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Republic of Cameroon
The Challenge: Harnessing Unrealized Potential
A Private Sector Assessment

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Industry & Energy Division
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CURRENCY EQUIVALENTS

Currency Unit = CFA FRANC (CFAF)
1993 Average: 1 US $ = CFAF 283
1994 Average: 1 US $ = CFAF 555
Current 1 US $ = CFAF 500

ABBREVIATIONS AND ACRONYMS

AEF	-	Africa Enterprise Fund
ADP	-	Aéroports de Paris
AF3IE	-	Africa 3 Industry and Energy Division
APDF	-	Africa Project Development Facility
BEAC	-	Banque des Etats de l'Afrique Centrale
CAC	-	Crédit Agricole du Cameroun
CCEI	-	Caisse Commune d'Epargne et d'Investissement
CAMAIR	-	Cameroon Airlines
CAMSHIP	-	Cameroon Shipping Lines
CDC	-	Cameroon Development Corporation
CNPS	-	Caisse Nationale de Prévoyance Sociale
COBAC	-	Commission Bancaire de l'Afrique Centrale
EPICs	-	Enterprises of Industrial and Commercial Character
EPZ	-	Export Processing Zone
ERC	-	Economic Recovery Credit
FEPEC	-	Fédération de la Petite Entreprise et du Commerce
FIB	-	First Investment Bank
FIAS	-	Foreign Investment Advisory Services
FDI	-	Foreign Direct Investment
GICAM	-	Groupement Interpatronal du Cameroun
HEVECAM	-	Société de Développement Hévéa-Cameroun
ICAI	-	Impôt sur le Chiffre d'Affaires Intérieur
IDA	-	International Development Association
IFC	-	International Finance Corporation
IRVM	-	Impôt sur le Revenu des Valeurs Mobilières
MAPS	-	Manual for Action in the Private Sector
MIGA	-	Multilateral Investment Guarantee Agency
MINDIC	-	Ministry of Industry and Commerce
MRESPP	-	Mission de Réhabilitation des Entreprises du Secteur Para-public
OCB	-	Office Camerounais de la Banane
OHADA		Organisation pour l'Harmonisation du Droit des Affaires
ONZFI	-	Office National des Zones Franches Industrielles
PE	-	Public Enterprise
PIP	-	Public Investment Program
REER	-	Real Effective Exchange Rate
REGIFERCAM	-	Régie des Chemins de Fer du Cameroun
RPED	-	Regional Program on Enterprise Development
SARL	-	Société à Responsabilité Limitée
SNH	-	Société Nationale des Hydrocarbures
SNI	-	Société Nationale des Investissements
SOCAPALM	-	Société Camerounaise des Palmeraies
SODECOTON	-	Société de Développement du Coton
SODECAO	-	Société de Développement du Cacao
SONEL	-	Société Nationale de l'Electricité
SOTUC	-	Société des Transports Urbains du Cameroun
SPNP	-	Société de Plantations Nouvelles du Penja
SYNDUSTRICAM	-	Syndicat de l'Industrie du Cameroun
TCA	-	Taxe sur le Chiffre d'Affaires
TCAI	-	Taxe sur le Chiffre d'Affaires à l'Importation
TU	-	Taxe Unique
TIP	-	Taxe Intérieure à la Production
UDEAC	-	Union Douanière et Economique de l'Afrique Centrale
UNIDO	-	United Nations Industry Development Organization
USAID	-	United States Agency for International Development

REPUBLIC OF CAMEROON
PRIVATE SECTOR ASSESSMENT

FOREWORD

The Private Sector Assessment (PSA) on Cameroon describes the business environment in Cameroon and analyzes the ways in which different policy constraints have kept the private sector from reaching its optimum growth potential. While there have been many Government reform efforts, a lot still remains to be done. The PSA suggests areas in which further work is required to allow the private sector to contribute to the country's economic growth. The report first presents a historical perspective to demonstrate how the past policies and macroeconomic instability have had an adverse effect on the business environment. It also looks at other selected areas which continue to be major obstacles to private sector development, including the financial sector, the legal and regulatory framework, the incentive system and private sector support services. Over 400 copies of the Green Cover report were distributed in Cameroon and several discussions ensued, including the national seminar mentioned below.

The Report is based on the findings of three World Bank/IFC missions to Cameroon during 1994 and 1995 and builds on the Regional Program on Enterprise Development (RPED) Study on the manufacturing sector in Cameroon. The third and last phase of the RPED study, scheduled to be issued during this calendar year, will provide up-to-date information on the manufacturing sector and on constraints to private sector development and will describe in greater detail the impact of the 1994 devaluation of the CFA franc on the manufacturing sector. The PSA does not discuss the economic developments in Cameroon over the last two years nor the modifications of the fiscal framework which have taken place since the initiation of this report. The overall thrust of the recommendations remains valid. The new fiscal framework is the subject of a separate study which is currently in progress.

The main objective of the PSA was to provide a status report on the constraints to private sector development and to launch a policy dialogue between the private sector and the Government of Cameroon. This objective has, overall, been achieved. A seminar was held between February 28 through March 1, 1996 in Yaounde, which resulted in a comprehensive set of recommendations for reforms on the judiciary, on the financial sector, on the incentive and tax systems, and on strengthening professional associations. The Seminar overwhelmingly recommended the establishment of a "*Comité de Suivi*" to assure a close follow-up of these recommendations. The issues raised by the PSA and the seminar recommendations will be the essence of the public/private sector dialogue and of the policy dialogue with the Bank and IFC. A summary of the seminar is attached as Annex 4.

REPUBLIC OF CAMEROON
PRIVATE SECTOR ASSESSMENT

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The report is a joint World Bank/International Finance Corporation assessment. It was written by Eleftheria C. Williams (task manager) (AF3IE) and David Donaldson (CPLD1), with contributions from Mr. Andrew Stone (PSD), Ms. Elke Kreuzwieser and Mr. Jamil Zouaoui (AF4TF). Ms. Monique Amany (AF3IE) provided the logistical support. The peer reviewers were Mr. Robert Blake (AF2CO) and Mr. Gilles Toscano (CLED). Messrs. Andrew Rogerson and Iain T. Christie are respectively Director of AF3 and Division Chief, Industry and Energy; Messrs. Nissim Ezekiel and Dileep Wagle are respectively Director, CPL and Division Chief, CPLD1, in IFC.

REPUBLIC OF CAMEROON

PRIVATE SECTOR ASSESSMENT

EXECUTIVE SUMMARY

1. The PSA has two main objectives: (a) to make an assessment of the constraints to private sector development in Cameroon; and (b) to make recommendations on what action would be required to stimulate sustainable private sector growth. The report is not intended to be an economic review of Cameroon but rather serve as a tool for in-depth discussion with the Cameroonian authorities and the private sector. The conclusions of the PSA are based on two missions to Cameroon carried out by Bank and IFC staff and on the findings of three surveys: (a) a 1993 survey of 210 manufacturing enterprises by the Regional Program on Enterprise Development (RPED)[1] ; and (b) a mid-1994 follow-up survey by RPED, after the January 1994 devaluation of the CFA franc. The third survey, which involved interviews with 32 entrepreneurs, including entrepreneurs in the trade and services sectors, was carried out by AF3IE in early 1994. The findings of all three surveys depict a private sector in crisis weighed down by constraints and in great need of urgent attention if Cameroon's potential is to be realized.

2. The report is divided into three chapters. Chapter 1 presents a brief description of the Cameroonian economy and the profile, shape and recent development of the private sector in Cameroon. Chapter 2 discusses the magnitude of constraints currently faced by the private sector in Cameroon, their relative importance and how policies affect the overall business environment and the cost of doing business there. Detailed recommendations are made following the discussion of each constraint. Chapter 3 summarizes the conclusions and recommendations of the PSA, outlines the likely shape of the critical mass of reforms required and presents a priority reform agenda for Government action. Annexes to the report, which include information on selected other sectors where the private sector in Cameroon is active, are not intended to be a statistical review of Cameroon but to provide supporting documents to the issues discussed in the PSA.

ECONOMIC PERFORMANCE IN PERSPECTIVE

3. Cameroon is one of the richest countries in Sub-Saharan Africa. It is endowed with substantial mineral resources (petroleum, bauxite, natural gas), fertile agricultural land and a varied and favorable climate. With a population of twelve and a half million,

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[1] The RPED is a program coordinated by the World Bank and financed by bilateral donors, which studies the influence of the African business environment on manufacturing firms' behavior and performance in order to gain a better understanding of the dynamics of private sector development. The ultimate aim of the program is to help identify policies and assistance measures to accelerate the rate of growth of manufacturing activity in Sub-Saharan Africa.

Cameroon is noted for its ethnic, religious and cultural diversity. It has a significant potential for sustained growth and a comparative advantage in natural resources (land, climate, minerals), a relatively skilled work-force, with great entrepreneurial spirit, and preferential access to regional and international markets.

4. Although growth in the 1960s was based on a mixture of cash and subsistence crops, in the 1970s it increasingly focused on exports of cocoa, coffee and cotton, in which Cameroon has a strong natural comparative advantage (para. 1.11). The discovery of oil in 1978, boosted real economic growth to about 7 percent annually. By 1985, oil production accounted for 44 percent of government revenues and 20 percent of GDP.

5. A profound structural transformation ensued, principally in the role of Government. Government spending trebled in real terms over the period, and by 1986 accounted for around 23 percent of GDP. Government investment also soared much of it wasted on large projects, many of which were white elephants, and through a growing number of state-owned enterprises in most sectors of the economy - imposing many future recurrent demands on the budget. Cameroon's industrial policy at the time, which was geared towards import-substitution, paradoxically required the influx of additional foreign capital and technology and was carried out under a panoply of protection, from import tariffs and controls to financial support and the granting of investment benefits.

6. Increasingly, the impact of oil, which in 1982 peaked at around 46 percent of total exports, started to manifest itself in a form of Dutch disease. Initially the oil revenues generated merchandise trade surpluses, peaking in 1985 at around 11 percent of GDP. Domestic demand soared and domestic price of non-tradables increased, partly evidenced in an overall rate of domestic inflation of 12 percent per annum over the 1977-85 period. This included, critically, the price of labor and resulted in the declining competitiveness of exporters as well as import-substitution domestic industries. It was compounded by a steady appreciation of the real effective exchange rate which peaked in 1987. Private sector development through this period was based on significant distortions of relative prices and was dominated by foreign firms in close partnership with government. In agriculture, industry and the financial sector, this partnership often extended to direct state equity participation.

7. Between 1986 and 1989 Cameroon suffered from major external shocks which had a significant adverse effect on the economy: external terms of trade declined by about 30 percent, as the prices of coffee, cocoa and oil fell sharply; oil output began a long term decline; and the real exchange rate between 1985 and 1988 appreciated, thus greatly reducing the country's competitiveness.

8. The dimensions of the economic crash that followed were profound. Between 1986 and 1993, real GDP contracted by 5 percent a year and per-capita income dropped to around half its 1986 level. Poor economic management worsened Cameroon's already precarious business environment. Public enterprises drained the economy and crowded out the private sector. Application of government controls became increasingly arbitrary

and investors' confidence and private investment plummeted. The single growth area in the economy has been the informal sector, expanding as entrepreneurs turned more and more to evasion of government controls, or as school-leavers or urban migrants took the only option open to them.

9. The onset of the economic crisis after 1986 was accompanied by calls for political liberalization leading to civil disobedience. The economic crisis and political turmoil were also accompanied by a serious institutional crisis, by a disregard of the rule of law and by the deterioration of the effectiveness of the judiciary in settling commercial disputes. The effect on private investors' confidence in the economy has been devastating.

THE PRIVATE SECTOR TODAY

10. Although the private sector accounts for around 66 percent of GDP and around 90 percent of employment, substantial production and most employment fall under either the traditional sector or the urban informal sector. While the formal sector, public and private, accounts for two thirds of GDP, the state and public sector are large, they produce almost half of value added and account for over one third of employment (para. 1.26).

11. Cameroon's long tradition in entrepreneurship is manifest in commerce, which continues to be the primary activity of most entrepreneurs, though involvement of nationals in manufacturing is gradually increasing. A measure of the dynamism and resilience of the private sector is the fact that, notwithstanding the economic crisis, many firms were created even during 1991/92, a period when the country was plagued by a serious recession, political unrest, and general strikes. (Information on how many firms have closed during that period is not available.)

12. The formal private sector is concentrated in Douala, the economic capital, and to a lesser degree, in Yaounde the political capital. Because of the lack of statistics and precise data on Cameroon's private sector, it is difficult to determine its profile with any degree of accuracy. Given the manufacturing focus of the RPED survey, on which the PSA relies heavily, the description of the private sector has necessarily a manufacturing bias.

13. The private sector in Cameroon is currently facing severe constraints in five areas: (a) **the financial system**, including lack of credit and crowding out in financial markets, due to the government's substantial deficit between 1986 and 1992 (para. 2.28); (b) **the legal and regulatory framework** and the application and administration of laws (para. 2.34); (c) **the incentive and tax system**. Cameroon's tax system combines relatively high nominal rates with widespread exemptions and tailor-made rates creating serious distortions in the incentive framework (para. 2.69); (d) **physical infrastructure**, including electricity, telephones, roads and security as well as airport and seaport

transport (para. 2.84); and (e) **the lack of support services**, including lack of information and a lack of an on-going dialogue between the private and public sectors (para 2.92).

14. The government's strategy and focus, since independence, on expanding the public sector and its intervention in almost every aspect of economic activity, has created an administrative and judicial environment which is fundamentally hostile to private sector development and where business decision-making is limited by administrative and bureaucratic bottlenecks, from labor laws to the setting of prices. Furthermore, the persisting political uncertainties, macro-economic instability and a bankrupt financial sector are far from conducive to private investment in the economy.

15. Despite these constraints, the private sector is profitable overall, largely because of the high volume of activity going on in the informal sector. In 1989, informal sector activities in agriculture, cottage industries, services and trade accounted for 80 percent of the work force and contributed to 40 percent of GDP. The informal sector has demonstrated steady growth, probably due, in part at least, to the rigidity and the over regulation of the formal sector and to its inability to provide jobs to rural workers and young graduates. However, the continued growth of the informal sector and languishing of the formal sector cannot be taken lightly: the Cameroon economy cannot expect long-term development to rest on this unbalanced growth. Experience throughout Africa has demonstrated that entrepreneurs do not come from the informal sector but from the formal sector. The informal sector (and especially micro enterprises) cannot, therefore, be taken to be the seedbed for future large-scale enterprises.

THE DEVALUATION AND THE FUTURE OUTLOOK

16. Realizing that "internal adjustment" and the attempt to correct for distorted prices by export subsidies and import tariffs had failed, Cameroon and the other countries of the franc zone decided in January 1994 to devalue the CFA franc by 50 percent in foreign currency terms with the new parity at CFAF 100: FF1. The removal of the burden of the overvalued currency constitutes a major step towards macro-economic adjustment. However, vigorous complementary action on a whole range of issues will be necessary to recapture the confidence of the private sector.

17. Following the devaluation, a stabilization and structural reform program was adopted and supported by the IMF and IDA. The objectives of the program were to: (a) restrain inflation, starting in 1995, to below 5 percent, after the initial adjustment in internal prices to the parity change; (b) attain a 5 percent GDP annual growth rate from 1995 on, based primarily on competitive exports in rural and urban tradable sectors; and (c) achieve a sufficient primary and overall budget surplus to increase public savings, reduce arrears and finance high priority economic and social spending.

18. Furthermore, Cameroon and the other members of UDEAC began the implementation of a far-reaching reform of trade, tariff and transit policies with an emphasis on tariff and tax reforms. Although the UDEAC reforms combined with signs

of post-devaluation economic recovery, including a 40 percent increase in exports, could contribute to improving the business environment in Cameroon, the persistent lack of coordination of government policy continues to give the private sector conflicting signals and have an adverse effect on the investment climate.

19. If the appropriate environment can be created in Cameroon, the list of industries with growth potential is extensive: tourism; agro-processing; wood processing; winter vegetables, tropical fruits and flowers; leather tanning; crafts; cotton processing; export related services. However, although this potential lies in the hands of private sector entrepreneurs, the business environment in Cameroon remains almost inimical to its realization. The responsibility for this, and the power to reform it lies in the hands of the Government.

CONCLUSIONS AND RECOMMENDATIONS

20. Macroeconomic Management. Until the devaluation in January 1994, the Government pursued a strategy of "internal adjustment" aimed at realigning the real exchange rate of its overvalued currency. With the change of parity of the CFA franc, Cameroon faces important challenges and in order to take full advantage of it, it is critical that Cameroon break with its past policies and make major improvements in its economic management. Key priority objectives should be to: (a) maintain a real exchange rate compatible with export-led growth, through disciplined monetary and fiscal policies, including control of the fiscal deficit as well as the level of public spending and public borrowing; (b) reform the financial sector, by resolving the high level of public domestic debt and arrears, restoring a solvent financial sector and re-establishing private sector confidence in the economy; and (c) adopt a vigorous divestiture program from economic activity and improve the efficiency and transparency of Government interventions in the delivery of public services.

21. Core Measures for Recovery. With adequate macroeconomic management and the resulting financial stability, it would be possible to have progressive economic recovery with GDP growth on the order of 5 percent per annum, led by tradables in agriculture and industry and in non-traditional exports. However, although macro-economic stability is now critical for Cameroon's recovery of growth, it is not sufficient. The Government's competitiveness efforts and regulatory reform program need to be significantly accelerated before the private sector will respond. Furthermore, there is a need for massive long-term institutional reform.

22. In order to achieve the goals described above, the Government will need to remove the maze of market distortions and restrictions to competition. All remaining price and market controls should be lifted and all fiscal benefits to investors and ad-hoc exemptions associated with strategic agreements, "*conventions spéciales*" and the newly introduced export taxes should be phased out or replaced by a system which is transparent, easy to administer and which closes the opportunity for tax evasion. Such a system will also go a long way in eliminating arbitrary decisions, bureaucratic delays and

rent seeking behavior. Investment incentives should be merged into a unified system which should be an integral part of the tax code and should be granted on the basis of simple criteria. In the spirit of increasing the public/private sector dialogue and keeping the private sector informed, it would be appropriate to establish a public-private committee to review incentives and the level at which they should be harmonized with the tax system.

23. The urgency for reforms in the financial sector and the judiciary cannot be underestimated. Marginal improvements will do nothing but prolong the current malaise. To establish a sound financial sector, it is imperative that the Government: (a) settle the debt to the financial sector; (b) support all regional initiatives and efforts to improve regulations and help strengthen prudential supervision of commercial banks as well as the large savings and credit cooperatives and insurance companies; (c) reorganize the Loan Recovery Agency (SRC) which, after four years of operation, has failed to collect any significant amounts on the outstanding loans; (d) restructure the banking sector; (e) refrain from applying pressure to banks to lend to public enterprises; and (f) reform the judiciary's capacity in enforcement of contracts and the recovery of bad debts.

24. The Government has recently re-affirmed its commitment to use privatization as a means to increase the efficiency of the PE sector. The poor performance of PEs over the years has become a severe drain, which is no longer sustainable by the State. It is important now that Government: (a) accelerate the privatization/liquidation of public enterprises (PEs) in a process which is transparent and which will give the private sector the right signals that the Government is committed to its divestiture program; and (b) open all sectors of the economy to private entry and competition. Furthermore, concrete action should be taken to improve the performance of PEs awaiting privatization.

25. Reform of customs must also be treated as a matter of urgency. UDEAC reforms which are being implemented should simplify and reduce the dispersion in tariff rates and make the system more transparent. Efforts to strengthen the tax and customs administration should also be continued.

