infrastructure and extension services, still constitutes serious constraints to the inflow of private investments to processing and other commodity-related activities.

65. A snapshot of implementation of the Structural Adjustment Programme in Cameroon in terms of its impact on the main export commodities during 1988-1993 reveals the following:

- The Government's external accounts were still not fully in line with IMF requirements. In practical terms, the resolution of this problem influenced further disbursements of cash in the form of credit lines to banks and the funding of social programmes. The former had a direct negative effect on investment and the latter might have an indirect negative impact through deterioration in the social and political situation.

- The Government's internal accounts were not yet in balance. The short-term measures to achieve such a balance place serious handicaps on producers of traditional cash crops and were thereby likely to have medium- and long- term effects on output levels. Processing of these commodities in the future would therefore not only face technical and marketing problems for the processed items, but would also be affected by the need to take additional steps to secure supplies of raw materials. Greater vertical integration of large-scale processing operations was one consequence of this situation.

- Restructuring of business groups, as well as business firms, was then at an early stage. Fresh alliances of private interests, domestic and foreign, were focusing on specific opportunities rather than on overall conditions. In order to be implemented, a new project must have some particular advantages to overcome the prevailing confusion and uncertainty.

- Though the banking sector as a whole has been substantially strengthened, the gap between credit institutions and productive enterprises remained large. Unless the legal conditions governing terms of bank deposits are altered and the base re-discount rate of BEAC is significantly reduced, the chances of reaching appreciable investment lending will remain small.

- The longer the uncertainty persists, the greater will be the informalization of the economy and the disillusionment with the policy implemented. It is therefore crucial for successful ventures to begin operating very quickly and thereby offer real signs of encouragement. In the immediate future the role of foreign agencies in helping to bring this about will be pivotal.

66. The development and industrialization policy followed by Cameroon since independence has been strongly oriented towards import substitution, which has facilitated the development of a number of resource-based processing activities. To complement and support this policy, highly protective measures had been introduced which resulted in the creation and maintenance of inefficient and uncompetitive activities, monopolistic profits, cartel arrangements and high domestic prices. Due to a high level of protection, prevalent tax evasion and the development of underground trading channels for both imports and exports, the production and trading system operating domestically became costly and unable to survive when confronted with a general and drastic fall in world-market prices in 1985/86.

67. Nonetheless, Cameroon's development and industrialization policy contributed to enhancing economic self-reliance under the flag of "communitarian liberalism". The sixth 5-year plan (1986-1991) added some instruments to promote national quality norms and standards for domestic production and use of available patents and manufacturing licences. A number of measures were introduced to strengthen physical and financial infrastructure as well as the existing policy instruments involving subsidies and factor prices.

68. Several factors, however, contributed to undermining the success of the industrialization policy, and some deserve special mention:

- production of intermediate goods did not adequately follow the development of industrial production and the industrial sector remained dependent on imports for over half of the value of its intermediate consumption;

- there was no coordinated development strategy among UDEAC member countries and the implementation of an import substitution policy by all of them resulted in a significant reduction of economic complementarities and, hence, of opportunities for the development of intra-UDEAC trade;

- protection of the domestic market cannot be ensured via a tariff schedule only. It has also to be implemented fully and effectively through competent and dedicated customs officers, the lack of whom explain an invasion of smuggled goods into Cameroon.

- uncontrolled development of the informal sector, particularly in times of crisis, acted as a catalyst to depressing further the level of used capacities. Inadequately trained personnel, administrative red tape and insufficient mobilization of R and D capacities available in the country were also responsible for the limited impact of the industrialization policy on the economic development of the country.

Chapter III

GOVERNMENT REGULATIVE POLICIES AND ACTIVITIES IN THE COMMODITY AREA

69. Government activities in commodity-related sectors of Cameroon have been consistent with the strategy of government involvement in the management of national economy and, in particular, in production activities. Marketing organizations and mechanisms set up by the Government complemented and reinforced the network of parastatal bodies directly engaged in the production and processing of cash crops and basic staple foods (palm oil, sugar, tea, rubber and bananas), or in the processing and provision of a range of supporting services for such crops as cocoa, cotton, rice and tobacco (distribution of fertilizers, pesticides, small equipment, technical support, training, provision of credit etc.) (Table 11). Marketing mechanisms consisted mainly of fixing annual producers' prices and operating price stabilization schemes for almost all cash crops and staple foods. The marketing organization operating the stabilization scheme was the Office national de Commercialisation des Produits de Base (ONCPB) set up in 1976. ONCPB was also in charge of distribution and export of these products, as well as of quality control.

70. In practice, such crops as seed cotton, rice, tobacco and sugar cane, grown wholly or partly by smallholders, were sold at fixed producer's prices (fixed by ONCPB) to relevant parastatals which, in effect, held a monopoly on primary processing operations, e.g. SODECOTON for cotton ginning; SODERIM, SEMRY and UNDVA for rice milling; CAMSUCO and SOSUCAM for sugar refining. These commodity-based parastatals had full control of and responsibility for subsequent operations for the commodity concerned, including its further processing, distribution and export.

71. The same system applied to rubber, palm oil and bananas (for export) produced on industrial plantations, except that in such cases practically no purchases were made from individual producers. Therefore, the marketing was the sole responsibility of the individual, mostly state-owned, companies involved. The one private company involved, a Unilever subsidiary producing palm oil, went into receivership in the late 1980s. In the case of bananas, the parastatal OCB, which had until 1987 control over the marketing of all banana exports, has since been replaced by a marketing organization, Association de la banane camerounaise (ASSO BACAM), involving participation of all banana producers, having offices in Douala, and in Rungis (France), and coping with all transportation, customs and other related export problems common to the new private producers.