26. Long-term Regulatory Reform. The range of reforms that is necessary in the legal framework in Cameroon is extensive and can only be realized in the long-term. Although priorities will need to be established and the reform process launched as soon as possible, Government's immediate attention should be given to the manner in which laws are implemented. In order to achieve stability and credibility in Cameroon's legal system, it is absolutely vital and urgent that the judiciary and the judicial system be improved and that the Government address the practical fundamentals of legislation, namely, establishing clear areas of authority, assuring consistent, effective implementation of decrees and public access to legislation and to key interpretative judgments. It is also critical for the success of institutional and legal reform that sanctions are applied on those who fail to comply with the law.

27. As far as the labor market is concerned, the new Labor Code enacted in 1992, which increased the flexibility of the labor market and improved the nature of labor-management relationships, is a significant improvement over its 1974 predecessor. It is now important that the required decrees be issued to make the new Labor Code fully operational and to put an end to the validity of old decrees.

28. The efficiency of physical infrastructure, electricity, telephones, transport and security, continue to be significant problems for Cameroon's private sector. Improvements in the delivery of services by these sectors is critical for the private sector's daily activities.

29. Private Sector Confidence. The number and scope of the recommendations made in this report may initially appear daunting. However, beyond the reforms recommended, if the private sector is to flourish, the Government must shift its perspective fundamentally from economic control to the facilitation of private activity and create the economic environment that sustains this new approach. The Government needs to convince local and foreign investors that it now views the private sector as a positive force for development. As the PSA clearly demonstrates, the private sector in Cameroon is not convinced of the Government's commitment to sustained economic reform. The establishment of a forum to consult the private sector before making major changes in the economic environment would be one way of increasing private sector confidence in the Government's commitment to the reform program.

30. If the confidence of private investors can be regained, Cameroon could once again achieve the growth rates which it has experienced in the past. However, if reforms fail to be implemented, it is difficult to be optimistic about Cameroon's future. The constraints on government finances will not allow public investment to play the driving role it did in the 1980s. The private sector is the only card left to be played.

1. ECONOMIC BACKGROUND AND SECTOR CHARACTERISTICS

INTRODUCTION

1.1 Cameroon has significant potential for sustained growth. Its main comparative advantages are natural resources (land, climate, minerals), a relatively skilled workforce, an entrepreneurial spirit and preferential access to regional and international markets.

1.2 **Natural Resources**. Cameroon's mineral reserves include petroleum, gas, bauxite, gold, iron, nickel, chrome and uranium. Apart from petroleum, none is commercially exploited. Its fertile land and climatic conditions and a relatively low population density also offer a favorable agricultural base (cotton, sugar, wood, coffee and cocoa, palm oil, fruits and vegetables) with a high potential for diversification. The average population density of less than 23 persons per square kilometer is very low by world standards and allows for considerable agricultural expansion. Large forestry resources offer good potential for sustainable exploitation, if properly managed. Cameroon also has vast water resources available for agriculture and urban areas. Hydroelectricity provides 95% of generated power, at the lowest cost in the world.

1.3 **Entrepreneurial Spirit and Human Resources**. Unlike many other Sub-Saharan countries, Cameroon benefits from an active indigenous entrepreneurial class. Its population is relatively educated, and the 60% adult literacy rate is one of the highest in Sub-Saharan Africa. Cameroon is noted for its rich ethnic, religious and cultural diversity; there are more than 150 ethnic groups each with its own language, although this diversity has often been the source of conflict. The recent devaluation significantly increases Cameroon's competitiveness, and, improves the cost of labor relative to non-CFA countries. To date there has been no *pari passu* increase in private sector wages, with minimum wage at 32,000 CFAF per month and a market industrial wage estimated at around CFAF 45,000 a month. Significantly lower costs of labor are rare, at least in the region. Most technical and office work can be staffed easily. Bilingualism is another advantage not to be found in other francophone African countries, except Mauritius. As against this, some businessmen rate the ethic and productivity of the labor force unfavorably by international standards, both on the shop floor and in the office.

1.4 **Access to Markets**. Cameroon has preferential access to the developed countries through the Generalized System of Preference (GSP) and above all through the Lome Convention. But GSP advantages are available to practically all developing countries and Cameroon's margins of preference have been eroded over the years by the progress of trade liberalization under GATT, whilst the Lome convention covers 69 beneficiaries. Cameroon is well located to serve the Central African region; it has access to the ocean, is a member of the *Union Douanière et Economique de l'Afrique Centrale* (UDEAC), and is by far its largest economy with roughly half the combined GDP of the UDEAC zone.

Several regional policy initiatives are underway or proposed: tax and duty schemes, business law, banking, insurance and social security. A regional transport program supported by aid donors should help build better access to the markets of the region over the next 10 years. In the meantime, trade within UDEAC is far from free.

1.5 Cameroon's natural endowments lend it tremendous potential for tourism. Its attractions range from the white sandy beaches of Kribi to the culturally rich hinterland of the Northwest and West provinces, the rainforests of the Southwest and Eastern provinces and the game parks, reserves and natural beauty of the Adamaoua North and Extreme North provinces. Whilst basic infrastructure is in place, it is barely adequate in most places. Moreover the Government's tourism parastatal, SOCATOUR, has done little to improve and promote the sector effectively.

1.6 **The Potential for Growth**. If the appropriate environment can be created, the list of potential long-term industries is extensive: tourism; agro-processing; wood processing (most wood is exported unprocessed); winter vegetables, tropical fruits and flowers; leather tanning; crafts; cotton processing; export related services.

1.7 This potential lies in the hands of private sector entrepreneurs and, following the devaluation, can be more clearly seen than ever. Yet the business environment in Cameroon remains almost inimical to its realization. The responsibility for this, and the power to reform it, lies in the hands of the Government. This report is designed to provide a road map to unleashing private sector led growth.

1.8 The premise of the report is that the private sector and the government play complementary economic roles. If the private sector is to function efficiently in the production of goods and services, the government will also need to produce communal goods and services, such as law, and security. The private sector flourishes in an undistorted environment , where regulations and taxation are lean and equitable and where public policy is transparent and non-discriminating. Such attributes are not present in the current economic environment in Cameroon. The government's strategy and focus, since independence, on expanding the public sector and its intervention in almost every aspect of economic activity, has created an administrative and judicial environment which is fundamentally hostile to private sector development and where business decision-making is controlled by administrative and bureaucratic bottlenecks, from labor laws to the setting of prices. Furthermore, the persisting political uncertainties, macro-economic instability and a bankrupt financial sector are far from conducive to private investment in the economy. A recent World Bank review of the performance of thirty-three countries' efforts in moving towards the LTPS (Long-Term Perspective Study) agenda for Africa[1] ranked Cameroon as one of the worst performers: performance was worse between 1988 and 1993 than between 1981 and 1987, in at least five areas, including macro-economic policy.

[1] Long Term Perspective Study Review, 1994 (Draft)

1.9 The current medium-term economic framework under discussion between the Government and the Bretton Woods institutions, aims at the recovery of economic growth to around 5 percent per annum, allowing significant per capita expansion. Although growth can, for a limited time, take place independently of investment, as rates of capacity utilization increase, sustaining it will essentially depend on expanding investment. Given the debt overhang, and the need to increase public savings to accommodate it, the scope for expanding public investment is limited; the medium term framework estimates that it will expand from around 2 percent of GDP to around 4 percent of GDP by 1996/1997. The bulk of the responsibility for re-launching growth, therefore, necessarily has to come from the private sector. In the medium term (to 1996/97), it is anticipated that expansion from the current level of 8-9 percent of GDP to the equivalent of 12-13 percent of GDP will be necessary. In the longer term, it is more likely that the current rate will need to double to achieve the desired growth targets. Experience in Africa suggests that a large critical mass of private sector-focused reforms is necessary to achieve the private sector response which is implicit in such increases in investment rates.

A. ECONOMIC BACKGROUND

1.10 **Recent Economic History**. In common with many African countries at independence, most formal sector private activity in Cameroon was dominated by foreign-owned firms. This was largely based on the exploitation and transformation of natural resources. Agricultural production, by contrast, was largely in the hands of small-holders and subsistence farmers.

1.11 In the early years after independence, like many African countries, Cameroon pursued a strategy of inward looking industrialization through import substitution behind protective walls, financed by taxing the agricultural sector through price controls and export taxes. As Table 1.1 shows, growth in agricultural production between 1961 and 1971 was modest and significantly slower than population growth. Although early on growth was based on a mixture of cash and subsistence crops, in the 1970s, it increasingly focused on exports of cocoa, coffee and cotton, where Cameroon has a strong natural comparative advantage. Production of most crops was largely private, and small holder-based. However, prices, marketing and export licensing were controlled by Government, in part through the National Marketing Board (ONCPB), resulting, in the case of export crops, in producer prices that were much lower than world prices. The corresponding surpluses, extracted through a mixture of export taxes and marketing levies, were a key source of Government revenues.

1.12 Industrial policy, as espoused by the first Five Year Plan, was geared towards import-substitution, to reduce the country's dependence on imported manufacturing goods. Paradoxically, this strategy required the influx of additional foreign capital and technology and was accomplished under a panoply of protection, through import tariffs and controls, directed credit and other forms of financial support, including the granting of investment benefits.

Table 1.1

	Average Annual Growth Rates - 1961-1993					Estimated	
	61/66	67/71	72/78	79/86	87/93	1994	1995
GROWTH RATES (%)							
REAL GDP	+ 4.1	+1.0	+6.4	+ 9.1	- 5.0	- 3.8	3.3
Agriculture	- 2.4	+4.6	+3.2	+ 5.2	- 4.7	- 3.8	4.0
Industry	+16.9	+6.0	+6.4	+18.0	- 6.1	- 3.8	1.7
Services	+ 6.7	-2.8	+6.6	+ 7.7	- 4.4	0.7	- 0.5
As % of GDP							
Agriculture	39.5	36.6	34.5	25.6	22.5	33.9	32.2
Industry	15.4	16.7	16.8	31.9	30.1	29.5	27.4
Services	45.1	46.8	48.6	42.0	47.4	36.6	32.8

Source: Annex 1, Table 18, and RPED, "*State Crisis and the Manufacturing Sector in Cameroon*".

1.13 Associated with this strategy was the creation of the state-owned Cameroon Development Bank (BCD), liquidated in 1990, and the National Investment Company (SNI), which used government finance to lend to, or take equity positions in, industrial ventures. In sum: private sector development through this period was based on significant distortions of relative prices, was dominated by foreign firms in close partnership with government, often with some direct government intervention in agriculture, industry and the financial sector. A measure of the limited direct role of Government was the ratio of total public expenditure to GDP, which remained around the 15-18 percent range over the period 1960 to 1975. This is understating the case, however, as the figures do not capture the Government's financial investment in an increasing array of public enterprises.

1.14 In the early 1970s, industrial policy was modified somewhat, partly in response to popular discontent at the continued dominance of private sector activity by outsiders. An indication of this was the creation of CAPME and FOGAPE to promote indigenous entrepeneurship. Furthermore, the bias against agricultural growth was partially alleviated; initially by the devaluation of the currency in 1994, and subsequently, in measure, by adjusting government pricing and support policy.

1.15 **The Discovery of Oil**. In 1978, Cameroon became a producer of oil. The effect on the country's development was dramatic. Oil production in 1985 generated 44 percent of government revenues and contributed 20 percent of GDP.[2] The economy more than doubled in size in real terms between 1977 and 1986. Both internal and external balances became substantially positive. A profound structural transformation ensued, principally focused around the role of Government. Government spending trebled in real terms over

[2] Centre d'Etude en Administration Internationale, *State Crisis and the Manufacturing Sector in Cameroon*, HEC Montreal, April 1993.

the period, and by 1986 accounted for around 23 percent of GDP. Government investment also soared - imposing many future recurrent demands on the budget. Government's participation in the economy through SNI, through the National Oil Company (SNH), and through the activities of wholly state-owned parastatals increased significantly; and included ventures in agriculture (rubber, palm oil plantations) and agro-processing (cotton).

1.16 Another feature, exacerbated by the arrival of oil revenues, was the increasing lack of transparency of Government finances. Information on oil sector operations was shared by a small group of persons; SNH did not publish financial accounts and the allocation and use of oil revenues were largely left to speculation.

1.17 In the short term, the private sector benefited from the oil boom. Up to 1981, agricultural exports also increased significantly, primarily due to the more favorable sectoral policy framework. By 1981, agricultural exports amounted to three-quarters of a billion dollars. Private sector investment also responded to the expansion in public expenditure and private consumption.

1.18 Increasingly, however, the impact of oil, which in 1982 peaked at around 46% of total exports, started to manifest itself in a form of Dutch disease. With an exchange rate that was fixed by its membership of the CFAF Zone, Cameroon did not witness the exchange rate appreciation, and immediate squeezing out of agricultural exports, that was the lot of its neighbor, Nigeria. Initially the oil revenues generated mercantile trade surpluses, peaking at around 11 percent of GDP in 1985. Domestic demand soared, however, and Dutch disease was manifest instead with an overall rate of domestic inflation of 12 percent per annum over the 1977-85 period[3]. This included, critically, the price of labor. The net result was declining competitiveness of both exporters, and import-competing domestic industries. It was compounded by a steady appreciation of the real effective exchange rate which peaked in 1987. The World Bank Trade Statistics indicate that between 1980 and 1985 food, non-food primary and manufactured exports declined by 13 percent, 12.7 percent and 3.8 percent a year, respectively. Table 18, Annex 1 indicates that for agricultural products at least the process continued between 1987 and 1992, with an additional fall of 25-30 percent in nominal terms.

1.19 **The Economic Crash**. Between 1986 and 1989, Cameroon suffered from major external shocks, including the depreciation of the US dollar, affecting the competitiveness of all exports and the collapse of oil and other commodity prices leading to an over 30 percent drop in its terms of trade (see Figure 1.1, page 7). The failure to adjust the nominal exchange rate to compensate for such a drop left the Government with the instruments of domestic adjustment through deflationary policies which translated into a large drop in income without improving the country's competitiveness. Oil revenues had not been warehoused sufficiently to assist in financing a phased structural adjustment. The government was large, and recurrent needs of the high development spending during the oil years made down-sizing difficult. Domestic industry was inwardly-focused, and

[3] By comparison the international dollar price of manufactured goods increased by an annual average of 4% over the period (IMF International Financial Statistics). The exchange rate did not adjust to compensate.

industrial sectors had undermined competitiveness, as had the impact of Dutch disease on cost structures. Both traditional and non-traditional exporters were consequently unable to step in to fill the gap left by oil exports. Finally, state control of agricultural surpluses had all-but severed the link between world prices and agricultural production, resulting in the high level of indebtedness of the national marketing boards towards producers.

1.20 This was made worse by an increase in rent-seeking behavior and corruption within Government, the product of an economy which featured extensive Government intervention and regulation, simultaneous with the availability of large amounts of free oil revenues.

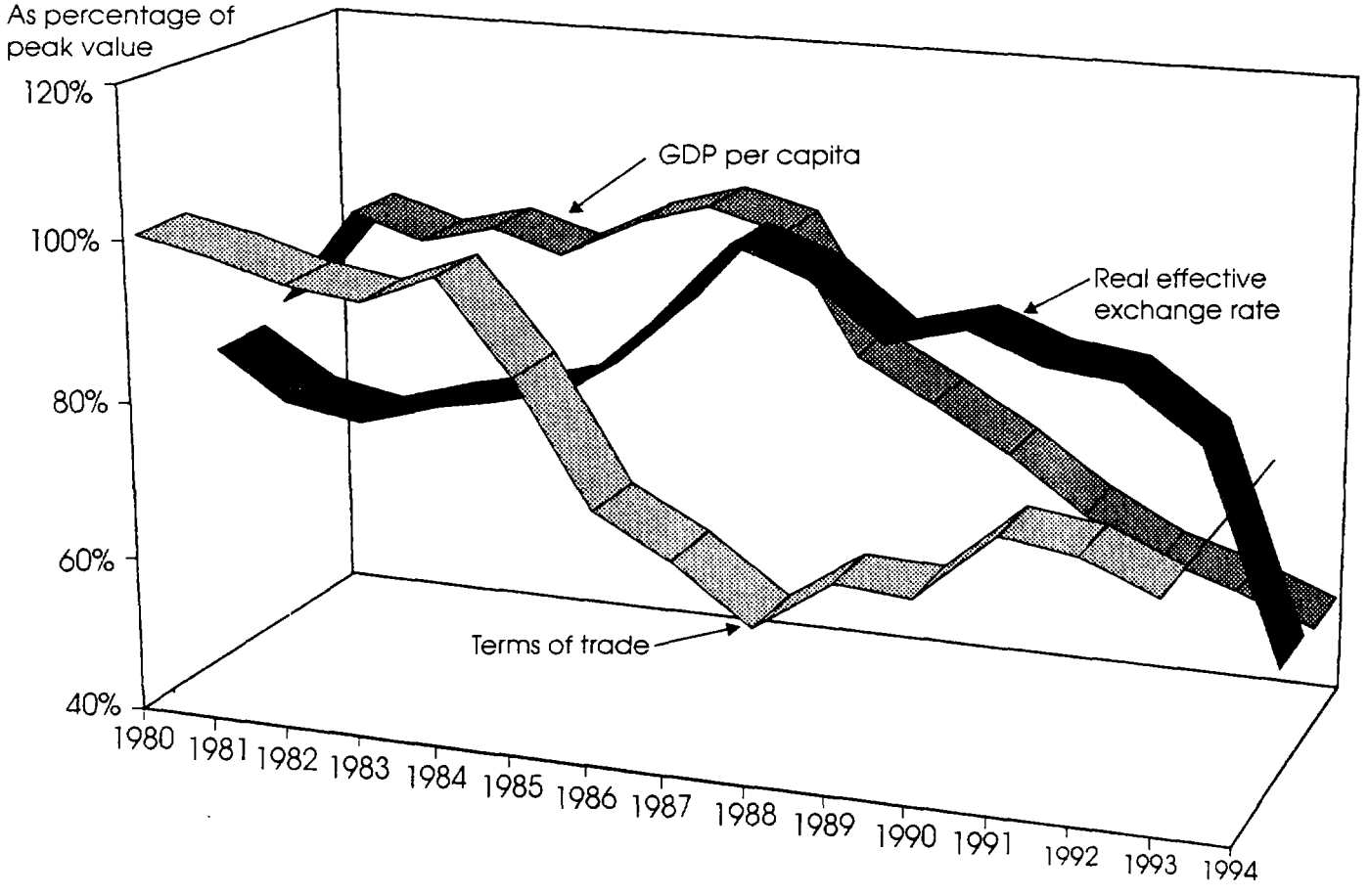
1.21 The dimensions of Cameroon's economic crash were profound. Between 1986 and 1993, as illustrated in Figure 1.1, real GDP contracted by 5 percent a year, meaning that per capita income in 1993 was around half its 1986 level. As Figure 1.2 shows, total (public plus private) investment collapsed, and private sector confidence followed suit. The Government proved unable to scale back initially: current expenditure expanded, from 12.4 percent of GDP in 1985 to 20.4 percent of GDP in 1992, partly to meet the recurrent outlays associated with investments made pre-1995. Wage levels were largely untouched until 1994 and the brunt of expenditure adjustment was borne by public capital expenditure, which fell from around 11 percent of GDP in 1985 to around 4 percent in 1992. The budget position changed dramatically; from an overall surplus of around 4 percent of GDP in 1983 to a deficit of around 10 percent of GDP in 1991. Substantial arrears accumulated to the financial sector and to private suppliers contributing to the severity of the crisis.