72. With regard to the two major export products, coffee and cocoa, the organization of marketing was quite different since they were produced entirely by smallholders, with no involvement of parastatals:

73. Arabica coffee was marketed and exported by the UCCAO, a growers' cooperative of the western region, Coopagro and the ONCPB itself. Moreover, the ONCPB authorized on an annual basis a number of companies or individual agents to handle marketing operations from the production to the export stage. In 1990/91, such authorizations were given to about two dozen agents/companies, among which four companies accounted for about half the total exports of Arabica (GORZOUNIAN in Ngongsamba, DAFCAM in Doula, Commerciale Catche et Cie in Douala and the UCCAO Branch in Bafoussam).

Table 11

Forms and extent of government involvement in the production and marketing of agricultural commodities (as of January 1993)

Organization and commodity	Production	Processing	Supporting services	Marketing	Comment
BANANAS: OCB CDC	X X			X X	OCB andd CDC privatized since 1987 (see Table 3). Both now operate a joint marketing structure, ASSO. BACAM.
COFFEE: the main 4 coops UCCAO, UCCA-Sud, NWCA and SWCA			X	X	Growers' cooperatives were, until recently, administrated (largely controlled) by public officers. A law in late 1992 put an end to this Tutelle regime.
COCOA: CO-OPS (as above) SODECAO			X X	X	As for coffee, a wide range of supporting services is provided, including R and D.
RUBBER: HEVECAM CDC	X X	X X		X X	Both may also buy latex produced by smallholders for processing into rubber and marketing.
SUGAR: CAMSUCO SOSUCAM	X X	X X		X X	Both may also buy sugar beet produced by smallholders for refining into sugar and marketing.
PALM OIL: SOCAPALM CDC	X X	X X		X X	Both also buy some palm fruits from the surrounding individual family plantations for processing into palm oil.
COTTON: SODECOTON		X	X	X	SODECOTON provides all supporting services to cotton growers and buys the whole production for processing and marketing.
TEA: CDC	X	X		X	Since the end of 1992, the tea sector of the parastatal CDC has been transferred to the Commonwealth Development Corporation for management (cooperation contract).
RICE: SEMRY SODEGRIM UNDVA		X X X	X X X	X X X	All provide assistance and supporting services to rice growers. They also used to buy paddy rice for milling and marketing but these commercial functions tend to decline.
TOBACCO: SCT			X	X	Provides supporting services to tobacco growers (cape) and buys the crop for marketing.
ONCPB (abolished in June 1991). Since then, the "Office National du Café et du Cacao" ONCC has been set up but with limited and liberal functions with no interference in prices or in marketing.			X	X	Fixes annual producers' prices. Organizes and supervises marketing and exports. Designates authorized agents/organizations to operate in the marketing of coffee and cocoa. Exercises functions of quality control for coffee and cocoa and representation in international conferences. Operates a scheme of fertilizer distribution at subsidized cost.
OFFICE CEREALIER				X	Regulates the marketing of major cereals for domestic consumption and security stocks.

Source: Based on information provided by different ministries of Cameroon and contained in national and international publications.

74. Marketing and export operations of robusta coffee were handled exclusively by the ONCPB which was assisted by a number of annually authorized agents/companies operating under its control and supervision.

75. Cocoa was exclusively marketed and exported by the ONCPB which was assisted, as in the case of robusta coffee, by a number of annually authorized trading firms/agents. During the 1990/91 cocoa campaign, such authorizations were received by 33 firms/agents, including major cooperatives, which group cocoa growers on a regional basis: UCCAO, UCCA-Sud, Northwest Cocoa Association (NWCA) and Southwest Cocoa Association (SWCA).

76. In relation to coffee and cocoa marketing, the following points deserve special mention:

(i) Besides fixing annual prices for growers, ONCPB also had to make annual allowances for cost components - including margins - allocated to all private marketing agents/companies authorized to move the products from the producers to the f.o.b. stage. In addition, after assuming an annual indicative export price (f.o.b.) that the world market situation would allow, ONCPB fixed taxes and levies which therefore could vary from year to year and from one product to another. In some years, such taxes represented up to 30 or 40 per cent of the export price of coffee or cocoa.

(ii) Growers' associations/cooperatives played an active role in grouping production of their respective members and also, as authorized marketing agents, in collecting and buying the products from non-members and in handling all related marketing and export operations.

(iii) Control exercised by ONCPB on export operations, particularly with regard to prices, was made a posteriori. This often gave rise to abuses and manipulation as it opened the door to tax evasion and trade-diversion practices, particularly when world market prices were well above producers' prices and/or subject to wide monthly and even weekly fluctuations.

77. Until 1984/85, the marketing mechanism managed to accumulate an enormous financial surplus since world market prices of the major export crops increased on average twice as fast as producers' prices.[19] Funds thus accumulated were used to finance other sectors, poorly appraised and sometimes overdimensioned, projects,[20] and to build up bureaucratic parastatal structures. For instance, between 1980/81 and 1984/85 the budget of the ONCPB increased by more than 100 per cent to CFAF 105.1 billion and its staff more than doubled from 1,300 to 2,800. When SODECAO dispatched support services to cocoa growers, it increased its staff to more than 3,000 in less than three years while its budget jumped from CFAF 5.5 to 15.3 billion and further rose to a record of CFAF 18.5 billion CFA in 1987/88.

78. Since 1985/86, world prices for most commodities exported from Cameroon have declined sharply. By 1989, robusta coffee lost 45 per cent, arabica coffee -- 25, cocoa -- 44, palm oil -- 30 and rubber -- 10 per cent of their prices. Only bananas and cotton resisted and even slightly improved their price

performance. By mid-1991, export prices on the whole (weighted average) had declined by more than one half from their 1984/85 level. At the same time, producers' prices were maintained unchanged for three more years in spite of the fact that their level was much above the level of world prices. This put all parastatals in the agricultural sector, as well as the banking system of the country, under dramatic financial pressure. Only in 1988/89, were producers' prices finally cut (Table 12) and budgets for both the ONCPB and SODECAO were reduced by one third and one half respectively. In June 1991, the ONCPB was dismantled and its entire personnel of 2,800 employees, as well as 1,000 employees from SODECAO, lost their jobs. It was too late, however, to prevent the collapse of the whole agricultural sector and, as a consequence, a dramatic aggravation of the overall situation.