Table 1.2

	Share of GDP							Estimated	
Government Finance	1985	1988	1989	1990	1991	1992	1993	1994	1995
Current Exp.	11.1	15.8	16.7	16.3	18.2	19.3	18.4	16.8	15.1
Capital Exp.	12.4	8.4	5.1	5.8	5.5	3.5	3.0	3.5	1.1
Overall Surplus (Deficit)	1.0	(6.4)	(5.0)	(7.7)	(8.4)	(6.7)	(6.8)	(9.7)	(4.2)

Sources: World Bank, Country Tables
Annex C5, Country Assistance Strategy for the Republic of Cameroon, World Bank, January 17, 1996

Figure 1.1 :
GDP per Capita, Terms of Trade and Real Effective Exchange Rate



Sources: See Table 1, Annex 1.

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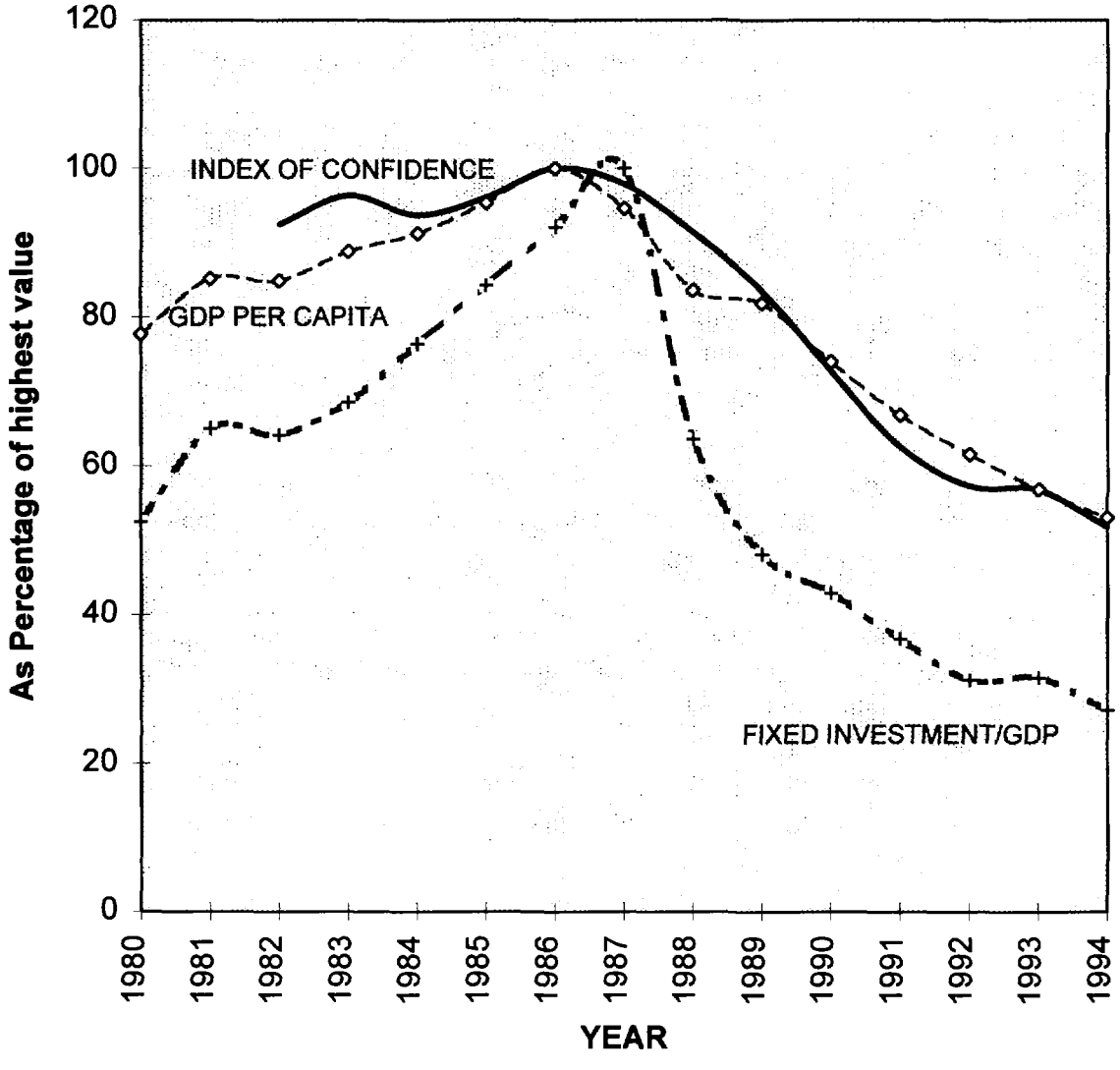
The Structural Adjustment Reforms

1.22 In 1988, the Government agreed to an austerity program supported by an IMF Stand-by arrangement, and by a World Bank Structural Adjustment Credit. The SAL included measures to: (a) reduce expenditures; (b) strengthen revenue collection; (c) reform the civil service; (d) liberalize the trade regime; (e) reform and divest public enterprises; and (f) restructure the banking sector. Whilst the diagnosis was right, progress with reform was slow (with the exception of trade liberalization), and insufficient to halt the economic deterioration. A key issue was the continued overvaluation of the exchange rate.

1.23 In January 1994, the franc zone countries, including Cameroon, decided to devalue the CFA franc by 50 percent in foreign currency terms with the new parity at CFAF 100: FF1. Removal of the burden imposed by the overvalued currency, constitutes a major step towards macroeconomic adjustment. In 1995, the Government of Cameroon signed a Stand-by Agreement with the IMF, and the Bank's Board approved a new Structural Adjustment Credit (Cr. 2813-CM) in February 1996. As will be clear from the discussion in Chapter 2, however, vigorous complementary action on a whole range of issues will be necessary to recapture the confidence of the private sector. The remainder of this Chapter describes the nature of the private sector that has survived Cameroon's misguided economic management described above.

Figure 1.2 CAMEROON'S RISE AND FALL



B. THE PRIVATE SECTOR IN CAMEROON

1.24 Cameroon has a dynamic and vibrant private sector with a long tradition in entrepreneurship. Like other African countries, it consists, mostly, of traders, active in all sectors. Trading and commerce has been the basis of the creation of many a fortune in Cameroon: laws enacted after independence allowed foreign enterprises to sell their product only through wholesalers, who had to be Cameroon nationals. Commerce continues to be the primary activity of most entrepreneurs in Cameroon, though involvement of nationals in manufacturing is gradually increasing. A measure of the dynamism and resilience of the private sector is the fact that about three thousand small and medium-sized firms were created annually, in spite of the economic crisis. Firms were created even during 1991/92, a period when the country was plagued by serious recession, political unrest and general strikes. Information on how many firms closed during that period was not available, however.

1.25 The Cameroon private sector can be characterized, in a stylized fashion, by a three-tier structure based on size, national origin and integration into the formal economy, as follows:

(a) a **formal private sector** consisting of foreign or domestically-owned firms which comply with most or all of the government's requirements in terms of taxes, licenses, regulations, etc.;

(b) an urban, small and micro-scale sector, outside most government regulations, taxes and controls, and therefore, characterized as "**urban informal**"; and

(c) a **"traditional" private sector**, mostly focused around subsistence or small-scale agriculture and rural services, with little production marketed or bartered.

1.26 The private sector accounts for around 66 percent of GDP, and in all, around 90 percent of employment, figures which are typical of the region. Substantial production and most employment fall under either the traditional sector or the urban informal sector. Although the formal sector (public and private) probably accounts for two thirds of GDP, it employs four out of five members of the labor force. Within the formal sector, the public enterprises are large; they produce almost half of value added, account for over one third of employment and have provided almost half of investment over the last five years (Figure 1.3).

1.27 Similar to other African countries, Cameroon has two parallel sectors: (a) the highly regulated and subsidized formal industrial and service sectors, divided equally between public and mostly foreign private interests; and (b) the informal sector, which is fast growing as a result of the adverse economic situation, loss of confidence in Government policies and lagging economic reforms.

1.28 One of the Government's post-independence goals was to create domestic private capital and assist local entrepreneurs. However, state intervention grew progressively, subjecting business decision-making to bureaucratic controls and arbitrary enforcement of laws and regulations affecting business, ranging from incentives and taxation, to salaries and credit. The public sector absorbed most of the benefits of the oil boom and today, the State controls more than 50 percent of manufacturing production, with foreign interests controlling 35 percent. The domestic private sector accounts for less than 15 percent.[4]

The Private Formal Sector

1.29 Precise and accurate data on Cameroon's private sector is not available. It is, therefore, very difficult to determine with any degree of accuracy the profile of the private sector in Cameroon. Foreign interests, invited in the 1960s to build Cameroon's industrial sector, are still present, although with reduced ownership participation, resulting from the growth of the public sector. Foreign SMEs, dominated by French, Italian, Lebanese, Indian and Pakistani interests, are increasingly unable to survive the unfavorable economic environment in Cameroon and the decline in their sales has led to major closures and unemployment of both nationals and expatriates.

1.30 The description of the private sector in this report is based on the results of a 1993 survey of 210 manufacturing enterprises carried out under the Regional Program on Enterprise Development (RPED) and a 1994 survey carried out by the Africa 3 Industry and Energy Division (AF3IE). Given the manufacturing focus of the RPED survey, the description of the characteristics and constraints of the private sector will necessarily have a manufacturing bias.

Ownership

1.31 Although the vast majority of firms are owned by Cameroonians, there is a strong correlation between ownership and the size of firms. It is estimated that 67 percent of the firms in the country are 100 percent owned by Cameroonian private interests.[5] Large firms tend to be foreign owned, sometimes with strong government participation whereas small firms tend to be Cameroonian. Foreign ownership is concentrated on the wood and food sectors. The RPED survey, which included virtually the whole population of medium and large formal firms operating in the agro-industrial, textiles, wood and metallurgy sub-sectors in Douala, Yaounde, Edea and Limbe, confirmed the above conclusions. For the 4 sub-sectors surveyed, foreign owned firms (foreign ownership of 50 percent or more) accounted for 59 percent or more of production. The wood sub-sector consists of a large number of foreign owned firms (67 percent of all wholly foreign owned firms in the survey).

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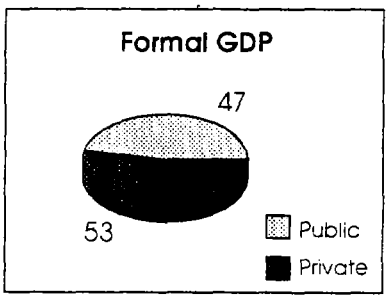
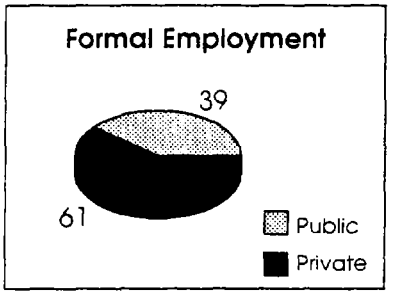
[4] Centre d'Etude en Administration Internationale, April 1993

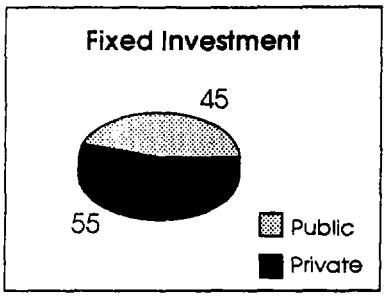
[5] CETAI, *Manufacturing Enterprises Under Adjustment in Cameroon: A Survey Perspective*, RPED, HEC Montreal, May 1994

Figure 1.3:
The Public Sector's Role in Economic Life

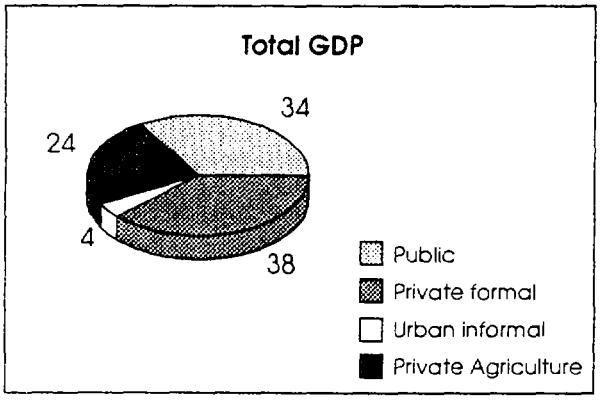
The public sector accounts for a large part of formal activity . . .

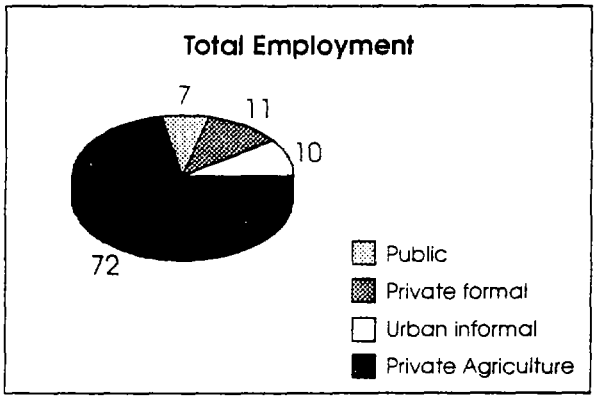






But most people's livelihood is earned in the private urban informal and agriculture sectors . . .





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1.32 Petroleum exports still account for the bulk, but given the decline in petroleum production, they may disappear by the year 2000. Other major exports are timber, coffee and cocoa, each representing about 10 percent of total. Large firms and foreign firms tend to export more than the others. Based on the RPED survey, four firms (three in wood and one in metallurgy) exported, in 1992, all of their output. Three of these firms are in the wood sub-sector and one is in metallurgy.[6] The three firms in the wood sub-sector are large operations and are mainly foreign owned.

1.33 Firms owned by women tend to employ fewer people and operate in commerce and services rather than industry. However, as the size of the firm grows, the participation of women in the work force tends to decrease. Finally, Cameroonian owned firms tend to employ a higher proportion of nationals in higher level capacities than foreign firms.[7]

The Informal Sector

1.34 In Cameroon, like in other African countries, there is a lack of reliable, up-to-date information and statistics on the informal sector, defined here as small firms which are neither registered nor affiliated with the social security system. This sector, which contributes to a considerable degree to Cameroon's economic growth, is made up of micro-entrepreneurs from rural areas or from failed enterprises, as well as unemployed graduates and civil servants. It is estimated that approximately 3,000 informal enterprises are created each year in Cameroon but very few make it beyond their second or third year of operations for a variety of reasons, including lack of credit, market uncertainties and competition from cheaper and often illegal imports. In 1989, informal sector activities, in agriculture, cottage industries, services and trade, accounted for 80 percent of the work force and contributed to 40 percent of GDP.[8] In key sectors such as textiles it accounts for as much as 90 percent of sectoral employment.

1.35 The informal sector has demonstrated steady growth. This is probably due, in part at least, to the rigidity and the over-regulation of the formal sector and to its inability to provide jobs to rural workers and young graduates. Furthermore, some formal sector activities are currently undertaken by the informal sector. The reasons for the shift could range from a simple switch to the informal sector, the informal sector being viewed as a more viable alternative, or an attempt to avoid the constraining institutional and regulatory environment of the formal sector. Some activities may make the switch to satisfy consumer demand for alternative products at lower prices. It is very likely that the informal sector, as a whole, is less affected by the current economic difficulties than the formal sector and that the share of activity of informal manufacturing firms is increasing. Nevertheless, this growth demonstrates the initiative of the Cameroonians to adapt to the economic realities in the country. Overall, the informal sector plays a very important socio-economic role in Cameroon and will continue to satisfy the basic needs of the low

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[6] CETAI, May 1994

[7] USAID, *Etude diagnostique MAPS sur le secteur privé*, December 1991

[8] Friedrich Ebert, *Le Secteur Informel: Importance et Perspectives*, May 1991

income population by providing them with basic goods and services at affordable prices and employment in times of economic downturn.

1.36 Another very important function of the informal sector involves the "tontines", usually set up as "quasi credit unions". Informal sector operators create and manage these tontines efficiently, pooling, and depositing in conventional banks, savings that would often be too small to meet minimum requirements if deposited individually.

1.37 The exact size of the informal manufacturing sector is difficult to determine. In terms of employment, the share of informal firms in services and agriculture is much greater than the sector's share in manufacturing. Although until now the informal sector has remained a domain of small local entrepreneurs, there is a danger that, if reforms continue to be slow and their implementation unsatisfactory, a larger number of economic operators will revert to the informal sector.

C. SECTORAL CHARACTERISTICS

1.38 On the basis of the limited data available, the distribution of value added shows a concentration in the tertiary sector of 36 percent. The primary and secondary sectors which represent 25 and 28 percent respectively, are not as significant.

1.39 The **primary sector** employs over 75 percent of the labor force and contributes about 25 percent of GDP and 27 percent of export revenues. The agriculture sector, which includes crop agriculture, horticulture, forestry, livestock and fisheries, remains the cornerstone of the Cameroonian economy. Food crops such as maize, millet, sorghum, rice, plantains, yams and cassava account for about forty percent of agricultural output, making Cameroon virtually self-sufficient in food. Production in crop agriculture, livestock and fisheries is predominantly small scale. There are some large plantations and ranches, mostly state-owned, and a small industrial fishing fleet.

1.40 Cameroon is endowed with very rich tropical rain forests covering some 30 million acres. The sector contributes around 2 percent of GDP. Only around 10 percent of the area licensed for exploitation is currently being exploited, though this is expanding rapidly, and there are major concerns about the sustainability of the industry. Very little of the wood logged is transformed locally. In 1990, there were over one hundred registered forestry enterprises active in the sector, with expatriate firms accounting for around two-thirds of output, and parastatals around 15 percent.[9]

1.41 The **secondary sector** focuses around manufacturing of import substitution goods. A survey carried out in 1991 by USAID[10] estimated that about 93 percent of manufacturing sales are local. The poor performance of exports is the result of two factors: the major incentives given by the Government to import substitution firms and the lack of

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[9] USAID, *Etude diagnostique MAPS sur le secteur privé*, December 1991

[10] USAID, *Etude diagnostique MAPS sur le secteur privé*, December 1991

competitiveness of Cameroonian products due to the overvalued CFAF and to high factor costs. Manufacturing is concentrated in the Littoral and Central provinces with the largest number of firms representing agro-industrial activities (food beverages and tobacco). Other manufacturing activities include textiles and clothing, wood and wood products and metal products.

1.42 Cameroon has a moderately diversified manufacturing sector which has contributed an average of around 12 percent of GDP over the past twenty years. The formal private sector accounted for less than 9 percent of total employment in 1991. The growth of domestic demand constituted the main impetus for growth in manufacturing value added after independence, with import substitutes dominating the sector in the early 1980s. However, in the last few years, depressed domestic demand resulting mainly from the sharp fall in dollar-denominated export earnings put a stop to the steady growth of the manufacturing sector. Furthermore, it revealed the sector's lack of competitiveness, stemming from long-standing protectionist policies and regulations. The sector is strongly concentrated and suffers from relatively high domestic costs, a drawback compounded by past price control mechanisms based on cost-plus criteria. The country's rich domestic resource base indicates considerable unused potential to develop the processing industry, provided there is increased efficiency and more competitive costs.

1.43 Enterprises that are registered when established are usually not deleted from the registry when they go out of business. Consequently, close to 40 percent of the firms, in Douala, registered in the most recent - 1989 - directory of the Chamber of Commerce have since either suspended operations, closed down or reverted to informal activities.

1.44 There are approximately 40,000 smaller enterprises, characterized as those with less that 10 employees. The bulk of manufacturing activities tend to be very large or very small, with annual sales less than CFAF 20 million or more than 600 million. About 68 percent of manufacturing activity is centered around Douala; Yaounde accounts for 11 percent. The littoral province is the only province which can be considered diversified.

1.45 Although growth in manufacturing was fast in the early 1980s, distortions in the tariff structure and incentive system fostered highly capital intensive and inward oriented industries, some of which have negative value added, measured at world prices.

1.46 Manufacturing value-added has continued to decline, with a value added representing 15 percent of GDP in 1990-1991. During 1991-1992, industrial turnover declined by about 6 percent, from CFAF 345.9 billion to CFAF 326.6 billion, with a 4.43 percent decrease in domestic sales and a drop in export sales of about 10 percent. However, although export sales dropped, exports to UDEAC countries rose. For this period, taxes paid by the sector increased by about 2 percent.[11]

1.47 Cameroonian firms are going through extremely difficult times. Data on profits, growth, capacity utilization levels and costs clearly demonstrate that many firms,

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[11] GICAM, April 1993

particularly the larger ones are in severe financial difficulty and may not survive the current crisis. It is expected that during the next few years, growth will continue to be negative, although of lesser magnitude than the 1987-1991 period.

1.48 **The Energy Sector**. Woodfuel resources provide about 70 percent of Cameroon's energy requirements. The transport and distribution of woodfuel as well as charcoal are largely carried out by the informal sector. The electricity sector is dominated by SONEL which enjoys a de facto monopoly position in generation, transport and distribution of electricity. The State owns about 95 percent of SONEL shares while *Caisse Française de Développement* (CFD) and large public concerns own the remaining 5 percent. Cameroon's hydroelectric potential is large compared to potential demand and in 1993 more than 95 percent of SONEL's generation was provided by hydroelectric plants.

1.49 **Petroleum** products and electricity provide about thirty percent of Cameroon's energy requirements and are mainly consumed in the urban centers, and some major industrial plants such as Alucam (the aluminum company). Cameroon produces crude oil and is a net exporter of petroleum products. In 1994, it produced about 6 million tons of crude oil of which about 0.5 million was refined in the Limbe refinery; the balance was exported. Two major international firms (Elf and Shell/Pecten) are currently active in production and are associated with the *Société Nationale des Hydrocarbures* (SNH), the parastatal created to promote Cameroon's hydrocarbon resources. The 1994 crude oil production represents about half of the 1980 peak production. The decline in production combined with the relatively low crude oil prices had a significant effect on fiscal revenues. The dramatic decline in crude oil production can be partly attributable to inadequate exploration and incentives to potential investors, a lack of aggressive promotion of the offshore and onshore potential and low international prices, and partly to a relatively unfavorable geological setting. The State has also a majority interest in the SONARA refinery which holds a monopoly in the supply of products to the domestic market. SONARA is managed by a private company composed of major international oil companies. Storage facilities are also owned by a parastatal (SCDP) and managed by the private sector. The distribution of petroleum products is carried out by five major international companies.

1.50 Cameroon is also endowed with relatively large but untapped reserves of natural gas. Some interest has been expressed in exploiting natural gas fields in the Kribi and in the Douala areas.

1.51 Similar to other sectors in the economy, the main issues currently facing the electricity and hydrocarbon sub-sectors include: (a) interference of the State in the day-to-day management of the parastatals and in investment decisions; (b) lack of transparency in the conduct of their activities (neither SONEL or SNH provide annually audited financial statements); (c) lack of competition in the electricity sub-sector and in the procurement and distribution of petroleum products - retail petroleum prices are fixed by the State; (d) weak Ministries responsible for the "*tutelle*" of State-owned enterprises; and (e) relatively high costs of delivering electricity and petroleum products to the consumers.

1.52 The **tertiary sector** accounts for about 36 percent of GDP. It consists of wholesale and retail activities and services and represents the largest urban self-employment. This sector also includes activities in the transport, education and other services where the private sector is also active.

1.53 **Service** activity in Cameroon includes general import-export operations, wholesaling and retailing, distribution, banking and insurance. According to the MAPS study, 75 percent of all service entities were owned by Cameroonians, with Government participation being limited to 13 percent of all firms. Of the expatriate involvement in this sector, the French comprised 40 percent of the total. The sector is primarily inward oriented, with 95 percent of all production being directed towards the local market. The local indigenous private sector plays a primary role in trading and retailing activities.

1.54 In the **transport sector**, road construction and rehabilitation is mostly carried out by foreign contractors established locally. Urban and inter-urban passenger transport is largely privatized and has rapidly developed. Most inner city transport is served by a plethora of taxis - about 5,000 in both Yaounde and Douala. (Before its liquidation, SOTUC carried less than 5 percent of motorized traffic). Inter-urban transport is private and has made railway transport between these cities uneconomic. Trucking, both national and transit, is a competitive private industry, but is suffering from over-capacity. The efficiency of many trucking companies is rapidly declining because they are unable to renew their equipment. In addition, transport in rural areas suffers from increasing operating costs and transport prices due to inadequate road maintenance.

Recent Private Sector Performance

1.55 **Profitability, Growth and the Enabling Environment**. The private sector is probably profitable overall, because of the high volume of activity going on in the informal sector, which is profitable, as opposed to the formal sector, which is not.[12] One interpretation is that there is exceptional dynamism among small firms which are able to flexibly respond to the new price signals in force after adjustment. Large firms are the weakest performers, and have the highest rate of excess capacity (they are operating on average at less than 30 percent of capacity) and the highest burden of debt (equivalent on average to their assets). A second is that the official rules and policies governing participation in the formal economy make doing business unprofitable. This suggests an extremely difficult formal enabling environment. A third interpretation notes that the firms that have fared the worst after adjustment were those that benefited most from explicit benefits and protection -- these enterprises may have been oriented towards rent-seeking, rather than profit-maximization, and have operated inefficiently under the protective mantle of the state. Sectorally, clothing firms are the most profitable and have experienced the most rapid growth in sales in the 1987-92 period, while the metal and electrical sector

[12] According to the RPED report, in 1992 informal enterprises (overwhelmingly micro, with some small) earned an average of 12% of sales in profit, while formal firms lost an average of 5% in sales. Overall for the sample, profits were negative, but the report acknowledges substantially under-sampling micro enterprises, which as a group averaged 19% profit. Specifically, the informal sector accounts for twice the employment of the formal sector and about 50% of GDP (which would be about half of private output). Yet fewer than 50 firms in the RPED sample of 210 are informal.

suffers the greatest losses. The clothing sector happens to be characterized by smaller firms, greater use of casual labor, and higher labor turnover than other sectors, with a large number of female entrepreneurs, all contributing to easier accommodation to the shifts in prices and incentives resulting from structural adjustment.

1.56 The continued growth of the informal sector and languishing of the formal sector cannot be taken lightly: the Cameroon economy cannot expect long-term development to rest on this unbalanced growth. Furthermore, the informal sector (and especially micro enterprises) cannot be taken to be the seedbed for future large-scale enterprise: RPED analysis of the background of entrepreneurs suggests nearly two thirds of successful entrepreneurs (those whose firms experienced positive growth) had experience immediately before their current position as employees in a company in the same industry. Conversely, those entrepreneurs who reported a self-employed activity just prior to their new start-up, experienced a negative growth in sales during the period 1987-92. Finally, an analysis of productivity suggests that informal firms are far less productive than formal ones (with sales per worker of about one quarter), suggesting that while informal sector growth can produce employment, it cannot produce the same material gains to individual workers as can the growth of the formal sector. In addition, the RPED finds "strong segmentation" between regulated and unregulated jobs, suggesting it may be hard for those who find work in the informal sector to make the transition to formal sector employment.[13]

D. THE FINANCIAL SECTOR

1.57 Cameroon shares a common currency, the CFA franc, and a common Central Bank, BEAC (*Banque des Etats de l'Afrique Centrale*), with five other countries (The Central African Republic (CAR), Chad, Congo, Equatorial Guinea and Gabon). It accounts for over 50 percent of the money supply in the BEAC zone, 60 percent of Central Bank refinancing of commercial banks and over 60 percent of Government financing by BEAC. It harbors the largest number of financial institutions and has the most diversified financial sector in the zone. The formal financial system in Cameroon consists of: (a) eight commercial banks; (b) eight non-bank financial institutions; (c) a postal savings bank; (d) sixteen insurance companies and a reinsurance company; (e) a housing bank; (f) a social security institution; (g) a network of credit unions; and (h) a Loan Recovery Agency (SRC). A regional money market is administered by BOAC. There is no bond or equity market.

1.58 In the late 1980's Cameroon's financial sector was plagued by the same difficulties that befell financial institutions and markets throughout Sub-Saharan Africa: (a) large public finance imbalances leading to mounting government arrears on domestic and external debt; (b) severe macro-economic instability resulting in a decline in savings and a serious deterioration of financial institutions' portfolios; (c) high real interest rates making financing of investment projects less attractive; (d) an inadequate judicial system facilitating the delinquency of borrowers; (e) poor regulation and supervision of financial

[13] There is, however, a further and important nuance, in that the study classifies some firms as formal and unregulated, and suggests that job growth must come from them. This focuses attention on the rigidities imposed by labor regulation, in spite of its low ranking as a general constraint.

institutions; and (f) weak bank management. As a result, many financial institutions became illiquid and insolvent.

1.59 Although there have been attempts over the past seven years to reform the financial sector, it is, today, in as bad a shape as it was in the 1980s. Total bank credit declined by 58 percent between October 1989 and December 1993, while deposits fell by 35 percent during the same period. Among the reasons for the failure to restructure the financial sector are: (a) the imbalances in public finances were not adequately addressed and Government did not meet its obligations on old and restructured debt; (b) the macro-economic situation worsened, causing further loss of liquidity and deterioration of loan portfolios; (c) weaknesses in regulation and supervision were not addressed; (d) little was done to strengthen the judicial system; (e) restructuring dragged over time and measures recommended on the basis of 1988-89 figures were no longer relevant; (f) internal strengthening of banks was not adequately pursued; (g) new structures, such as the SRC were ineffective; (h) several institutions such as insurance companies and the housing bank were not included in the restructuring program.

1.60 While large banks no longer extend new credit, the activities of a number of smaller banks are increasing. Smaller banks, such as CCEI and CAC, grew substantially. During the first nine months of 1992, credit extended by these two institutions increased by 75 percent and deposits by 50 percent.[14]

1.61 Half of the banks, accounting for almost 75 percent of the market, have serious liquidity problems and five banking institutions accounting for over 50 percent of the market have a negative net worth or insufficient capital to support their activities. The sector will require major reforms, including the restructuring/liquidation of existing banks.

1.62 Following the devaluation, most banks temporarily regained liquidity, as capital outflows were reversed and firms repatriated their working balances and reduced bank overdrafts. The net worth of the commercial banking sector, as of June 1994, was CFAF 42 billion. However, this does not reflect the sector's actual situation as it is based on figures that underestimate the level of provisions representing the non-performing loans in the private sector. If an adjustment for provisions is factored in, the net worth of the banking sector as a whole becomes negative.

1.63 Although there are sixteen insurance companies operating in Cameroon, many owned by Cameroonian interests, the market is dominated by four, SOCAR, SNAC, AMACAM and CCAR. Most of them suffer from large arrears on their investment on Government securities (approximately CFAF 27 billion). Premium arrears from the public and private sectors amount to CFAF 33 billion, larger than the annual volume of business. Delays in the settlement of claims reach, in some cases, several years. Several companies have frozen deposits.

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[14] CETAI, *Preliminary Report on the Cameroon Survey*, RPED, HEC Montreal, November 1993.

E. PUBLIC/PRIVATE INTERFACE

1.64 The public enterprise sector grew rapidly between 1960 and 1980, as the state used surpluses accumulated from the export of cash crops to extend its power. This was done: (a) by direct Government purchase of shares in, or creation of, enterprises; and (b) through the use of cash surpluses by those large parastatals which had access to them (e.g. financial sector, petroleum sector, etc.), to participate in other sectors. The public sector in Cameroon currently comprises around 120 operating companies and over 55 enterprises under liquidation. In addition, the National Investment Company (SNI) holds significant participation in 45 other enterprises. With the exception of National Oil Company (SNH), the public sector is estimated to contribute about 20 percent of GDP and to represent 14 percent of employment in the formal sector. Despite large subsidies and transfers which amounted to 12 percent of GDP in 1991, the financial performance of PEs has been disastrous.

1.65 During that period, state involvement was indiscriminate. It included control of the petroleum sector, through SNH and nine other companies, intervention in capital markets through a National Investment Corporation (SNI), and social security (CNPS) and in a number of banks, insurance companies and other financial intermediaries. "Traditional" sectors such as utilities (SONEL - electricity, INTELCAM/CAMTEL - telecommunications, SNEC - water and sanitation), and transport (CAMAIR, CAMSHIP, REFRIGERCAM) were state controlled as were SODECOTON, SODEPALM, HEVECAM, SODECAO, CAMDEV, the major producers in cotton, palm oil, rubber, cocoa and plantation cultivation. Around a dozen hotels were state-owned, and a number of research, health, training and regional development institutions were run by the government as public enterprises.

1.66 The extent of Government ownership in these enterprises varies considerably from 100% to relatively small minority holdings. As a result, management practices also vary substantially. In the companies where Government is only a minority shareholder, management can still be essentially private in style. It is often subject to government interference, however. By contrast, in the companies where the state is majority shareholder, top managers are typically civil servants, and management style is much less responsive to commercial imperatives.

1.67 Government intervention was widespread and driven by a focus on import substitution and protection from competition. As a result, many industries were economically inefficient (see Box 1.1 below). Furthermore, many enjoyed *de facto* or *de jure* monopoly positions in the economy, protected from domestic private sector competition through licenses, tax concessions, quotas and other administrative devices. This extensive Government involvement not only imposed a significant and unsustainable burden on the state but resulted in stifling the development of genuine entrepreneurship and in imposing additional costs on consumers in terms of poor services (see paras. 2.19 - 2.27 and Annex 6 for more details on performance of PEs and their impact on the private sector).

Box 1.1 Economic Losses from Two Import-Substitution Industries

CAMSUCO and SOSUCAM were set up to supply Cameroon's refined sugar needs: SEMRY, SODERIM and UNOVA were to do the same for rice. The table below sets out the performance of these PEs in 1986. Neither group was able to meet market demand despite import tariffs and price controls, which enable them to charge prices around 100% higher than the landed price of imported sugar and rice. Furthermore, the import content of the industries was large enough to offset any savings in foreign exchange accruing from local production. The cost paid by consumers for this policy was enormous - around $25-30m annually - and the natural practical result was heavy smuggling of rice, sugar, and many other commodities at the Nigerian border.

	SUGAR	RICE
Total Demand (t)	85,000	210,000
Local Production (t)	63,000	98,000
Imports (t)	22,000	112,000
Local Price ($/t)	226	160
CIF Price ($/t)	120	75
Price Differential ($/t)	106	85
CONSUMER LOSS ($)	9,010,000	17,850,000
Imported Inputs ($)	7,973,280	5,801,600
Total Imports ($)	10,613,280	14,201,600
FOREIGN EXCHANGE LOSS ($)	13,253,280	22,601,600

F. INVESTMENT AND FINANCIAL FLOWS

1.68 The data available on investment in Cameroon are patchy. The figures in Table 1, Annex 1 show that to a large extent, the overall pattern of investment has been driven by the public sector. Public investment rates in the early 1980s averaged 15 percent of GDP, while private investment only accounted for a third of total investment. While public investment peaked in 1987, private investment had increased to 13 percent of GDP. The crisis in fiscal affairs saw public investment tumble to an estimated 2.2 percent of GDP in 1993. Private investment fell steadily as well, though not so sharply, resulting in a steadily increasing share of total investment that reached 80 percent by 1993. Despite this, however, investment during the last two years has hardly been greater in dollar terms than it was at the beginning of the decade. At current levels of 10-11 percent of GDP, the investment rate is less than that required to maintain the overall capital stock. This is particularly true in the public sector.

1.69 By comparison, median total investment rates in Sub-Saharan Africa fell from 21 percent of GDP in the late 1970s to 17 percent in the early 1980s and 16 percent in the latter half of the decade. They are currently around 15 percent of GDP.[15] The steady reduction reflects cutbacks in public investment, as government budgets were cut. Average private investment rates (see Table 1, Annex 1 and Figure 1.4) fell from around 12-13 percent of GDP during the 1970s to below 7 percent in the mid 1980s, but have since

[15] World Bank, 1994, *Adjustment in Africa: Reform, Results and the Road Ahead*

grown somewhat to around 10 percent. Although the exact figures are not reliable, the pattern is validated by other sources.[16]

1.70 The experience in Cameroon in the last 15 years is therefore, quite different to the typical story in Sub-Saharan Africa. The country enjoyed a boom in the mid-1980s — driven, of course, by oil — that contrasted sharply with its neighbors' slumps, induced by world recession and falling commodity prices. By the end of the decade, however, the economic crisis was in full sway. As a result both public and private investment in Cameroon are significantly lower today than the Sub-Saharan African average.

1.71 As Figure 1.4 shows, this contrasts sharply with total investment rates in the High Performing Economies of East Asia, that have averaged around 30 percent of GDP during the 1980s, and private investment rates of around 18 percent, accounting for 60 percent of total investment. Even in the poorer East Asian countries, such as the Philippines, Sri Lanka and Indonesia, the private shares of investment in 1990 were 70 percent, 63 percent and 58 percent respectively.

1.72 Foreign direct investment (FDI) was relatively important in Cameroon in the early 1980s, accounting for up to 25 percent of total private investment. However, the figures on profit remittances in Annex 1, Table 12 suggest that much of it was in the form of retained earnings in companies that already existed;[17] presumably in the oil sector. When the crisis began to develop in the late 1980s, FDI dropped off almost totally, whilst profit remittances were sustained at a level of US$ 100-300 per annum for several years indicating that foreign investors reacted to the crisis by remitting profits and dividends abroad, rather than reinvesting. By 1989, however, since their ability to do so effectively ceased, there have been minimal levels of foreign direct investment flows.

1.73 This pattern is not dissimilar to that for Africa as a whole. The region received less than 3 percent of worldwide FDI to developing countries. In addition, the bulk of what does flow is geared to natural resources: FDI to oil/mineral exporters accounted for more than 75 percent of total FDI in Africa over the 1985-91 period. Figure 1.4, page 24 demonstrates starkly how Africa has failed to benefit from the rapid expansion of FDI experienced over the last few years. Cameroon is no exception to this.

1.74 Another indicator of confidence is the price of Cameroon's debt on the secondary market, which at the end of 1993, averaged 15 cents in the dollar, compared to 18 cents for Angola and Côte d'Ivoire, 38 cents for Senegal and 59 cents for Nigeria. In addition, an index of confidence developed by the Institutional Investor, based on interviews with 100 banks, scores Cameroon at 19.7 (out of 100) in March 1994, compared to 21.9 and 27.0 four years ago. At this level it has dropped below the average for the region of 20.6 (see Figure 1.2, page 9).

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[16] IFC: 1994. Total investment is usually calculated from National Accounts data, as the difference between GDP and domestic consumption. Good data on private investment are scarce and figures must be interpreted with caution; they are typically calculated by subtracting public investment and are thus residuals.