79. The financial haemorrhage thus caused by the system of marketing management has been estimated at a level of around CFAF 300 billion of which CFAF 100 billion were attributed to ONCPB, 57 billion to SODECOTON, 36 billion to CAMSUCO, 20 billion to SEMRY, 17 billion to HEVECAM, 8 billion to SODECAO, 21 billion to CAMDEV and 5 billion to SCT (tobacco). All other parastatals, though not directly involved in the above-described stabilization mechanism, also accumulated huge deficits: SOFIBEL and COCAM (forestry) - CFAF 15 billion and former OCB (bananas) - CFAF 4 billion.

80. In the context of structural adjustment and restructuring of the whole public sector, conducted with the assistance of the international and bilateral financial institutions, the ONCPB was replaced by a new, much simpler and flexible structure -- the Office national du Café et du Cacao (ONCC), which is expected to determine the level of the indicative minimum price to producers. Buying agents and exporters are, however, free to negotiate both prices and quantities at every stage of the marketing chain. The ONCC also continues to provide functions of price and quality control, previously exercised by the ONCPB. The conseil interprofessionnel du Café et du Cacao (CICC), which involves professionals, bankers and ONCC representatives, has been set up to make recommendations on a consultative basis.

81. Arabica coffee marketing is now almost entirely liberalized, with the UCCAO growers' cooperative actively involved in all trading operations including exports. Robusta coffee, grown in areas where growers' cooperatives are less active and less experienced, is handled by former trading agents, as well as by a number of new and relatively inexperienced traders and speculators. With the nationwide liquidity squeeze and the ongoing restructuring of the banking system, the financing of the coffee production campaign constitutes an acute problem. Consequently, only trading organizations/agents with financial backing are managing to operate whereas individual and unorganized producers are financially squeezed and are forced to sell at any price. Although an indicative price for coffee has been fixed at CFAF 200 per kg. for the 1992/93 campaign, sales were reported to have been made by producers at a level below CFA centimes 150/kg or US cents 55/kg.

82. It is stressed, however, that unless the growers and smallholders are able to cope with new trading operators and practices, the unprepared and sudden switch to a complete liberalization of marketing and exports could well push many of them to switch to other financially safer and more stable alternative crops (staple foods for instance). In this case, taking into account the low level

of world-market prices, the future of coffee and cocoa production in Cameroon might well be endangered.

83. As far as restructuring in the cotton sector is concerned, it is envisaged that it will be implemented, with due account taken of linkages between the cotton industry in Cameroon and cotton firms operating in neighbouring Chad and the Central African Republic. Common foreign shareholders in the main national cotton enterprises are expected to facilitate a reorganization of the whole sector on a regional (UDEAC) basis.

Table 12

Prices paid to producers since 1984/85
(in CFAF/kg)

	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92
Cocoa beans	410	450	450	450	420	250	220	220
Coffee Robusta	430	470	470	470	440	175	175	155
Coffee Arabica	450	520	520	520	475	250	250	250
Cotton seed	130	155	149	141	124	91	92	92
Rubber (natural)	368	270	257	293	322	246	234	225
Bananas	219	223	209	220	213	206	200	200
Palm oil	271	224	196	172	192	180	191	191
Sugar (raw)	213	213	213	216	216	216	216	230
Tobacco	328	645	258	380	380	380	380	406
Tea	1227	773	588	522	548	618	602	602

Source: Caisse française de développement (CFD).

Chapter IV

PROCESSING PRIMARY COMMODITIES: EXPERIENCES, PROBLEMS AND PROSPECTS

84. Most of the reasons for the problems in development policy in Cameroon, particularly with regard to resource-based processing activities, have been touched upon in previous chapters. These reasons can be reduced to three broad categories: e.g. those linked to policy, strategy and management.

85. The inadequacy of policy can be witnessed by the pre-eminent role given to the public sector at the expense of private enterprise, for the development of which practically no government-support measures have been made available. Proliferation of parastatals in practically all sectors of the economy under the shelter of a high tariff protection and a high level of subsidies contributed to the development of uncompetitive and unviable activities at a prohibitive cost.

86. The inadequacy of strategy stems from an import-substitution orientation at any cost, which was limited to products of mass consumption and was implemented without appropriate coordination with neighbouring countries and, above all, without any consideration of linkages. This strategy has led, *inter alia,* to the following consequences:

- The shrinking of exports of newly produced goods to neighbouring UDEAC markets where import substitution-development strategies were also applied. This has led to a destruction of earlier created complementarities between the economies of these countries.

- Although domestic supply has increased in order to meet up to 75 per cent of the apparent consumption of a large number of end-products, it was not followed by an adequate production of intermediate goods. As a result, the reliance on imported items often exceeded one half the total value of intermediate consumption in the manufacturing sector.

- Owing to high transportation and distribution costs, the prices of imported intermediate products were often higher than the landed price of competing final products. This contributed further to increasing the uncompetitiveness of local production and necessitated the use of high levels of subsidies.