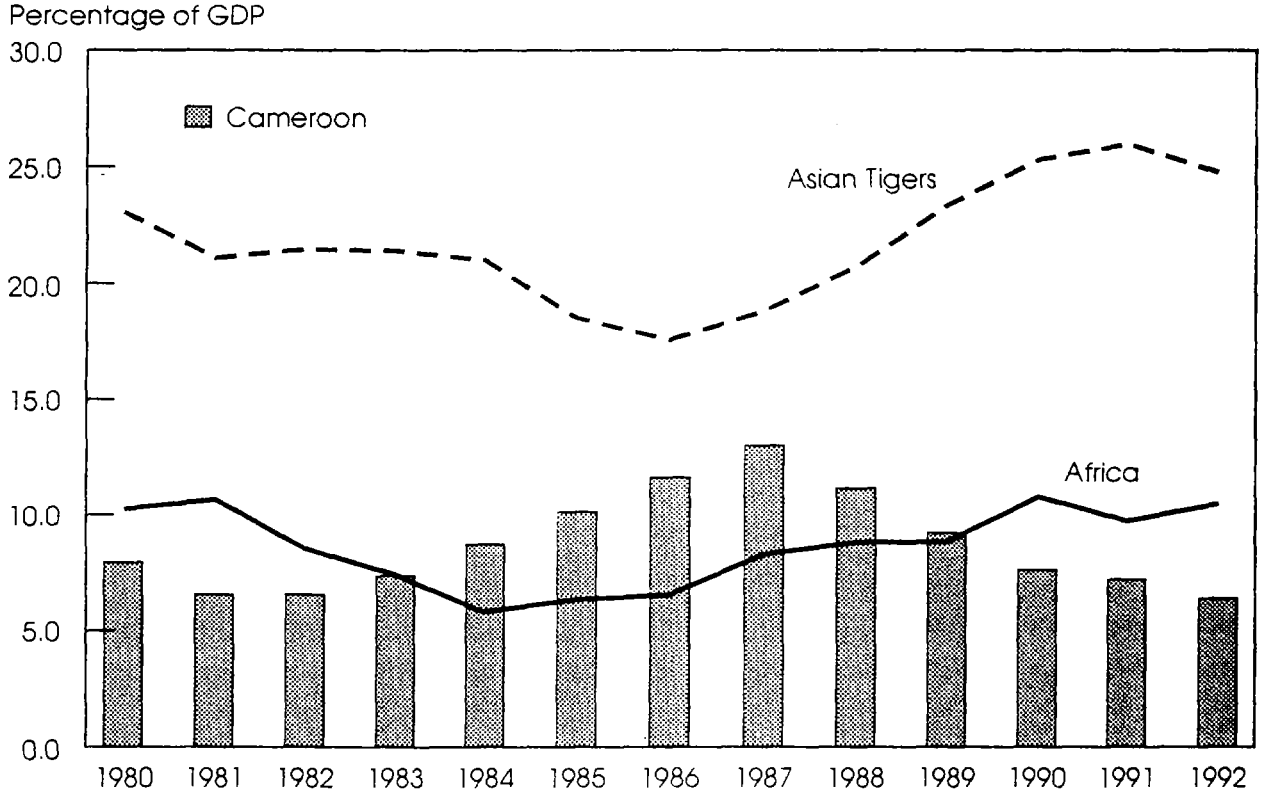
[17] Both figures are defined to include reinvested earnings.

G. CONCLUSION

1.75 The profile presented here is that of a private sector in crisis. A state-dominated economy which generated investment opportunities associated with public capital expenditures during the days when oil revenues were booming pulled the private sector along with it; there were enough resources to go around. The downturn since then, associated with poor economic management, has worsened, the already poor, governance relations between the Government and the rest of the economy. Public enterprises have drained the economy and crowded out the private sector. Furthermore, application of government controls has become increasingly arbitrary. Private investment and confidence have plummeted. The single growth area in the economy has been the informal sector, expanding as entrepreneurs turned more and more to evasion of government controls, or as school-leavers or urban migrants took the only option open to them.

1.76 The recent performance of the economy is in marked contrast to Cameroon's underlying resource base, and the natural entrepreneurial spirit of its people. The constraints to be overcome to unleash this potential are the subject of the next chapter.

Figure 1.4:
Private Investment: Cameroon, Africa, and the Asian Tigers



Figures for Cameroon for 1984-86 are interpolations.
Source: IFC trends in private investment, 1994.

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2. CONSTRAINTS TO PRIVATE SECTOR DEVELOPMENT

A. INTRODUCTION

2.1 Under the 1989 structural adjustment program, wide-ranging measures were undertaken to improve Cameroon's business climate. These included the decontrol of most prices (except for sensitive goods), the simplification of import procedures, and the removal of quantitative import restrictions on most goods. The specific legislation which was adopted to help promote the private sector, included: (a) a new privatization law; (b) a new law governing commercial activity and (c) a revised Investment Code, accompanied by implementation texts. Furthermore, other measures, including a new Labor Code, a Commercial Code, an Enterprise Code, a Public Enterprise Law and a law on international trade, are in different stages of preparation. Important trade and fiscal reforms are also being undertaken under the aegis of UDEAC.

2.2 Following the devaluation, Cameroon adopted a program of reforms which aimed at putting the country back on the path of sustainable growth and poverty alleviation. The program, which was supported by the IMF and IDA has begun to bear fruit in the real sectors, as demonstrated by the sharp increases in exports. However, if Cameroon is to achieve a sustained 5 percent GDP annual growth based primarily on competitive exports in the rural and urban tradable sectors, it is critical that the business environment be improved and that the existing constraints which impede private sector growth, be eliminated. The discussion that follows reviews the constraints still faced by private investors, foreign and domestic, identifies their priorities for government action and sets out a detailed road map of reforms.

2.3 **Overview of Survey Results**. The discussion and analysis of constraints is based on the findings of three surveys: (a) a 1993 survey of 210 manufacturing enterprises by the Regional Program on Enterprise Development (RPED) (see figures 2.1 and 2.2 for the composition of the survey sample, by size and by sector); (b) a mid-1994 follow-up survey by RPED, following the devaluation of the CFA franc. The third survey, which involved interviews with 32 entrepreneurs, predominantly in the trade and service sectors was carried out by AF3IE in 1994. The findings of all three surveys describe a private sector which has been shaped by economic distortions and in which the burden of the public sector, a distorting incentive system, an inadequate legal and regulatory framework and the high cost of finance remain serious obstacles to competitiveness and growth. They also describe a private sector which continues to face structural and economic constraints, including lack of government authority and ineffective policy execution, discretionary decisions by the government, burdensome bureaucratic delays in granting permits and licenses, corruption and lack of access to credit.

Figure 2.1

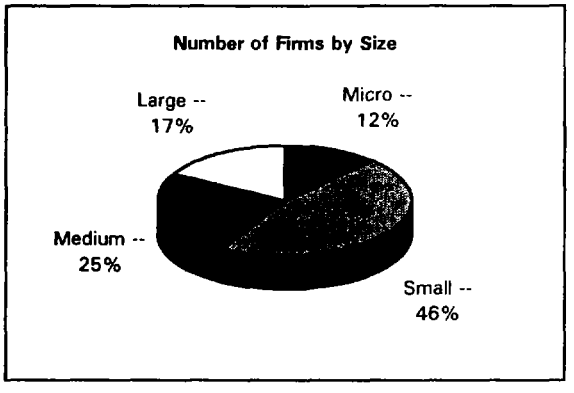
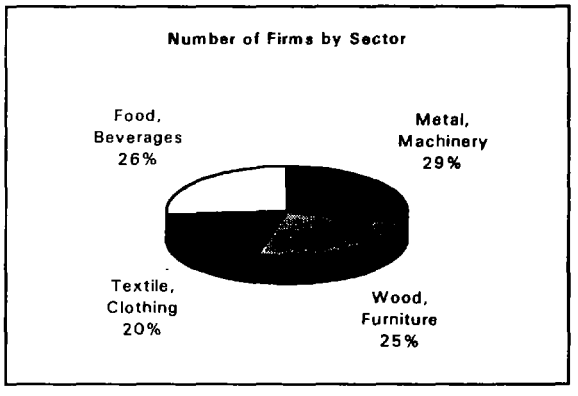


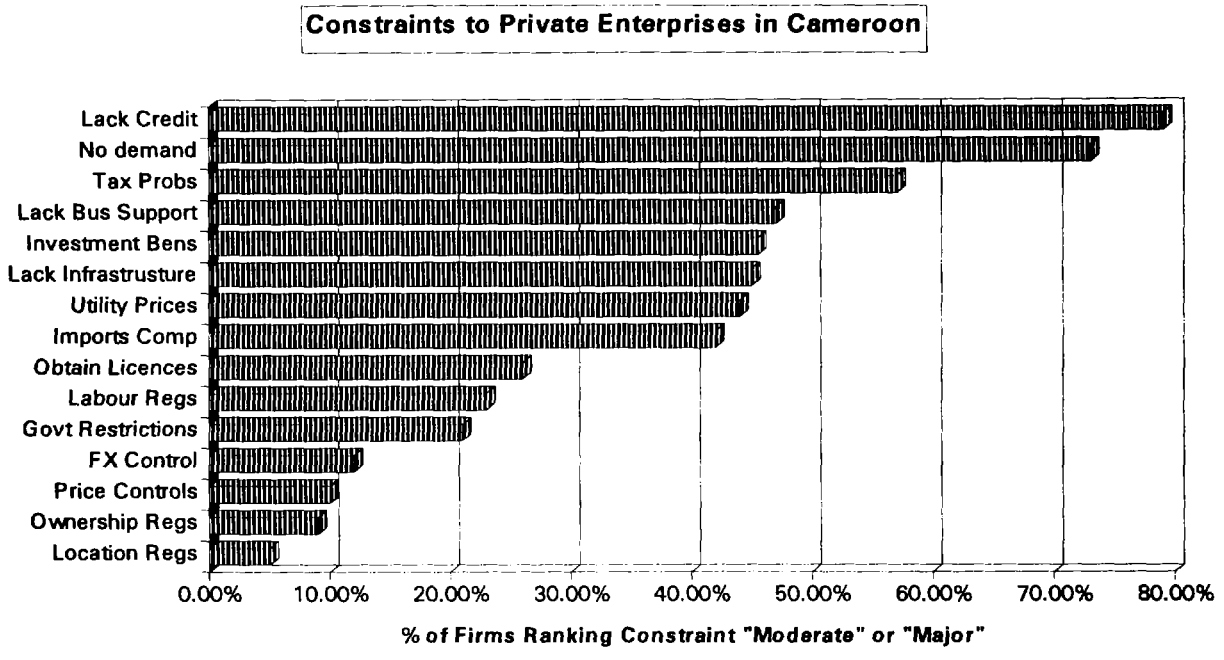
Figure 2.2



2.4 Specific responses to the RPED survey are shown in figures 2.3 through 2.5. Constraints to private sector development in Cameroon can be categorized according to the following themes: (a) **the financial system**, including lack of credit and crowding out in financial markets, due to the government's substantial deficit between 1986 and 1992; (b) **the legal and regulatory framework** and the application and administration of laws. Laws in Cameroon rely heavily on application decrees, which are issued by different government departments. Because of lack of coordination between these departments, decrees are rarely issued on time, are inconsistent, contradict the spirit of the law and often contradict each other; (c) **the incentive and tax system**. Cameroon's tax system combines relatively high nominal rates with widespread exemptions and tailor made rates creating serious distortions in the incentive framework; (d) **physical infrastructure**, including electricity, telephones, roads and security as well as airport and seaport transport; and (e) **the lack of support services**, including lack of information and a lack of an on-going dialogue between the private and public sectors.

2.5 Firms were not asked to rank corruption as a constraint formally, but it came fifth as a response to the open-ended question on the most severe problem limiting operations and growth (Figure 2.5). Interestingly, firms' perceptions of problems relating to corruption and taxes **worsened** significantly between 1993 and 1994. Not surprisingly, small and micro enterprises are less constrained by almost everything except the lack of credit, which affects them disproportionately (see Figure 2.4). Perhaps as a result, they have generally grown faster than large firms during the adjustment period (1987-1992).

Figure 2.3



Source: CETAI, RPED

Note: These rankings reflect entrepreneurs' perception of their constraints; many of these constraints, for example demand, may have other underlying problems.

2.6 Although one of the reasons of Cameroon's loss of competitiveness of domestically-produced goods was the overvaluation of the REER, the cost disparity between Cameroon and many of its competitors, particularly those outside the CFA zone, is far greater than the overvaluation alone can explain. Rather, it is due to a combination of regulatory, legal and institutional factors which add to the cost of doing business at every stage in Cameroon.

2.7 This is not simply a function of the cost of production inputs. Regulations, the institutional framework and the functioning of the legal system can impose very heavy transaction costs. For example, delays in clearing key inputs/goods through customs can alone cause the loss of orders for entire production runs. Lack of judicial recourse for breach of contract or security for a loan can fundamentally alter the balance of risk and reward for potential investors. The demands in time and effort to meet investment requirements could increase the costs of a transaction to the point where it is rendered futile, especially for small-scale entrepreneurs.

Figure 2.4: Constraints to Private Enterprise in Cameroon (by size)

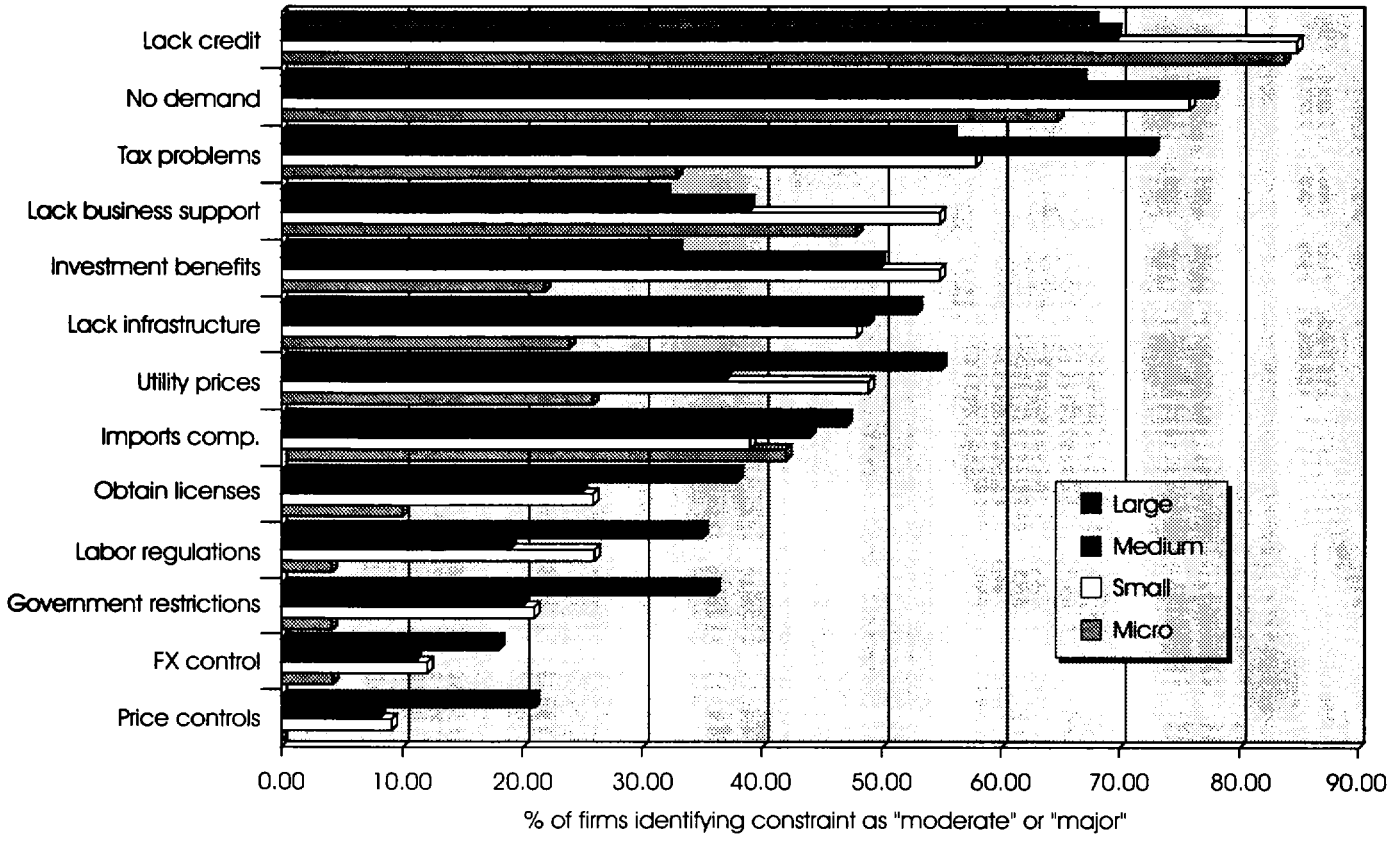
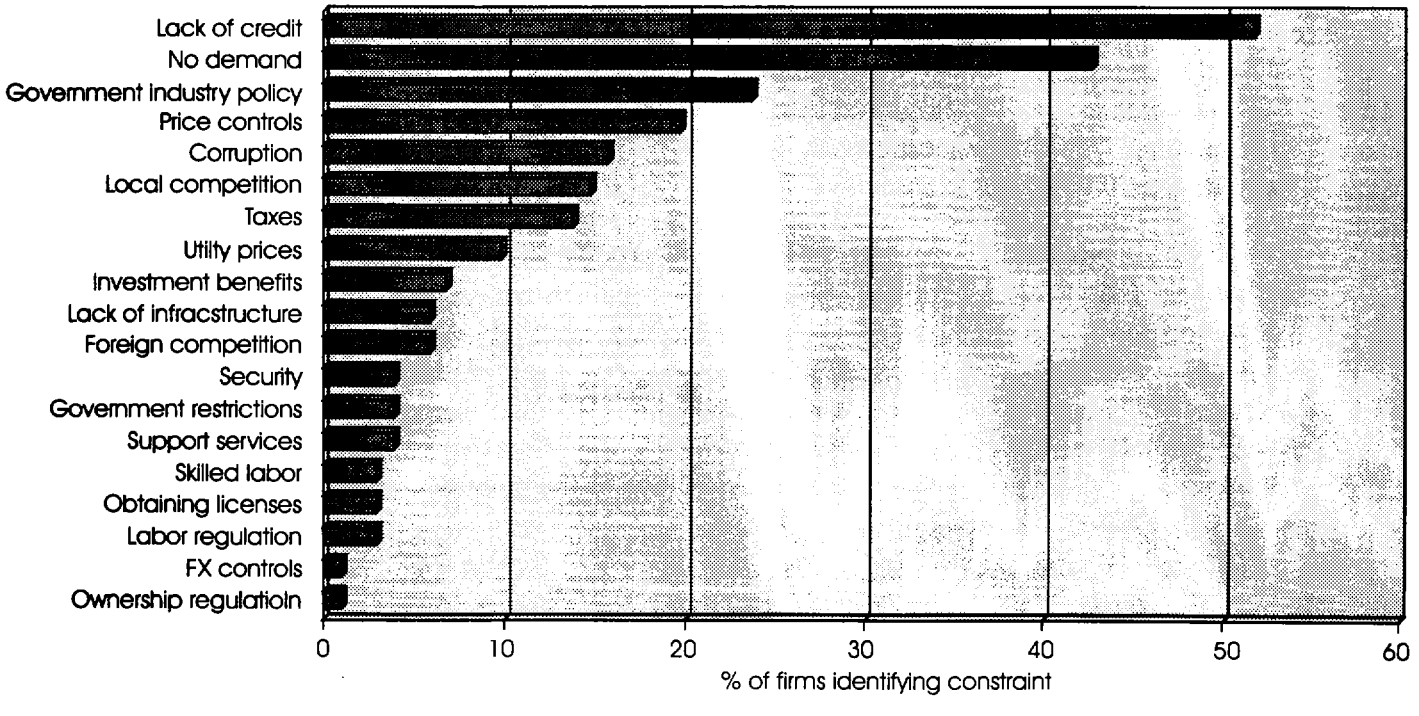


Figure 2.5: Constraints to Cameroonian Enterprises -- Open-Ended Question



2.8 Other costs arise because of the **nature of market and economic structure**. When the publicly-supplied power system is so unreliable that an in-factory back-up generator has to be installed, costs are raised. When the domestic supplier of an input is a monopolist, *de jure* or *de facto*, costs are higher than they would be in a competitive environment. When banks are illiquid due to portfolios that are non-performing, the absence of available finance adds to business costs. When the political environment is so uncertain that investors are looking only for short term returns, this imposes long-term costs on the economy.

2.9 All of these costs are attributable, in one form or another, to policy failure. The remainder of this chapter concentrates on their importance relative to input costs, and the structural features of the business environment in Cameroon that causes them. What clearly emerges is that, whilst the devaluation was a necessary element of the solution to Cameroon's lack of competitiveness, it is far from being sufficient. Although reducing factor costs is vital, reducing transaction costs is equally important.

B. GOVERNANCE

2.10 The state in Cameroon plays a predominant, controlling and intrusive role in many aspects of the economy:

(a) as a major investor and operator in virtually all sectors of the economy, dominating many of them through around 200 Public Enterprises, and accounting for a total of around 34 percent of GDP;

(b) as a major consumer, constituting the largest single market for goods and services in the country; and

(c) as a regulator and policy-maker, determining the incentives and pricing environment and market access for private firms, often through administrative controls.

Box 2.1 The Value of Information, and How not to Use It to Promote PSD.

An up-country natural resource-based exporter was interviewed in November. He described the outcome of his plans to diversify. In order to do so, he sought information about the market for his potential new product in Cameroon. The Customs Service routinely collects such information as it levies imports and customs duties. The entrepreneur went to the office to ask for the information. He was told that it was, indeed available, but that he would have to make an unofficial payment of CFAF 50,000 (then around $200). He said he would like statistics for 5 years. The cost would be $1000 - 5 times $200. He gave up in disgust, and his project has not taken off.

2.11 The preceding section has shown that, for private entrepreneurs, the decline in the economy, the associated collapse of the banking system, and the consequent lack of credit are currently the most important difficulties faced by entrepreneurs. Ranking just behind these two, primarily economic difficulties, are a host of other problems associated with dealing with government control and regulation. The private sector perceives the civil service as inimical to, rather than predisposed towards, private-sector led growth, and dealings with the bureaucracy are characterized by delays, a lack of transparency, and open corruption.

Box 2.2 The Transparency of SNH's Operations

As soon as oil production began in Cameroon, the use of relatively large sums of revenue it generated were shrouded in mystery. Under President Ahidjo much of this revenue was kept "hors budget" - outside the normal budgetary accounts, so that even balance of payments figures were unreliable. The extra budgetary accounts are still in use today albeit at much lower levels since oil production declined dramatically. Although an operational audit of the entire petroleum sector was completed in 1992, the Government had at that time not been willing to discuss its results. However, during the ERC the Government agreed that SNH's books would be audited annually by outside auditors and recently SNH has been providing quarterly statements on oil production and fiscal revenues.

2.12 Such behavior is observed at every level, from the highest, involving literally billions of CFAF, to the lowest, involving tipping civil servants for their "trouble" in every service they render. A selection of instances in the last eighteen months illustrates this. At the highest level, the transparency problems in the petroleum sector have still not been overcome (see Box 2.2); and proper public accounting of the use being made of this natural national resource is still not in place. Elsewhere, in mid-1994 FF175 m. in cash was found in a container in the port of Douala, and the press published allegations of involvement at the Ministerial level. Based on figures supplied by SGS, the agency recruited to help reduce customs fraud, the Ministry of Finance has estimated that import and export tax and duty evasion cost the Government around CFAF 150-200 bn annually. This is equivalent to the budget deficit, and its collection would more than double trade tax receipts. In the forestry sector, Ministerial involvement was allegedly instrumental, in the setting up of specially-licensed tax-free forestry concessions, and the granting of these to a prominent local businessman. In private business, one foreign aid agency has closed down its program in protest at the alleged defrauding of a national foreign investor by a local businessman; the courts have so far been unable to provide redress. And so on, down the scale, to the entrepreneur who complains about the 37 police roadblocks he experienced between Bafoussam and Douala, each requiring an unofficial payment. Box 2.1, page 29, illustrates one example of corruption.

2.13 The origins of Cameroon's governance problems are complex. They include:

(a) the absence of public accountability;

(b) a public sector that is over-extended, and unable to discharge the functions it has taken upon itself; and

(c) underlying ethnic problems, and an uneven distribution of ownership of private sector assets, which has encouraged direct government intervention in many areas of private sector activity.

Box 2.3 The Problem with Government Arrears.

A locally-run construction company recently completed the upgrading of a major road intersection outside Douala. Disputes with the Government resulted in payment delays. Frustrated with the lack of progress, the businessman closed the intersection and for months traffic on this major artery had to drive through the bush to get to the town.

2.14 They have also been much exacerbated by the prevailing economic circumstances. People cannot be expected to work when they are not paid. One example is illustrated in Box 2.3. During 1993, the Government's financial problems led it to be late in paying its civil servants; thus May's pay would arrive half-way through June, and June's pay would arrive towards the end of July. By the end of the year, accumulated arrears to civil servants were several months. An extension of the, already widespread, rent-seeking behavior has been the inevitable result.

Box 2.4 Bringing in the Bottom Line - Private and Public Schools

Cameroonians interviewed, in Yaounde, reported that in order to have one's child placed in a Government secondary school, an unofficial payment has first to be made to the headmaster in the order of CFAF 50,000. This represents nearly 20 percent of average annual per capita income, and around one third of the amount the state typically spends each year on a secondary school student. If one does not pay, the child does not go to school.

Like many countries in Africa, Cameroon spends too much on secondary and tertiary education, and not enough on primary. Over half of all adults are illiterate.

Privatization of more secondary schools in Yaounde will solve three problems at one stroke. Competition will ensure payments to headmasters are reduced to a level equivalent to a market salary. Most of what parents pay will actually go to schooling. Parents will press to see results for their money - and the quality of education will improve as a result. Government funds will be freed up to spend on primary education - ensuring wider, more equitable coverage. The (reduced) share of funds devoted to secondary education can be better focused to provide scholarships for the deserving, to administer examinations, curricula, and on quality control.

2.15 The governance problem is manifest throughout public life in Cameroon as the discussion below will demonstrate. It includes: an inefficient public enterprise sector that is an enormous drain on public resources (Section C); a precarious financial sector

facing serious structural and liquidity problems (Section D); dysfunctional legal and judicial systems (Section E); a non-transparent tax system which combines high nominal rates with high evasion and much lower, and variable, nominal rates (Section F); rules and regulations that are more commonly used by civil servants to extract rents, than to provide a level and competitive playing field; and a marked reluctance to do business with government. It is commonly held in the private sector that the governance situation is now worse than at any time in the past. The second round of the RPED survey following the devaluation of the CFAF confirmed a marked deterioration between mid-1993 and mid-1994.

2.16 **A Vision for the Future.** Once it has deteriorated, improving governance is difficult. A precondition is fundamental commitment from the top and a message that has to be understood throughout the civil service. Merely starting to pay civil servants again will not be sufficient to change a culture that has now become deep-rooted. The Government in Cameroon needs to be fundamentally re-oriented, away from a control-oriented administrative bureaucracy, and an over-extended public sector, to modern technocratic government agencies focused on policy-making and efficient delivery of key public services, including the promotion of private sector development.

2.17 An important part of this process is to devolve running many of the functions to the private sector. Why should people in the private sector be any less prone to rent-seeking behavior than civil servants? They are not. Private entrepreneurs are even more inclined to extract a rent if one is available. The fundamental difference, however, is that private entrepreneurs are constrained in the rents they can seek by the bottom line. They charge -- openly -- for the services they provide. If they charge too much - a price higher than that required to cover costs and make a reasonable profit - then, provided competition is allowed, another entrepreneur will capture the market by offering the service at a lower price. The state should ensure that the rules of the game are open and understood, the playing field is level, and that the necessary competition is encouraged. Dividing responsibilities in this manner ensures that regulation is independent from service provision. The Box 2.1 in page 29 describes such an example.

2.18 The themes identified here are fundamental to Cameroon's transformation. They include: improving governance by rolling back the state, promoting private sector entry and competition, simplifying or abolishing regulations and controls, and increasing transparency. In implementing reforms the Government has to pay as much attention to how it administers as to the formal nature of reforms.

C. PUBLIC ENTERPRISES & PRIVATIZATION

2.19 As discussed in Chapter 1, the PE sector in Cameroon has performed poorly. Weak management, along non-commercial lines, poor definition of responsibilities, poor accountability and weak performance, have led to financial losses, direct and indirect subsidies, and non-payment of debts. Audited accounts are rarely produced and the legal status of many PEs is unclear. One indicator of their poor performance is the financial

drain public enterprises have imposed on the state. Despite large subsidies and transfers which amounted to 12 percent of GDP in 1991, the financial performance of PEs has been disastrous. An analysis based on the FY94 financial statements of 59 PEs shows that: (a) all enterprises, where the state held a majority share, accumulated losses, with the exception of three companies which were monopolies (the oil refinery, the cement and the electricity companies); and (b) these losses were financed by an increase in domestic debt which amounted to CFAF 517 billion (about US$ 1 billion) by end of 1994. Comparisons among PEs show that there is a direct link between the extent of Government's ownership and the inefficiency of the enterprise. Furthermore, despite substantial liberalization of trade and pricing policies, anti-competitive practices are still evident in a number of sectors. The lack of clear institutional framework for public enterprises has allowed the Government and specifically the line ministries to interfere with the day-to-day operations of the companies and appoint managers on political and ethnic grounds, instead of limiting their role to policy formulation and supervision.[18]

2.20 In an attempt to improve the situation of PEs, the Government created the Public Enterprise Rehabilitation Agency (MRESPP) whose responsibility was to rehabilitate the public enterprise sector. Around 25 "performance contracts" were put in place which specified the financial and operating targets that managers were expected to meet. In general, the performance contracts have not worked.

2.21 The **real** measure of what is lost under PEs is their opportunity cost. Through subsidies, PEs close whole arenas of economic activity to the private sector, whose involvement would improve efficiency and quality, lower prices, and provide finance for new investment.

2.22 Although 64 liquidations had been announced by the end of 1993, only four have actually been realized; 33 were the responsibility of SNI and have advanced independently of government (though also slowly); and 6, in the banking sector, have been realized by the SRC, which has, so far, recovered only about 10 percent of the portfolio accorded to it. The delays in liquidations have been largely due to the lack of Government funds to settle the liabilities of the enterprises concerned, including promised layoff compensation for staff. This has been compounded by the lack of experience of the civil servants appointed as the liquidators, who have failed to take the appropriate measures to recover credits, realize assets, and balance assets and liabilities and by slow judicial support.

2.23 Progress on privatization during the last four years has been slow. Despite an increase in the pace of divestiture (six enterprises were sold between June 1994 and April 1995, compared to four during the previous four years), the privatization process is still slow due to the lack of broad commitment from the Government and civil servants and lack of skills of the Technical Committee in Charge of Portfolio Management and Privatization. Other obstacles to the privatization process include:

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[18] Source: Public Enterprise Privatization & Capacity Building Project, IEPS, June 1995

- political interference and lack of clear lines of authority in decision-making, resulting in the absence of decisions to satisfy interested parties. Furthermore, the inter-ministerial committee, charged with approval, is too large and consultation with it is required too frequently;
- over-reliance on book valuations, resulting in excessive hopes for the price realizable from privatizations;
- lack of clarity over the assets that are included in tender calls;
- attempts to protect jobs;
- poor marketing and low public awareness.

Box 2.5 OCB - A Successful Privatization

Office Camerounais de la Banane (OCB) was created in 1968 to set up plantations, assist small banana planters, and process and market agricultural commodities. It was, therefore, supposed to pursue both social and commercial objectives. Like other PEs it became crippled by financial troubles and poor performance. In the late 1980s, following its dissolution and the appointment and dismissal of several liquidators, it was placed on the market for sale. In 1991, following the evaluation of bids, the company was sold for CFAF 2.8 billion to a combination of local and foreign interests, with a small share holding from international development finance institutions. Between 1991 and 1993, yields increased by two-thirds, sales doubled, and 300 jobs were created.

2.24 In mid-1994, the Government re-affirmed its commitment to use privatization as a means of permanently securing an increase in the efficiency of the PE sector, by defining, in a Sectoral Policy Declaration, a strategy which adopted as its overriding objective the divestiture of all PEs currently engaged in productive or commercial activities. Those that cannot be successfully privatized were to be liquidated. At the same time, efforts were to be made to increase the efficiency of PEs remaining in the portfolio. Performance contracts were to be abandoned, and PEs were to operate under the same rules as the private sector. Subsidies would only be provided in the context of public service contracts such as railway passenger services.

2.25 Specific measures identified to achieve the above objectives were as follows:

(a) the adoption of a list of at least ten PEs to be privatized every year;

(b) the creation of a high level agency vested with the powers and resources for implementing divestiture;

(c) the reform of the legal framework between PEs and the State so as to invest their managers with greater autonomy and accountability; and

(d) establishment of requirements that PE's prepare and audit accounts in a timely manner.

2.26 Implementation of this program is likely to be a key signal to the private sector and potential investors of the Government's commitment to lasting reform of the economy.[19] Although until 1994 progress in privatizations was limited, the Government has, in the context of the IDA ERC project, adopted a new strategy, in which the overriding objective is the divestiture of all PEs engaged in production activities and commercial services, while improving the performance of those remaining in the public portfolio by subjecting them to market criteria. To date the first list of 15 enterprises has been drawn up and timetables have been concluded on several of them. In the transport sector, preparatory work is advancing for the privatization of the largest transport PEs, including *Régie des Chemins de Fer du Cameroun* (REGIFERCAM), Cameroon Airlines (CAMAIR), and Cameroon Shipping Lines (CAMSHIP). *Société des Transports Urbains du Cameroun* (SOTUC) was liquidated in early 1995. In the agriculture sector, the Government has agreed to privatize the four major public agro-industrial enterprises, namely: Cameroon Development Corporation (CDC), *Société Camerounaise des Palmeraies* (SOCAPALM), *Société de Développement Hévéa-Cameroun* (HEVECAM) and *Société de Développement du Coton* (SODECOTON).

2.27 In implementing the program, the Government has a number of objectives to balance:

(a) **making progress:** Privatization is a race against time. Every year it is delayed is another year of costs to the economy, drains on government finances, delayed investment and continued inefficiency. For the private sector, the acid test will be the actual completion of transactions in a short time frame, avoiding the delays of the past. Even if ten privatizations a year were successfully implemented, it would take more than ten years to complete the program. Concrete action has to be taken to improve the performance of PEs whilst they are awaiting privatization. Performance contracts have not worked. PEs should be forced to operate on a cash basis, and direct and indirect subsidies, via directed lending, should be halted. PEs should also be obliged to submit properly audited accounts;

(b) **expanding the scope:** The current policy on the extent of privatization is too conservative. It envisages continued state control and management of "public services", such as, telecommunications. Experience around the world has clearly demonstrated that the private sector can profitably provide services in the transport sector as well as in ports, telecommunications, power, water and sanitation. If the Government discourages private sector participation in these sectors, it will lose the benefit of attracting private investment and will experience continued drains on the budget;

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[19] See Frank Sader, "*Privatization and the Developing World, 1988-92*" World Bank, 1994, which cites evidence that privatization is positively correlated with foreign direct investment flows over and above that associated with the transactions themselves.

(c) **diminishing monopoly power:** Continued protection of monopolies or oligopolies, whether PEs or new privatizations, does not serve the best interests of the consumer. Whatever the timetable for privatization, all sectors of the economy should be opened up in the short term to the stimulation of competition from imports and to entry by other private sector firms. They should also be freed from price and other controls. This applies particularly to agricultural production, marketing and transformation, where continued restrictions persist. In the case of a very few sectors, the traditional infrastructure sectors where a degree of monopoly may exist, this may entail the establishment of a transparent competitive framework;

(d) **reforming the institutional set-up:** The arrangements for overseeing both PE reform and divestiture are still unclear. Based on experience elsewhere in the world, the following simple rules of thumb should be observed in their redesign. Overseeing the PE portfolio necessarily has different objectives from divestiture, and the two activities should be managed by different institutions. The inter-Ministerial Committee should limit its input to key decisions — which enterprises to privatize, timetable, privatization strategy to be adopted in each case, etc. Actual implementation of the privatizations should be undertaken by a technical committee, using private sector advisers to undertake technical preparatory work, and, to the extent possible, to implement transactions on a performance-fee related basis (i.e. based on a share of the sale price), going back to the inter-Ministerial Committee only for final approval. Once PEs are approved for privatization, this committee should be responsible for their management, to avoid their being run-down by disgruntled PE managers;

(e) **maximizing transparency:** Transparency is critical because it gives the right signals to the private sector. It should be maximized by establishing, and making public, the manner of privatization in each case prior to making the transaction; by making clear the criteria by which the enterprise will be sold; and by adhering to these rules and to declared timetables. In general, for smaller enterprises for which several buyers are expected, open competitive tender judged on the basis of price alone should be the criterion. Policy should also be clear regarding the assumption of liabilities and debt, and problems with legal status and cross-cutting ownership must be resolved beforehand. Over reliance on book-based valuations should be avoided. Book-based valuations, or even forward-looking valuations are often over-optimistic and bear no relations to the market value of PEs, which is what players in the market will pay for them. Indeed, for small companies for which multiple bids are expected, there is no case for undertaking valuations at all. For larger companies, a valuation is a useful negotiating tool; and

(f) **finding effective ways to achieve broad-based local participation and ownership:** Broad-based local participation should be promoted without sacrificing transparency, or limiting the needs of enterprises for cash, management expertise and international marketing links, which in many cases can only be supplied by involving a strategic investor from abroad. Cameroonian investors may benefit more as minority shareholders alongside a strong foreign strategic investor than as majority owners of a company that continues to struggle through lack of investment and technical management skills. Local participation may be achieved through Employee Share Ownership Plans (ESOPs), through public offers, through the warehousing of share for future sale using Privatization Trust Funds, and so on.

D. THE FINANCIAL SYSTEM

2.28 As mentioned in para. 1.59, attempts to restructure the financial sector over the last seven years have failed. Any new reforms have little chance of success as long as the environment in which banks operate continues to be plagued by severe structural problems. Although the devaluation has changed the main macroeconomic parameters and there has been some improvement in commercial bank liquidity, improved liquidity should not mask the fact that many financial institutions in Cameroon are bankrupt, and that they cannot, in their present financial condition provide any support to the private sector. Banks continue to operate in an unfavorable environment, characterized by lack of discipline on the part of economic operators, poor access to collateral by entrepreneurs and an inefficient and often biased and corrupt judicial system. Furthermore, with the deterioration of the economic situation and the large fiscal imbalances, the public sector has accumulated sizeable debt of approximately CFAF 2,310 billion (US$ 4.6 billion) representing about CFAF 863 billion (equivalent to US$ 1.7 billion) to financial institutions, of which CFAF 199 billion to commercial banks. Government and state-owned enterprises owe large sums to their private suppliers and to each other. This debt translates into large sums to the banks, which the Government is not, at this stage, in a position to pay. Furthermore, the burden of non-performing private sector loans is heavy on several banks causing important operating losses. Given the precarious state of the financial sector it is not surprising that the private sector supply response to the devaluation has been slow.