87. Inadequate management and lack of appropriate support services, in particular insufficient market information and the resulting poor assessment of market prospects, has probably been the most widely spread factor leading to project failures as manifested in attempts to create a number of costly "white elephants". This is illustrated by the following examples:[21]

(1) The building of the SOCAME chemical plant was one of the centrepieces of the 1971-1976 Development Plan. The 500-employee plant began operating in 1975 with the aim to reduce the country's import dependency on fertilizers. It was designed to produce 50,000 tons of ammonium sulphate (which acidifies soil), 20,000 tons of single superphosphate (for which

there was no demand in Cameroon) and 27,000 tons of expensive complex fertilizers -- all from imported inputs. No market study is known to have preceded the decision to go ahead with the investment on which debt servicing alone amounted to CFAF 3 billion per annum. The utilization of the installed capacity of the enterprise has never exceeded 50 per cent and the deficit of the parastatal had to be financed from public funds until the plant was closed in 1981. The following factors also contributed to this failure: a delay in site preparation exceeded the contractual period in the original costing of the plant, thus requiring considerable upward adjustments; the supplier credits denominated in deutsche marks and Netherlands guilders appreciated by about 50 per cent *vis-à-vis* the CFA franc; the technology plan was faulty; the cost of intermediate products, principally imported, rose to 92 per cent of the plant's output value; in 1981, the cost of imported inputs was higher than the landed price of competing final products; and the common external UDEAC tariff had zero duty on all fertilizer imports -- hence the plant had neither protection nor preferential access to member countries' markets. This necessitated the allocation of direct subsidies to the plant out of presidential extrabudgetary funds.

(2) In order to boost the development of the hides and skins sector, a parastatal tannery (STPC) was established at high cost in a remote area (Ngaoundéré) at a great distance from the country's two modern industrial abattoirs located in Douala and Yaoundé. As a result, the enterprise had to limit its operation to collection and export of raw hides and skins, since the cost of finished leather was uncompetitively high even for domestic consumers. The indebted, overdimensioned and ill-located enterprise was operating at only 25 per cent of its capacity and was sold in 1985 to a private foreign group. The tannery was renamed (TANICAM) and continued to operate at a fraction of its capacity until July 1993 when it was definitively closed.

(3) Shoe manufacturing in Cameroon was long dominated by BATA, which used to export up to 1,000 tons of shoes annually to neighbouring UDEAC countries. However, due to the lack of coordination in industrial development, neighbouring countries have also developed import-substituting footwear industries which led to consequent shrinkage of shoe exports by BATA. In 1983 these exports scarcely amounted to 100 tons. The enterprise was closed in 1989 after several years of operation at a loss in conditions of extensive smuggling and imports of shoes at lower prices than Asia.

(4) In the early 1980s, CELLUCAM, a parastatal pulp and paper mill, was considered the showpiece of Cameroon's industrial strategy and the turnkey model for Central Africa. It was designed as the first pulp and paper mill in the world to convert all species of timber into paper pulp. However, the original feasibility study turned out to have been seriously at fault in respect of market demand, technical practicability and level of fixed and operating costs. Moreover, a section of the enterprise's processing chain was blown up in the first year of its operation. The initial investment in the mill came to more than CFAF 400 billion. By mid-1982, its total sales covered only one third of variable costs and by mid-1985 the company's cumulated losses amounted to CFAF 160 billion, which was roughly equal to the total amount of investment estimated to be

required for the country's forestry development during the next 15 years. In 1986, the plant was put up for sale or disposal, but it was only in 1992 that an international consortium led by the Indonesian group, Gudang GARAM, took it over. It ought to be noted, however, that this project was implemented within multinational cooperation involving Austrian capital participation as well as Austrian, Swedish, Australian, French, German and Yugoslavian subcontractors which, to a certain extent, may somewhat dilute the responsibility of the Cameroonian party for this failure.

88. Table 13 summarizes factors inhibiting the development of processing activities, most of which have already been discussed in previous chapters. Negative effects of these factors could be overcome in the context of an overall reform of the agricultural sector, which would also have to tackle other problems such as:

- development of adequate production, marketing and distribution structures to stop the deterioration of the agricultural sector, which results from the prevailing low prices paid to producers and the collapse of the former government-controlled marketing systems;

- promotion of an effective set of support measures and activities particularly with regard to credit, training, appropriate R and D, development of rural infrastructure, including conservation and storage facilities to reduce the high percentage of loss which, for some crops, may be as high as one third.

- promotion of an effective and well-structured public administration to encourage the development of cooperation between the public and the business community.

89. A number of specific constraints requiring special attention are briefly reviewed below:

90. With the possible exception of forest reserves, the natural resources of Cameroon require a far more realistic assessment and detailed mapping. Agricultural surveys were supposed to take place every five years, though only two surveys have been completed in the three decades since independence. These surveys are of major importance to would-be investors in processing activities, as they provide information not only on the possible range of products available but also on the structure of supply (e.g. average farm size, regional location of output, utilization of fertilizers and other indicators of product quality). Given the progress in resource assessing and mapping techniques in the past few years, assistance to undertake this work should not be too difficult to obtain. In particular, despite the fact that large-scale reserves of bauxite and iron ore have already been identified, the country's potential in this area could probably be increased significantly if survey efforts were intensified. Although petroleum reserves have been widely assumed to last for only around another decade, exploratory efforts by commercial firms suggest that Cameroon may have additional marketable deposits.

91. Physical infrastructure remains a serious source of extra cost to a number of processing activities, with transportation and storage facilities being the deficiencies signalled by many entrepreneurs. Although private investment can certainly contribute to remedying this problem, government participation and assistance has to play a crucial role in infrastructural development.

Table 13

Factors inhibiting the development of processing activities in Cameroon

Factors	Evaluation
Currency (CFAF)	Before the devaluation of CFAF in early 1994, its overvaluation was penalizing exports and encouraging imports.
Inflation	Before the above-mentioned devaluation, the inflation rate was relatively moderate.
Customs duties and customs control	The impact of the new Common External and Preferential/UDEAC duties and of the new Tariff Regime introduced in January 1993 is still unclear as far as customs protection and preferential treatment are concerned. Their effective implementation in order to stop smuggling, which is undermining many local industries, would require enhancing capacities of customs officers.
Domestic market	This seriously narrowed since 1986 owing to overall reduction in income, resulting from drastic cuts in prices paid to producers, stiffer competition from cheaper imports and smuggling.
Investments of parastatals	No investment was made for many years in parastatals operating in the resource-based processing sector. Equipment is often obsolete; ageing plantations call for prompt but costly replanting programmes. Evaluation for restructuring is under way in the palm oil, rubber, sugar and cotton sectors.
Management of parastatals	Most deficient; enhancing skills and productivity so as to reduce production costs is a prerequisite to any improvement.
Credit	Interest rates charged by the banks are too high and act as incentives to speculative investments rather than to development projects.
Capacity and transparency of the Public Administration	Significant improvements still have to be made.
Cost of manpower	Too high as compared with neighbouring countries and competitors in other international markets.
Port facilities and transport	Expensive, inefficient and too slow in the services provided.
Other physical infrastructure and communications	Deficiencies in rural and remote areas, including in the field of storage facilities.
Standardization and quality control	Practically non-existent or unreliable.
Land tenure	Conflicts between modern and traditional laws.