2.29 Based on the RPED survey results, term credit is the leading constraint for all classes of firms except medium-sized ones.[20] Because the government ran substantial deficits between 1986 and 1992, crowding out in financial markets was to be expected. The credit constraint is most severe for small and micro enterprises. This pattern is consistent with other countries, where credit rationing, high transactions costs and lack of

[20] The RPED Survey defines the firm size categories as follows: micro: 1-4 employees; small: 5-29 employees; medium: 30-99 employees; large: 100 and over.

collateral have had a negative impact on the availability of long-term credit to smaller firms.

2.30 Banks are apparently much more punitive with small firms that pay late than with large ones. The RPED survey notes that banks use harassment far more commonly against small and medium firms than against large ones. This contributes to self-selection by small firms — they do not apply in part for fear of the consequences if they cannot repay. The RPED study also notes the importance of tontines (rotating credit associations) as a source of finance for smaller and especially informal firms. While no large firms reported borrowing from informal sources, more than a third of small and medium firms reported such borrowing, attributing it primarily to easier procedures (fewer formalities) and secondarily to better interest rates.

2.31 In spite of their difficulty obtaining credit, small firms extend credit in over 40 percent of sales. Probably due to their easier access to credit, large and medium firms extend credit to customers in a slightly higher percentage of transactions. It appears that, partly because of the scarcity of credit information, and partly because of weak enforcement mechanisms, firms tend to extend credit to familiar "insiders", imposing a barrier to "outsider" firms. This phenomenon is further indicated by evidence on conflict resolution (see below), which suggests that late and non-payment by customers are the leading sources of conflict and typically are not resolved to the satisfaction of the firm. Such a pattern is likely to impede the entry of smaller firms into the ranks of larger "insiders".

2.32 Based on RPED's post-devaluation survey, the situation in 1994 was not significantly different from a year earlier. While large firms had to rely exclusively on leasing or outside sources for credit, medium and small firms financed their investment from retained earnings and/or other non-bank sources. Of the fifty-seven firms which invested in equipment during the previous year, only one obtained credit from a bank to finance its investment.

2.33 Building on the lessons of earlier efforts and on the need to achieve a durable, market-driven and performing financial sector, the Government is well aware that design and implementation of a comprehensive reform program is critical. A strong financial sector is an essential component of the Government's efforts to encourage private sector development and elicit a supply response following the devaluation. The content of this program was agreed during preparation of the SAC II and includes: (a) an action plan for the settlement of domestic public debt and arrears; (b) improvement of the regulatory framework and strengthening the supervision of the financial sector; (c) restructuring of the banking and insurance sectors; (d) reorganization of the SRC; and (e) preliminary measures to improve the judiciary with respect to litigation in the area of the financial sector.

E. THE LEGAL AND REGULATORY FRAMEWORK

2.34 In principle, a distinction can be drawn in a political system espousing the separation of powers, such as Cameroon, between the adoption of laws, by the legislature; ensuring adherence to the law, by the judiciary; and their application and administration, by the executive. In practice in Cameroon, these distinctions are extremely blurred.

2.35 There are two over-arching problems in the application and administration of laws in Cameroon. The first is that laws are often vague and rely heavily on application decrees for their interpretation. As decrees are issued by different departments within the bureaucracy, they lack consistency and the authority for their interpretation is unclear. They are rarely issued on time and often contradict the spirit of the law they refer to and often contradict one another. Although, in principle, the Prime Minister's office is supposed to review the coherence and correctness of laws and coordinate the issuance of decrees, in practice this is not done. The situation is further complicated: (a) by the fact that the Official Journal has not been regularly published since 1988; and (b) by the absence of a system in which decrees and other legal decisions can be recorded.

2.36 The second problem relates to the inappropriate administration of these laws and regulations by civil servants: regulations can often be surmounted, by an unofficial payment and civil servants often insist that an activity is regulated, when in fact it is not, simply to receive a backhander. As a result, even "good" regulations, which serve a clear public interest, are not used properly (see Boxes 2.6 and 2.7, page 44).

2.37 The following discussion illustrates how these two features are manifest in the main areas of law, application of justice and overall regulation in Cameroon.

The Legal and Judiciary System

2.38 The legal system in Cameroon is based on the British and French models, a legacy of the British and French mandates under which Cameroon was governed until independence. This dual system is reflected in the country's administrative, judicial as well as cultural institutions. The French-inspired civil code system is applied in the eastern provinces of Cameroon, while the northwest and southwest provinces, formerly under British rule, have their legal practices on British Common Law. Although Cameroon experimented for a short period with the establishment of a federal system, a unified, non-federal state was maintained, with special provisions allowing for the French and English-based legal systems to coexist. However, the French-based codes of the Eastern province are increasingly used throughout Cameroon.

2.39 Cameroon's most basic law is its constitution, which was largely modeled on the French constitution. Although the constitution recognizes, among other rights, the independence of the judiciary, judicial decisions are far from being objective. Judicial decisions are arbitrary and often affected by influence and corruption rather than by the rule of law. The net result is that the private sector has little confidence in the country's

legal institutions. In the AF3IE Survey, firms ranked "Failure of justice" as one of the most severe constraints to private sector development and since the courts do not enforce general breaches of contract, firms avoid seeking legal remedies in most cases.

2.40 In addition to "failure of justice", firms accused regulatory agencies, such as the tax administration, and customs for being obstructive by (a) unnecessarily blocking and delaying the flow of goods into and within Cameroon; (b) rent seeking; (c) harassing firms during unwarranted control visits; and (d) inability to service competently private sector requests. In this context, it is worth noting that significant work is being carried out by the Regional Organization OHADA (*Organisation pour l'Harmonisation du Droit des Affaires*) in harmonizing business laws in the region. These initiatives should be fully supported.

Company Law

2.41 Creating a company in Cameroon is a difficult and time-consuming process, requiring an average of five months to complete all the required legal steps. This is twice as long as in other countries in the region, such as Benin, where the average is 2.5 months (which is also considered high compared to other neighboring countries). Furthermore, the cost of creating and registering (on average about CFAF 803,000) was often cited by private firms as a serious constraint. As a result of such costs, a large proportion of firms chose to forego the personal liability protection and numerous advantages of incorporation, for the simplest organizational form of sole proprietorship. Other firms indicated that they simply operated in the informal sector until they could gather the resources and the know-how to make the transition into the formal sector.

2.42 Bankruptcy laws are too old and in need of reform. Laws concerning the formation and enforcement of contracts are well developed in theory. In practice, however, it is difficult to enforce contractual agreements through the court system.

2.43 **Resolution of Disputes**. Resolution of disputes is slow, expensive and the outcome uncertain. The RPED survey indicates that between 85 and 90 percent of all classes of conflicts are resolved at least in part through negotiation and not through arbitration. With respect to the courts' efficiency and reliability in resolving disputes, 83 percent of respondents to the AF3IE survey expressed concern about the length of time taken by court proceedings; 69 percent voiced the same level of concern for the courts' vulnerability to corruption and manipulation. The largest enterprises, despite strong financial means, were often unable to resolve disputes through the courts in less than two years. Smaller enterprises felt even less confident about the court system, and the vast majority of them (95 percent) by-pass the court system altogether, using instead, informal dispute resolution mechanisms like conciliation, or third party mediation. Only a handful of private operators, mostly the largest firms, admitted to resorting to arbitration.

2.44 **Business-Business Transactions.**[21] Conflict resolution was not evaluated separately in the RPED survey as a constraint, but the data suggests that there is a substantial level of conflict over debts. It is reasonable to assume that weak conflict resolution mechanisms may impede the entry of smaller, newer firms into relations with large established firms. Based on the survey, the most common form of conflicts relate to: late payment by customers, non-payment by clients, quality of supply and late delivery by suppliers. Between 85 and 90 percent of all classes of conflicts are resolved at least in part through negotiation. Yet conflict with clients is seldom resolved to the satisfaction of the enterprises: only 36 percent of respondents suggest that their conflicts came out satisfactorily (see Table 2.1, below).

Table 2.1

CHARACTERISTICS OF CONFLICTS					
Nature of Conflicts	**Frequency (%)**	**No Relation With Other Party (%)**	**Resolution Through Negotiation (%)**	**Rate of Resolution (%)**	**Satisfaction With Outcome (%)**
Late Payments by Clients	71.00	86.80	90.00	35.00	36.00
Non-Payments by Clients	63.00	86.80	90.00	35.00	36.00
Late Delivery by Suppliers	38.00	94.80	85.00	80.00	75.00
Quality of Supply	43.00	94.80	85.00	80.00	75.00
Employees	26.00	85.40	84.00	80.00	78.00
Competition	13.00	N	N	NA	NA

Source: CETAI, RPED Survey 1993

2.45 Relatively little information is available on the types of legal agreements used to secure transactions in Cameroon. The AF3IE survey suggests that most firms (84 percent) do not use legal help in the drafting and negotiating of agreements. Many contracts must, therefore, be of an informal (or highly standardized) nature. As noted above, most conflicts concern sales, many of which can be assumed to be secured by an invoice or order. What is clear is that firms are dissatisfied with the current legal system. The AF3IE survey suggests that firms would be willing to sacrifice an average of 2 percent of annual sales on a special tax that would guarantee the privilege of a near-perfect court system — an extraordinary figure, if correct.

2.46 As mentioned in paragraph 2.39, the judiciary is unable to render judicial decisions independently from the executive powers. Although judges enjoy life tenure, their nomination, advancement, disciplining, and appointment rests entirely within the unchecked prerogative of the executive branch. As a result, the private sector does not view judges as impartial umpires in the resolution of disputes. Although there is an

[21] The data available are flawed in three ways. First, they do not inform us in what percentage of **transactions** conflicts occur. Second, they do not give the overall percentage of cases that are **resolved** by each means of conflict resolution, reporting instead the number of cases in which each means is applied. Third, no effort is made in the analysis to estimate any of the costs associated with conflict resolution -- in time or money.

abundant supply of judges who are competent in most areas of the law, there is a lack of equally competent, experienced, commercial judges.

Conclusion

2.47 The range of reforms that is necessary in the legal environment in Cameroon is extensive and can only be realized in the long-term. Although priorities will need to be established and the reform process be launched as soon as possible, the Government's immediate attention should be given to the manner in which laws are implemented. In order to achieve stability and credibility in Cameroon's legal system, it is absolutely vital and urgent that the Government address the practical fundamentals of legislation, namely, establishing clear areas of authority, assuring consistent, effective implementation of decrees and public access to legislation and to key interpretative judgments. The following list provides specific actions that the Government needs to take to correct the existing weaknesses in the legal framework:[22]

a) ***Judiciary***:

- Deter corruption in the judiciary through measures to (i) raise the status of the judiciary; (ii) provide adequate resources to personnel and courts while subjecting magistrates to disciplining; (iii) strengthen financial security of judges; (iv) improve transparency (by requiring that judicial decisions be written and requiring disclosure by judges of financial interests); and (v) enforce proper judicial conduct.
- Encourage independence of the judiciary by placing promotion and discipline of magistrates in the hands of a Counsel on the Judiciary, elected from among judges and the academic legal profession.
- Create a formal system for the assignment of commercial cases to judges expressing an interest in such work.
- Eliminate the requirement of paying court costs in advance and formulate alternative proposals.
- Reform administration of the judicial system for business law.

b) ***General Laws***:

- Improve access to legal information; publish appellate court decisions to improve information flows between courts, and renew regular and timely publication of the *Journal Officiel,* privatize the *Imprimerie Nationale*, and draft appropriate regulations to ensure proper publication of laws by the private sector.
- Reform or replace the prime ministerial office responsible for ensuring consistency of laws.
- Prepare and implement texts for enactment of a revised Commercial Code.

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[22] List includes recommendations made by a Roundtable on Justice held in Yaounde in November 1994, organized by the Ministries of Justice and Finance with World Bank technical and financial support.

- Prepare and implement texts for the enactment of remaining sections of the Labor Code (including new minimum wage provision).
- Enact an updated Company Law providing for, *inter alia*: (i) the creation of single shareholder companies; (ii) an increase in the shareholder and capital requirements to form SA and SARL; and (iii) the creation of holding companies.
- Amend the intellectual property law to provide greater protection to owners of industrial property rights who have failed to register under the *Organisation Africaine de la Propriété Intellectuelle.*
- Draft a bankruptcy code distinguishing between persons responsible for the insolvency and the enterprise itself; providing for corporate reorganization without going into liquidation and generally shortening bankruptcy procedures.

c) ***Business Laws:***

- Modernize the system of business law and laws on bankruptcy on contract disputes and improve arbitration procedures for commercial disputes.
- Start work on creating a system of courts specializing in business matters; create a committee to assess the difficulties in implementing the regional banking regulations and propose measures to provide support to COBAC and define clearly the role of national jurisdictions.
- Establish an office of ombudsman to address concerns of foreign and other companies about the selective application of laws and administrative abuses to exert public pressure on officials.
- Draft legislation addressing anti-competitive behavior, with provisions setting out the criteria according to which competition is to be judged and providing for the establishment of a "*conseil de concurrence*" or anti-trust commission.
- Institute procedure for settling commercial disputes by arbitration by establishing a system of "revolving door courthouses", including the physical establishment of facilities and institution of arbitration training courses for law providers.

Regulation and Deregulation

Foreign Investment Environment

2.48 Potential foreign investors in Cameroon are subject to significant disincentives and have to overcome a plethora of minor regulatory hurdles. Amongst the major constraints are the **investment code**, discussed in Section F, controls on remission of dividends, and repatriation of capital. In the oil sector, the foreign joint venture partners in Cameroon, entitled to a share of the profits from oil extraction, have been unable to secure agreement to have revenues from oil sales paid directly into offshore "escrow" accounts. Instead, their profits have to be repatriated to Cameroon, at least for a short period, and permission from the Central Bank is necessary to release the funds for payment abroad. Although such permission has always been forthcoming to date, the

implied threat is very real in the minds of potential partners. Restrictions on the flows of foreign exchange are a key preoccupation for existing and potential foreign investors.

2.49 In order to operate in Cameroon, foreign investors also have to satisfy a multitude of other regulatory requirements. A flavor of the scope of these requirements is given by the content of a November 1993 decree governing the operation of foreign traders. The granting of a license was conditional upon the presentation of, *inter alia*:

- a certified copy of a residence permit; ownership of a valid banker's card;
- an attestation of non-bankruptcy;
- information about other commercial activities;
- information about the owners of the company;
- information about the project's location, nature and financing;
- a Cameroonian bank account number;
- information on the number of jobs to be created; and
- notarized promises to adhere to the laws on professional insurance and training obligations, and to maintain company accounts using a Cameroonian accounting firm.

Box 2.6 The State as Regulator - Case #1

Even regulations that are clearly in the public interest have flawed application in Cameroon. Although ministry of health inspectors are charged with ensuring that certain foods meet health and hygiene standards in the production process, coverage is limited and sporadic. (The bulk of food purchases are made from informal, small-scale vendors, who are effectively outside the system.) Even in the formal sector, claims are made that the appropriate inspection certificates can simply be bought. In one egregious case recently, a well-known firm was closed down for alleged health reasons; but the owner cites evidence that the real motive was a retaliation for his political activity. When there is little public confidence in the Government's ability to regulate fairly, the case for retaining those regulations which are "good" must be sternly weighed against the practicalities of their application.

Box 2.7 The State as Regulator - Case #2

Where do African formal sector entrepreneurs come from? Very few, in practice, emerge from the informal sector, where acquisition of the necessary financial skills, not to mention financial backing, is typically difficult. More commonly, they are business professionals striking out on their own, or former employees of large firms that have developed technical and market knowledge. Whether they survive depends on the environment they encounter. A case in point is the experience described by Mr. X, a former financial specialist. Seven years ago he conceived an agriculture export operation, using state forest land. In three years, he spent around CFAF 70m ($140,000) developing the project. He financed, himself, the survey work that should have been done by Government. Squatters settled on the land once they heard that it was to be developed - they had to be compensated several times. Licenses were required from several Ministries (CFAF 20 bn) to let development continue. The project could not support such a cost and it was halted. Mr. X could be forgiven if he were to return to advising foreign business.

2.50 Other problems encountered by foreign investors include lengthy processes in securing employment permits for expatriate and the absence of double taxation treaties

with countries other than France. The process of registering a new firm is extremely complex. The Company Registry is not up-to-date and needs to be computerized.

2.51 A reform program which encourages foreign investment should include the following:

- implementation of a decree permitting remittance of dividends and profits overseas without prior authorization;
- (in time) extension of this to all capital flows;
- easing of requirements for employment of expatriates;
- review and massive simplification of general procedures and licensing;
- establishment of centers (*Guichet Unique*, Chamber of Commerce), which provide an up-to-date and complete inventory of business laws and regulations;
- computerization and updating of the companies registry; and
- establishment of the office of Ombudsman to whom appeals can be made concerning improper application of regulations.

Controls on Ownership and Transfer of Land

2.52 There are three types of land in Cameroon: private; state-owned; and customary. The former type is fairly freely transferable. There is extensive state-owned land, particularly in the rural areas. A 1974 Law defined the conditions under which titles to this could be earned, either by a prior formal concession agreement with the state, or by "*immatriculation*" - rendering the land productive first of all, and then securing the title afterwards. By contrast, no such process exists enabling the acquisition of customary land by private persons. Although this protects traditional property rights, it is also a major disincentive for the occupiers of customary land to invest significantly in its development.

2.53 There is little information available on whether the titling system functions properly. There have been reports of manipulation and other types of fraud. Realty is clearly not viewed as a safe collateral and property rights need to be clearly established to facilitate access to credit.

2.54 The actual practice of acquiring title to state land is much more difficult, as Box 2.7, page 44, suggests. Legally established procedures are clearly often not respected.

2.55 While an update and computerization of the cadastral register should be carried out, long-term reforms in the legal framework should identify ways to improve control and ownership of land.

Competition and Competition Law

2.56 An area where some progress has been made in promoting competition in Cameroon is through the reduction of import and price controls. In February 1994, following the devaluation, all quantitative restrictions on imports were removed and the

tariff structure was simplified under the UDEAC umbrella. Similarly, in January 1994 all price controls were abolished, except for: petroleum products, medicines, textbooks and monopoly public services (electricity, water, public transport, maritime services and port fees). Since then there have been disturbing moves towards re-asserting controls, however. Import surcharges have been re-introduced on corn meal, steel bars, tractors and cement, and there is currently discussion of the introduction of anti-dumping legislation, and to control the quality of imports. Such laws are fraught with problems, particularly if they use international reference prices. They are often progressively extended to permit underspread protection of inefficient local industries. Furthermore, the recent reintroduction of export taxes on a variety of export commodities, while perhaps unavoidable in the short run for fiscal reasons, have given rise to distortions and resulted in inequitable burdens of taxation.

2.57 In contrast to this, the verdict on freedom of competition is very much more mixed, and is a good illustration of the existing problems with the implementation of legislation in Cameroon. The Regulation of Commercial Activity law was passed in 1990, with two main objectives: (a) liberalization of economic activity; and (b) liberalization of prices and commerce. Amongst other things, this envisaged the creation of a Competitiveness Advisory Committee, which would serve as a Board of Appeal for claims of restrictions on competition.