92. Research on agricultural development and food technologies in Cameroon is in an appalling condition. A World Bank examination of the two principle research networks IRA and IRZ, undertaken in mid-1992, showed that while the number of scientists employed (roughly 200) was approximately twice the average for an African country, the actual operation of the networks was very poor. The location by region of research sites responded as much to political criteria as to the needs of agricultural development; the staff on the government payroll were not paid during 1992 due to budgetary difficulties; the research agenda did not reflect adequate consultation with farmers and the use of scientific skills often failed to draw on the most qualified staff.

93. Like most African countries, Cameroon is dependent on imported machinery and equipment with very limited local capabilities for their maintenance and repair. At the beginning of the 1990s, the cost of purchasing and installing new capital equipment in Cameroon was considered to be twice as high as in Europe, while the supply of spare parts and maintenance were also considerably more expensive. The fragile nature of supply and distribution chains means that overstocking of inputs and final products adds to total costs. When these factors are considered alongside the relatively low productivity and high costs of credit (for trade purposes as well as investment), they suggest that, despite a decrease in the cost of labour and local inputs resulting from the devaluation of the local currency at the beginning of 1994, total unit costs of processing commodities in Cameroon still remain relatively high.

94. Although the potential for further primary commodity processing in Cameroon appears to be significant, its scope and likelihood of development varies from one commodity to another depending on various factors which may hinder or favour investments in processing activities. A summary review of the situation with respect to major agricultural commodities is given below:

1. <u>Cocoa and coffee</u>

95. The dramatic decline in producer prices, the ageing of cocoa plantations and the phasing out of fertilizer subsidies have squeezed producers' income so much that prospects for assured cocoa supply are not very promising. Also, the dismantling of the former marketing and price stabilization scheme put an end to the concessional price system under which cocoa beans were supplied to the processing company, Societé industrielle du Cacao (SIC CACAO). As most foreign processors maintain low stocks, the amount and the price at which the output will be sold is unclear; cocoa processing thus becomes a difficult operation to plan. In any case, the existing operations in Cameroon are running at a very low rate of capacity utilization and are conducted in line with the marketing and distribution policy of the foreign trading group of which SIC CACAO is a subsidiary. Any newcomer in cocoa processing in Cameroon will have to face not only most of the above problems but will also have to confront severe constraints arising from the domination of foreign firms over the marketing and distribution channels.

96. There is practically no local processing of coffee in the country, with the exception of some roasting and production of instant coffee for the domestic market. Export-oriented processing of local coffee could be hazardous due to the dominant role played by foreign trading firms and the almost captive character of export markets, unless a cooperation arrangement is developed with foreign trading partners.

2. Cotton

97. The whole cotton textile industry is in crisis. It has been badly hit by the low prices of raw material, the overvaluation of the CFA franc and the resulting high production costs, the dramatic increase in cheaper textile products imported from Asia or smuggled from Nigeria and the consequent development of the informal sector. For similar reasons, export outlets in neighbouring UDEAC markets also shrank and cotton spinning and weaving industries in Cameroon, as well as in other UDEAC countries, are now operating at a rate below half of their installed capacity, while many downstream industries have been closed down or have switched to import business.

98. The CICAM industry is presently playing a pivotal role in the restructuring scheme designed on a regional basis and supported by the CFD (France). The objective of this scheme consists of promoting an integrated UDEAC cotton industry which would preserve the important role of this sector in the respective economies. The scheme would be based essentially on a reduction in overall spinning, weaving and printing capacities and a redeployment of industrial activities in line with the following scheme:

- CICAM (Cameroon) would become the main supplier of unbleached and printed cotton material and would reduce its production costs so as to become more competitive.

- UCATEX (Central African Republic) would halve its spinning and weaving capacity and its requirements of unbleached cotton material would be met by CICAM.

- STT (Chad) would stop its industrial activities and its assets would be taken over by CICAM and UCATEX. A special trading company would be set up with cross-participation in the two other companies -- CICAM and UCATEX.

- IMPRECO (Congo) and SOTEGA (Gabon), both producing printed cotton fabrics from imported unbleached material, would continue to operate but their import requirements would be met by CICAM.

99. The implementation of measures envisaged by the restructuring scheme would be facilitated by the fact that a French group (DMC) is a shareholder in the main companies to be integrated. The DMC holds 35 per cent of CICAM and, together with another French group (Schaeffer Engineering System) also holds 51 per cent of UCATEX. The DMC is also a shareholder in STT (Chad) while Schaeffer Engineering System is the major shareholder of IMPRECO (Congo). In all cases, governments are also involved as shareholders.

100. Under these circumstances, it is obvious that the only way for the UDEAC cotton industry to preserve a reasonably sound position for the coming years would be through a successful agreement and implementation of the above restructuring scheme, which involves the continuation of the existing partnership between governments and foreign groups.

3. Palm oil

101. The problems of the palm oil sector are varied and stem from the inadequate structures of the two parastatals, which provide about three quarters of the total production of the modern sector. Yields are declining since plantations are ageing, while replanting has been neglected. As a result, a fast-growing imbalance between production and domestic demand is envisaged, pointing to the need for a further extension of palm oil planted areas in addition to replanting. Also, the equipment at the oil plants of the two parastatals is obsolete (two thirds of it is over 20 years old) and needs to be replaced. Besides, production costs are too high and uncompetitive when compared with cooking oils smuggled from Nigeria. On the other hand, some privately owned palm oil plantations have made investments in recent years in order to expand and modernize their production, including operations of refining capacities.

102. Currently, the two parastatals operating in the palm oil sector are either being restructured with financial assistance from the World Bank (SOCAPALM) or under contract of performance (CAMDEV) in order to restore viability against assistance by government and other bilateral sources (CFD) for new investments and modernization. There is not much scope for additional processing activities in the modern palm oil sector which depends first of all on the increase of plantation yields. On the other hand, in the traditional sector, which already contributes substantially to the total palm oil production, introduction of higher yielding oil-extracting techniques could significantly increase palm oil production to meet the fast-growing imbalance between production and domestic demand.

103. Problems and prospects of developing palm oil production activities were discussed during the Round Table meeting between representatives of relevant international organizations and Cameroon, which was held in March 1994 within the framework of the UNCTAD-coordinated pilot project on commodity processing for selected developing countries. The meeting identified a private enterprise development project, the implementation of which should make use of the benefits of cooperation with existing non-government organizations and of financing from existing lines of credit. At the time this paper was drafted, the project proposal was at an advanced stage of finalization with interested private investors and foreign aid agencies.

4. Forestry

104. The strategic role of this sector for both overall economic development and export earnings of the country is witnessed by the recent vigorous restructuring of major enterprises and the development of fresh legislation on forestry which is about to enter into effect. Among the larger firms operating in this sector, the CPPC established by a consortium headed by Gudang GARAM (Indonesia) will play a pivotal role. Its operations will be directed entirely towards exports to OECD markets and will be based on a mix of woods exported from Cameroon and selected in accordance with their price and quality. Whether or not this will lead to any change in the long-lasting situation, where only a few of the approximately 300 timber varieties available in Cameroon are exploited, remains an open question.

105. The change in investment legislation and the forthcoming Forestry Code will focus on granting 25-year concessions, which will be obtained through competitive bidding. It is envisaged that companies submitting tenders will have to provide guarantees to undertake a significant degree of processing and to ensure reafforestation. Since these conditions will almost certainly eliminate anything other than minority participation by Cameroonians in the large-scale forestry enterprises, developing adequate formulae to attract national capital is envisaged. It is expected that new conditions should bring about the introduction of new equipment in the felling and processing sectors and will probably lead to an influx of foreign technicians and managers.

106. The concentration of foreign firms operating in the sector is already high. From the current 50, their number might well be reduced to 30 at most due to more stringent rules and regulations arising from the forthcoming Forestry Code and concerning the questions of investment, equipment, processing, taxation and the establishment of more effective control regarding reafforestation, environment conservation and more rational forest exploitation.

107. Besides the modern forestry sector, there is also a number of small enterprises producing wood for the domestic market. The African Development Bank is providing financial support up to US$ 10 million for small wood industries and carpentry. This assistance, however, does not seem to go directly to enterprises. Small companies processing wood for the local market require considerable assistance to improve their production performance and they might well form a significant area for the development of cooperation between local entrepreneurs and agencies providing small-scale financial assistance, in particular through the APDF or the Private Sector Development Unit (PSDU) operated by the African Development Bank.

5. <u>Other commodities</u>

108. No processing-related investment has been made or planned in recent years in the areas of fisheries or hides and skins. Prospects for the development of further processing in fisheries are not very favourable due to limited fish resources, lack of an adequately equipped and manned fleet, inadequacy of infrastructure (especially of transportation and refrigerating facilities) and difficulty in monitoring and safeguarding marine resources from illegal fishing. Artisanal fishing for the domestic markets may, however, provide some investment opportunities if linked to training activities and reorganization of the whole traditional sector of fisheries.

109. In the hides and skins sector, various constraints face potential investors at almost every stage of the production chain, ranging from animal deliveries to slaughterhouses to the provision of stable supplies to tanneries. Substantial time and resources would be required to overcome such constraints in a sector which could offer significant development potential. The situation in the hides and skins sector was discussed during the above-mentioned Round Table meeting, which stressed the need for a formulation of a national programme designed to transform the sector into a dynamic and modern vertically integrated processing chain. The development of a technical assistance programme in this area is currently under consideration by appropriate agencies.

110. Efforts have also been made by international and bilateral agencies with a view to promoting the processing of other commodities. In particular, FAO is conducting pre-feasibility studies for processing local cereals (cassava, rice, maize and sorghum) to meet different tastes and consumption habits in order to promote the incorporation of these cereals into bakery production and reduce the fast-growing consumption of imported flour. UNIDO has undertaken a survey of the potential in the fruit-processing industry (fruit juices, canned fruits and fruit marmalades) which may offer interesting investment opportunities. Animal feed, in high demand, is also a promising sector since a whole range of by-products from agro-industries is available locally and can be used for this purpose. Some prospects for the production of essential oils, especially of avocado oil, have also been identified, in particular during the Round Table meeting, which agreed on the need to examine further the economic and technical feasibility of an avocado oil project, taking into consideration the surplus of avocados in the smallholder sector and in abandoned plantations.

111. To recapitulate, government efforts to induce greater private-sector initiatives and participation in domestic economic activities, including in commodity production and diversification (both horizontal and vertical), are still far from achieving significant results. The parastatals, in particular, have continued to play an important, although slowly diminishing, role in the economy. The development experience in Cameroon has shown that the provision of generous investment incentives is not sufficient to attract adequate inflows of scarce capital, whether from domestic and/or external sources. There are other important auxiliary requirements, including, not least, the availability of adequate infrastructure and support services, skilled and experienced human resources, financial intermediation and marketing structures and services, etc.

112. The role of the government in ensuring adequate provision of these ancillary resources and facilities is thus crucial for the viability of diversification efforts. So is the existence of a consistent economic policy framework conducive to the maintenance of sound and sustainable macroeconomic stability over time.

Endnotes

1. TD/B/C.1/L.96, 21 November 1990, para.12.

2. "Establishment of the work programme of the Standing Committee", TD/B/CN.1/8, 3 February 1993.

3. H. Younes, *The Case of Cameroon. Consolidated Report (Phases I and II)*, paper presented at the Round Table meeting of project INT/91/006, Yaoundé, Cameroon, 16-18 March 1994.

4. World Bank (1992): *Report on the World Development, 1992,* Washington, D.C.

5. According to calculations of the UNCTAD secretariat, in 1991 commodities contributed 79.6 per cent of the export earnings of Cameroon, of which 58.5 per cent were raw materials, 12.2 per cent were semi-processed commodities and only 8.8 per cent were processed commodities.

6. Some roasted coffee and instant coffee or tyre production are of marginal importance and are entirely destined for domestic consumption.

7. According to some estimates, uncontrolled logging amounts to about 10 to 15 per cent of the official amount of wood felling given in Table 3.

8. The tea sector of the parastatal Cameroon Development Corporation (CAMDEV) has recently been transferred to the Commonwealth Development Corporation (CDC) under a financial and technical arrangement and now can be considered as entirely privatized.

9. With the exception of aluminium, a semi-processed item produced from imported alumina.

10. In 1992, Cameroon ranked fourth among world exporters of cocoa beans with 5.7 per cent of world exports, and seventh for bananas with slightly over 1 per cent of world exports. Cameroonian coffee and cocoa products contributed 3.2 per cent and 2 per cent to world exports, respectively.

11. OECD, *Foreign Trade Statistics,* Paris, various issues.

12. The CFA franc was devalued by 100 per cent in early 1994.

13. IMF, *International Financial Statistics,* various issues, Washington, D.C.; Ministère des Finances, *Rapport Economique et Financier 1992,* Yaounde; Monthly Bulletins of BEAC and of Ministry of Planning and Regional Development, Yaounde; GICAM, *Rapport de l'Assemblee Generale Ordinaire du 28 Janvier 1992,* Yaounde.

14. This increase in wage rates was coupled with an expansion of employment in public services and parastatals (its level doubled in the 1980s), as well as with the practice of syphoning surplus funds from oil and agricultural sectors with a view to financing other, non-priority activities, subsidizing ill-designed projects or compensating for the recurrent significant losses of parastatals.

15. Some local sources were estimating the amount of Cameroonian deposits in foreign banks at the beginning of the 1990s at 200 billion CFA francs.

16. Prior to its restructuring (which started at the end of the 1980s) the banking system of Cameroon involved 15 banking institutions and one development bank. While four of them were responsible for about 80 per cent of the total outstanding loans to the economy, the entire banking system was

bankrupt and had accumulated bad debts totalling over CFAF 400 billion or about 40 per cent of the total amount of outstanding loans. The dominant role in the accumulation of bad debts and the liquidity shortage of the banking system was attributed to the public sector (including parastatals).

17. This restructuring has already resulted in the following measures:

- Five banks were liquidated in 1989 and their debts amounting to CFAF 245 billion were rescheduled.
- Two new banking institutions were established with French participation, and one -- Credit Agricole du Cameroun -- with German participation.
- The Societé de Recouvrement de Créances (SRC) was established to cover outstanding debts of liquidated banking institutions and to reimburse creditors.
- Banking provisions for a minimum 35 per cent government participation and for a compulsory nomination of a Cameroonian as the head of a banking institution were withdrawn.
- The conditions and terms of bank operations were liberalized and interest rates paid to deposits were increased substantially.
- The Societé national d'Investissement (SNI), acting as a holding company for government participation in the economy, has been restructured.

The cost involved by such reform is, of course, enormous, which may explain the slow pace of progress.

18. Table 4 contains information related to the changing status of several parastatals, particularly in the wood and cocoa sectors, as well as on those under "performance contracts".

19. It was estimated that between 1980/81 and 1984/85, the weighted average of export prices of the six major export crops of Cameroon (coffee, cocoa, cotton, palm oil, tea and bananas) exhibited an increase of more than 110 per cent, while producers' prices computed on the same basis were increased by only 50 per cent.

20. For example, the CELLUCAM pulp and paper complex or the Sodeble wheat-growing project.

21. These typical, but in no way exhaustive, examples have been drawn from *Industrialization in Sub-Saharan Africa: Country case study of Cameroon*, London, the Overseas Development Institute (1990).

Annex I

THE INVESTMENT CODE OF CAMEROON

1. The attached schema describes the five principal parts of the 1990 Investment Code and the associated 1991 regulations. The central idea is to obtain greater value added from natural resources; if this can be realized then it is hoped that the investments in primary product processing will make a significant contribution to diversification of exports, upgrading of technology and additional employment. As can be seen from part 2 of the schema, treatment of foreign investments is in accordance with existing international standards. The third part of the table emphasizes that only a few activities connected to the use of natural resources are not covered by the new investment regime.

2. The advantages of the legislation are summarized in part 4 of the schema. Five categories of investments are established of which one, subject to benefits of the free zone status, is separately considered in Annex II. The basic regime aims to encourage investments in export-oriented activities, offering additional benefits to foreign sales outside the franc zone. Benefits are split between those obtained in the start-up phase and those associated with operations. A particular tax advantage is given to enterprises setting up industries in rural areas and meeting the eligibility criteria.

3. The other three regimes (excluding the free-zone status) differ from the basic system essentially in conditions of eligibility, although the small and medium-sized company regimes and strategic undertakings rules offer additional advantages (longer operational phase). The minimum rate of national equity holding is specified only in the case of the small and medium-sized company regime. The strategic undertakings regime in effect covers very large investments, the conditions of which usually have to be negotiated with the government on a case by case basis. The key specification is that such enterprises must either have a strong export orientation, make intensive use of natural resources or provide employment relatively significant for the size of investment. Finally, the reinvestment category offers benefits to existing companies which are making significant productivity or employment increases.

4. The essential administrative focus on a "one-stop shop" is summarized in part 5. Among its provisions, it is worth noting the 30-day limit for definitive replies to applications, the fact that the Investment Code Management Unit (MCMU) must take care of all documentary requirements on behalf of the investing firm, and that the management committee of ICMU is composed of representatives of the three Chambers of Commerce and various ministries. Given the undergoing restructuring of the composition and direction of the Chambers of Commerce, it may be expected that voices genuinely representing the business sector will be heard in the determination of ICMU behaviour.

5. In effect, the ICMU is seen as an interlocutor between investors and the administration. Hence, a new entity has been created with a view to "protecting" the formal sector from the administration, with private groups participating in the management of ICMU. It is still too early to say how well the administrative mechanism can function since it became operational only in 1992. The sectoral scope of its activities is not yet entirely clear. The mining sector effectively has its own Investment Code since all projects are treated as strategic; forestry is the subject of special legislation which was not yet promulgated in 1993, while agriculture and tourism may try to obtain investment codes of their own, which, especially in the latter case, are expected to correspond to the administrative mechanisms established through ICMU.

Table to Annex I

THE INVESTMENT CODE OF CAMEROON

(As derived from Ordinance No. 90/007, 8 November 1990
and Decree No. 91/215, 2 May 1991)

PART 1 Target activities: National resource valorization (Job creation - manufacture - exports - technology transfer - environmental protection)

PART 2 Rights and advantages: National treatment - no arbitrary nationalization - free movements of funds - MIGA guarantees of non-commercial risks

PART 3 Coverage of investment code: All natural resource related production except: research and exploration in mining; service operations particularly finance and repairs and maintenance

PART 4 The Investment Regulations/Regimes

PART 5 Administrative mechanism

- Investment Code Management Unit (ICMU)
- Management Committee copmposed of Ministries and Chambers of Commerce
- Directorate
    - Request for further information within 10 days
    - Application
    - No reply within 30 days = acceptance
    - Final reply within 30 days giving either approval or substantiated rejection
    - ICMU to obtain all necessary authorizations and provide support.

Table to Annex I (cont'd)

The Investment Regulations/Regimes

Regime	Eligibility	Benefits
Basic	1 job for a Cameroonian per CFAF 10 mn investment exports equal to 25% of turnover excluding tax, or 10% if exports are outside the franc zone national natural resource (excluding energy) and goods produced in Cameroon accounting for not less than 25% of inputs.	a) Start-up phase (3 years) 15% tax ceiling on all capital goods imported exemption from numerous taxes and fees 50% reduction in corporate tax b) Operational phase (5 years non-renewable) 50% reduction in taxes on floating capital, company taxes and their equivalent for individual; 5-year tax carry forward on deficits from depreciation for rural area investment, deduction from taxable income equal to 50% of cost of transport and utilities
Small and medium size firms	1 job for a Cameroonian per CFAF 5 mn investment Total investment less than or equal to CFAF 1.5 bn at least 35% of equity must be Cameroonian	Start-up phase: Same as basic Operational phase: Seven years, renewable
Strategic undertakings	Vital to industrialization pilot project either 50% of production for export (25% if outside franc zone) or national natural resource and other goods not less than 50% of inputs or 1 job per CFAF 20 mn investment	Start-up phase: Same as basic Operational phase: 12 years, non-renewable
Free Zone	SPECIAL REGIME SEE ANNEX VI	
Reinvestment	Not less than 20% rise in productivity, output or jobs, or fresh investments taking the firm into a higher benefit category	Start-up phase: Same as basic Operational phase: Not applicable

Annex II

THE FREE-ZONE PROVISIONS

1. The attached table sets out the key aspects of the legislation and mechanisms for implementation of the free-zone status. An original feature is the acceptance of individual plants as free-zone areas. In other words, a company can apply for all the privileges of a free zone without being located in an area specifically designated for in-bond activities. This provision is crucial in a country where geographical conditions for the processing of primary materials render it impossible to congregate companies in limited areas. In fact all seven projects which have been accepted as of mid-1992 were of the "point" type. Without this provision the free-zone status would not be operative.

2. Four firms are actually operating under these provisions, two of them with majority Cameroonian interests. Two of the companies are new firms whereas the others existed prior to the introduction of the free-zone regulations. The ICMU administrative mechanism is intended to serve as a protective pad between investors and ministries.

3. The establishment of the free-zone status regulations was strongly supported by OPIC and USAID though the introduction of envisaged changes took four years and still has not led to the registration of many companies. This situation reflects many difficulties linked to transformation of government procedures and the hesitancy which domestic and foreign investors display towards new investments.

Table to Annex II

THE FREE-ZONE REGIME: MAIN FEATURES

I. Elegibility

* Companies producing goods and services exclusively for export
* Companies producing environment-friendly products
* Promoters and operators of free zones

II. Definition

* Industrial and service parks explicitly designated
* Specific plants

III. Advantages and incentives

*	Administrative	- One-stop shop
*	Commercial	- Freedom from trade restrictions - No control over prices and profit margins
*	Fiscal	- 10-year tax holiday, 15% profit tax the only charge thereafter
*	Financial	- Right to transfer abroad all profits and initial capital
*	Employment	- Automatic work permits for expatriates (representing no more than 20% of work-force after five years of operation) - Free negotiation of work contracts
*	Operation	- Preferential charges for electricity and port services
*	Dispute settlement	- All general advantages defined in Investment Code - Right of recourse to International Arbitration Association.

Source: Ordonnace NO. 90/001, 29 January 1990 and Arreté No. 51/MINDIC/IGI, 28 December 1990.

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