2.58 However, the implementation decrees have been inconsistent with these objectives. A decree in November 1990 permitted the state to intervene in the setting of prices, and the sale and delivery of goods. An additional decree passed in November 1993 announced extensive limitations on the operation of foreign traders in Cameroon and permitted the state to intervene directly in these operations for reasons of public order or **to protect local industries**. The Competitiveness Advisory Committee has never been formed.

2.59 An important area relating to the promotion of competition in Cameroon is the extent to which private entrepreneurs are able to operate without state restriction and control, and on equal terms, in markets dominated by PEs. The transport sector (maritime, road freight, air), forestry, cocoa and coffee are all areas of the economy which are still substantially under state control, and where business licensing, or outright prohibition, prevent private sector operators from competing effectively.

2.60 The road map of reforms in this area includes the following:

- a careful re-evaluation of the proposed policy on anti-dumping which realistically balances its supposed advantages against the likelihood of flawed application;
- abrogation of recent decrees which challenge the spirit of the 1990 Commercial Activity law;
- application decrees which enable it to be properly put into effect;
- a decree which establishes the private sector's right to trade or produce in all markets;

- establishment of a functioning Competitiveness Advisory Committee with both public and private representation, to promote the widespread application of the law.

Labor Regulations

2.61 The **availability of skilled labor** is not considered as a major constraint by entrepreneurs in Cameroon. They are much more concerned with the rigidities inherent in the plethora of **government rules and regulations** which affect the labor market.

2.62 The principal vehicle regulating the labor market is the Labor Code. This determines the wages and working conditions for the private sector on the basis of comparisons with the well-paid public sector, as well as the procedures to be followed in hiring and firing and grievance resolution. In October of 1991, a new Labor Code was finalized, and has since been ratified by Cameroon's parliament. The Labor Code, however, still has no application texts. The key feature of the new Labor Code is that it has greater "employment flexibility." In practical terms, this means that employers can now terminate employees for economic reasons without the formal approval of a labor inspector. The code's main thrust is accepted by both labor organizations and employers.

2.63 Enterprises in the AF3IE survey indicated that the changes brought forth by the Labor Code were positive, but that more could still be done to improve the functions and image of the *Caisse Nationale de Prévoyance Sociale* (CNPS). The private sector no longer considers labor regulations as a significant obstacle to layoffs. Surprisingly, a large group of employers (45% of sample) now stated that, their concern for the social welfare of employees in an unfavorable labor market, was a strong deterrent to firing them. Nevertheless, employers must continue to register with the CNPS, and observe the minimum wages, which are still regulated.

2.64 Recent measures taken with respect to formal sector wages are the most heartening area of successful reform in Cameroon. In the past inflated civil service wage rates, sustained by an inflexible labor code, had created significant distortions in the labor market. Bright and educated young workers were attracted to arts-based educational curricula, leading to secure and well paid jobs in the civil service, at the expense of the technical, engineering, financial and managerial skills required for the private sector. As Table 8 in Annex 1 indicates, seven years ago wages were 5.8 times national income, a ratio which was much higher than Ghana, Nigeria, Morocco, Guinea and Indonesia (though around half the ratio in Côte d'Ivoire). For similar occupations, public sector wages exceeded wages in the formal private sector, by 40-60% (see Table 13, Annex 1).

2.65 A survey in Yaounde in 1993[23] found these gaps to have widened, if anything, with public employment offering more than twice the remuneration of formal private employment, and more than three times the return in the informal sector. These figures indicated the lack of adjustment that had been taken in the civil service, despite unemployment rates which had tripled in the previous decade.

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[23] World Bank, *Poverty Assessment*, September 1994

Box 2.8 Monthly Earnings by Type of Employment in Yaounde, 1993

	CFA Francs
Employees in Public Administration	86,000
State Enterprise Employees	94,000
Formal Private Sector Employees	43,000
Informal Private Sector Employees	26,000
Self Employed/Other	34,000

Source: World Bank, *Poverty Assessment*, September 1994

2.66 In late 1993, however, civil service wages were cut by 55-60% and have not been restored following the devaluation. If sustained, this will have fundamental impact on eliminating the imbalance between public and private sector wages. This positive impact is enhanced by the additional flexibility granted by the new Labor Code. This is intended to mitigate the impact of old, complex *grille de salaires* which stipulated the variation of salary levels according to experience with the firm, level of education and number of dependents; stipulations which de-linked wages and salaries form productivity and reduced flexibility of movement. Entrepreneurs complained particularly about the disproportionate salaries received by older workers. A major concern of entrepreneurs interviewed under the RPED Survey, was that despite the introduction of the new Code, the Labor Tribunal often still ruled on the basis of the old Code.

2.67 The effect of wage controls has been compounded by the very strict rules included in the *Code du Travail* on hiring and firing. Though the August 1993 revision admits the possibility of firing workers for economic reasons, the requirement for advance notice for major layoffs still exists, as do lengthy and inconsistent arbitration procedures ruled over by courts which do not specialize in labor cases, and who are claimed often to impose severe penalties on employers.

2.68 The new Labor Code, which was enacted in August 1992, is a significant improvement over its 1974 predecessor and would increase the flexibility of the labor market. The improved nature of labor management relationship represents a bright spot in Cameroon's current economic situation. However, while this is commendable progress, not all application decrees have been issued. It is now important that the remaining decrees are issued to make the new Labor Code fully operational and to put an end to the validity of old decrees.

F. THE INCENTIVE SYSTEM

2.69 In mid-1993, the RPED survey found that more than 50 percent of firms surveyed, considered the tax system to be a major problem, making it the third most important constraint they faced. By mid-1994 the situation had significantly worsened to become, combined with corruption, the major constraint. Cameroon's tax system combines relatively high nominal rates with widespread official exemptions and evasion, resulting in relatively low tax collection. A number of indicators illustrate this: only 50 percent of

the firms in the survey were on the Government's tax list and indeed, 50 percent reported that they did not pay any company tax. Forty percent did not pay any sales tax. As a result, 60 percent of firms fear being closed by the tax authorities - an extraordinarily high figure. There are basically two ways in which firms manage the system - the large and visible ones secure exemptions and favorable treatment from officials and the small ones try to stay invisible. Large firms pay low levels of taxes, proportionate to their turnover, very small firms avoid almost all taxes, except the patente, and medium-sized firms are squeezed.

Indirect Taxes

2.70 Until the enactment of the 1994 UDEAC reforms, Cameroon's tax system consisted of a complicated array of production and sales taxes. The tax reform which was officially adopted in February 1994 aimed at simplifying indirect taxes and broadening the tax base, by reducing exemptions and tailor-made rates while eliminating distortions in the incentive framework. The old tax system was replaced with a turnover tax (*taxe sur le chiffre d'affaires - TCA*) levied at two rates - normal and reduced - on imports, local production and services. It was extended to firms benefiting from the investment code in July 1994. The normal rate has been raised to 15 percent since July 1994 and to 17 percent since July 1995.

2.71 The TCA is expected to evolve in a full-fledged Value Added Tax (VAT). (In the industrial sector the tax regime has VAT-like features, with taxes paid on local and imported inputs deductible from the TCA.) However, the actual implementation of the TCA in Cameroon has a negative affect not only on collection by Government but also on manufacturing enterprises and on exporters.

Customs Tariff

2.72 Implemented also in February 1994 was the reform of the common external tariff, an essential component of the UDEAC reform. The existing complex tariff was replaced with a simplified four-rate structure (5-10-20-30 percent). The single tax system for intra-zone imports (which was contingent upon prior approval by the UDEAC ministerial committee) was replaced with a preferential tariff, fixed at 20 percent of the respective normal rates. All exemptions should be eliminated, except those provided for in international agreements.

2.73 However, exemptions from customs duties and domestic taxes continue to be pervasive. Revenue losses resulting just from exemptions from customs duties amounted to about 52 billion CFAF in fiscal year 1992/93, representing 58 percent of potential duties. Of the three major categories of exemptions: (a) statutory exemptions under the Investment Code and under special conventions; (b) exemptions under foreign-financed projects, and (c) ad hoc exemptions, only the last two seem to have been phased out. The elimination of the main **fiscal privileges under the Investment Code** (special import duty of 15 percent for all raw materials and intermediates, firm-specific production tax) was effective in July 1994, under the UDEAC reform. Implementation of this measure, however, should be closely monitored, as there are indications that new special privileges

are still being granted to firms. The Government has committed itself under the Economic Recovery Credit (ERC) approved by IDA in June 1994 that special agreements (*Conventions Spéciales*) would be renegotiated by December 31, 1995. However, this commitment has been respected for all but three special agreements.

Tax and Customs Administrations

2.74 The UDEAC tax reform has established the framework for an indirect tax system which is transparent and closes many opportunities for tax evasion. Its success is however closely linked to the management capacity of the tax administration to implement the TCA. Intensive training has taken place (with donor financing) and two specialized units have been established in Douala and Yaounde to administer this new tax. The tariff reform, by eliminating many statutory and de facto exemptions, has created the need to administer new procedures virtually unknown to the Cameroon Customs Administration like the temporary admission procedure for export firms. An intensive training effort is needed very rapidly to bring administrative capacity in line with the new system created by the reform. Moreover, a close coordination between tax and customs administrations is critical to manage the TCA deduction system without opening loopholes for fiscal revenue losses. The numerous deficiencies of the tax and customs administrations have been highlighted in various IMF and World Bank reports, but very few recommendations have been actually implemented. Even financing available for training and equipment to improve tax administration has so far remained unutilized by an Administration that seems unwilling to modernize itself.

2.75 The Government has recently re-introduced a system of export taxes on a variety of export commodities/products ranging from 30% for palm oil to 25% for coffee and cotton to 15% for sugar and rubber. In addition to the distortions which this tax has created in the economy, it has also resulted inequitable burdens of taxation to private sector operators, at a time when the private sector, following the devaluation of the CFAF had started to be more optimistic about its future prospects.

Investment Regulation and the Investment Code

2.76 The net economic effect of this set of complex incentives which is designated to different categories of private sector entrepreneurs is that they distort the effective rates of taxation on different activities (and even on the same activity undertaken by different firms). More important, however, are the administrative delays and lack of transparency. The Investment Code was revised in 1989, in response to a SAL condition, to make it more appropriate for a market-oriented economy. With Bank and IFC assistance, the Investment Code was promulgated in November 1990 and appropriate institutions, such as the Investment Code Management Unit (CGCI) and an entity to manage the Industrial Free Zones program (ONZFI) were established to manage their respective institution. The Code's key objectives are export promotion, creation of employment, transformation of resources and regional development. At the time of their creation these instruments were conceived as a compromise, during Cameroon's transition to a more liberalized environment. It was clear at the time, that further streamlining would be necessary when

trade and exchange rate reforms were implemented. Unfortunately, because of the poor management of the economy, these instruments could not exert a positive impact on the environment.

2.77 The creation of the *Cellule de Gestion du Code d'Investissement* (CGCI) or *Guichet Unique* (One-Stop Shop) has reduced substantially the length of time required to approve an investment to an estimate of between the statutory one month and three months.[24] Nevertheless, the Code remains a complex system with significant problems. The application form associated with Investment Code benefits is still 15 pages long, and requires clearance from several Government agencies (particularly at the local level) **before** submission to the *Guichet Unique*. Furthermore, approval of *ad hoc* exemptions of both import duties and indirect taxes continue to be granted under the Strategic Regime. Rent-seeking behavior is the obvious product of a process that takes place behind closed doors. Changing this behavior would require fundamental reforms of the Investment Code.

2.78 **Export Processing Zone**. The EPZ in Cameroon was established in January 1990 with a US$6.2 million grant from USAID to promote Cameroon's untapped opportunities for exports. A number of factors, however, place Cameroon at a disadvantage in relation to other EPZs and contribute to the disappointing results achieved so far.

2.79 First, although Cameroon's wage rates in US$ terms are now lower than they were in the past, they still cannot compete with wages in other countries such as Madagascar, Vietnam, Bangladesh and China. Secondly, Cameroon is at a disadvantage in assembly operations, since most opportunities are likely to be in processing of local natural resources. Thirdly, Cameroon is handicapped by additional transport costs and extra travel time. Finally, although Cameroon's EPZ provisions are attractive on paper, their poor implementation combined with the overall poor investment climate, characterized by political risks and inappropriate government policies do little to encourage existing and prospective investors. EPZ firms face daily frustrations due to arbitrary decisions by the Administration and by the Administration's disregard for the legislation governing the EPZ. A manifestation of the current unfavorable environment is the fact that the CGCI has not registered a single foreign investment in the past two years.

2.80 The impact of the EPZ in Cameroon has, so far, been marginal. There are currently nine firms operating under the EPZ regime. Only one of these firms can be considered new. Two firms which are classified new by the EPZ, are not really new establishments: one involves an existing firm which changed ownership; and the other involves a newly-named privatized firm. In addition, the impact of the EPZ on job creation and currency generation has been insignificant. As long as Cameroon's investment climate does not improve, there is serious doubt that the EPZ will reach its projections.

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[24] The *Guichet Unique* is not really unique, as Zone Franche Investment Applications are dealt with separately by the Free Trade Zone Office (ONZFI). There is little coordination between the two.

Recommendation

2.81 While the UDEAC reforms appear to be adequate in theory, overall, there has to be some progress in their implementation. Policy coordination problems, which persist, should be eliminated to avoid conflicting signals to the private sector. Ad hoc exemptions associated with the "*conventions spéciales*" and the newly introduced export taxes should be phased out and be replaced by a system which is transparent, easy to administer and which closes the opportunity for tax evasion.

2.82 In January 1994, two events took place which point to the time being ripe to undertake bold reforms to the Investment Code. The devaluation of the CFAF and the generalized reduction in import tariffs, brought standard rates of tariffs on import goods below the 15% preferential rate granted in the non-discretionary Investment regimes; and a Presidential decree announced Cameroon would implement UDEAC-wide reforms related to harmonization of investment incentives.

2.83 The main constraint facing investors in Cameroon today is not an unsatisfactory investment code, but the country's economic crisis. Rather than trying to modify once more the Investment Code, the Government should strive to create a system of incentives and investment rules and regulations that are applied to all projects, equitably, without awarding incentives on a case by case basis. It may be desirable, therefore, to merge the Investment Code with other general legislation. Since it is likely that the UDEAC reform will drag, Cameroon, as the dominant economy in the region should unilaterally take the lead in the area of investment reforms. The following comprise specific key elements of a strategy for this:

- the incentives for investment need to be reformed so that they are: (a) simple to administer based on simple, published criteria which have an economic basis; (b) integrated into the depreciation and investment allowances available under the common law tax system; and (c) administered as part of the normal corporate tax process, rather than being subject to prior approval, doing away entirely with the bureaucracy and delays associated with this;

- no more Strategic Agreements (*conventions spéciales*) should be approved and existing ones should be phased out;

- the *Guichet Unique* should refocus on facilitating all other bureaucratic steps associated with creating a new enterprise (registration, etc.) and on investment promotion. It should include the functions of an investors services Unit. Its partial privatization and integration with the *Office National des Zones Franches Industrielles* (ONZFI) is desirable;

- given EPZ's complexity, the difficulties in its day to day implementation and its limited achievements, rather than dedicating time and resources restructuring the institutions supporting the EPZ, it would be preferable for Government to focus on the establishment of a unified and equitable system of incentives which would apply to all business; and

- in the spirit of increasing the public/private sector dialogue and keeping the private sector informed, it would be appropriate to establish a public-private committee to review incentives and the level at which they should be harmonized with the tax system.

G. PHYSICAL INFRASTRUCTURE

2.84 Private entrepreneurs identify electricity, telephones, roads and security as significant problems to their operations - each was ranked as a "moderate" or "severe" constraint by more than 40 percent of firms interviewed in the RPED survey. Other areas follow close by behind: airports and seaports were similarly ranked by 36 percent of firms. Moreover, both the availability and the price of utilities were also considered significant problems.

2.85 The need to generate their own electricity is probably a special constraint to the growth of medium-sized enterprises. They are large enough to need uninterrupted power for their production (especially those in the metal/machinery sector), but small enough that a generator adds substantially, if not prohibitively, to their costs. Access to telephone services appears to be a substantial problem for micro-enterprises, which actually complain less than other sized firms about the price of services, due to the fact that many have no service at all. Because of the proximity of their markets and a lesser need to transport large and heavy shipments, micro enterprises are unconstrained by road conditions. By contrast, 57 percent of large firms identify roads as moderately to severely constraining.

Box 2.9 BENEFITING FROM COMPETITION IN "NATURAL MONOPOLY" SECTORS

The rationale for state intervention in sectors such as utilities has always been that a private operator would enjoy a monopoly position and charge unreasonable tariffs. The reality, in Cameroon, and widely throughout the developing world, has been that public utilities have been just as willing to exploit their monopoly position and are characterized by (a) inefficiency and over-staffing; (b) dependence on subsidies from Government (and, therefore, from the general tax payers); (c) ceding to pressure for low tariffs from urban, relatively well off and articulate pressure groups, (d) failure to generate surpluses for investment, and (e) overall poor provision of service. Corruption has also become institutionalized. It is reported that a payment has to be made to officials to have a new telephone line connected in Douala.

It need not be so. Recent experience worldwide demonstrates that the private sector **can** run utilities, and often much better than Governments. Abuse of monopoly power can be minimized: (a) by competitive, open and transparent tendering of concessions, leases and purchases, a process which, in itself, brings in competition; (b) by the direct, "head to head" competition that is now possible in areas such as cellular telecommunications; and (c) by Government administration of an appropriate regulatory framework. Even the former, alone, yields major benefits.

African Governments have yet to allow much private provision of infrastructure, and their people enjoy some of the poorest (and most expensive) infrastructure services in the world. There are encouraging signs, however. Recently, in Côte d'Ivoire, management contracts have been let for the water and electricity sectors (and, in water more recently, extended to include responsibility for **investment** as well as **operations**); and an independent power producer has started selling gas-fired electricity to the national grid. The entire power sector is to be similarly transformed in Ghana. Uganda has hired IFC to help privatize its national telephone network. It is clear that the future will see a growth in this trend. Those countries that remain mired in the past will continue to be the losers.

2.86 That company bosses feel this way is not surprising. Annex 1, Table 16 shows that Cameroon lags well behind both a group of fast-growing developing countries, and a group of comparator African nations in terms of the number of telephones, installed power generating capacity and kilometer of paved road per inhabitant. In general, its infrastructure penetration is about half that of the comparator African group, and one-third to one-twentieth that of the fast growing group. This is all the more striking given the burgeoning levels of public investment, financed by oil revenues, in the 1970s and early 1980s.

2.87 A large part of the blame for this may be laid at the door of the public enterprises, agencies or departments which the state has charged with delivering infrastructure services. Typically, these have been characterized by inefficiency and poor management and attempts to impose commercial discipline have had partial and temporary success. SONEL (electricity) managed to cover its debts and pay dividends up to FY92; SNEC (water) does neither, despite the fact that water prices are amongst the highest in the region, it has also failed to abide by its performance contract. Finally most of the public enterprises in the transport sector are in financial trouble. When exposed to private competition, as in the case of SOTUC, they are finding themselves unable to cope. In all cases, the inability of these PEs to generate their own funds and their consequent dependence on public finance, which is no longer available, have led to chronic under-investment.

Box 2.10 SOTUC - A DINOSAUR DESERVING EXTINCTION

SOTUC was a state-owned enterprise which had a 25-year monopoly over the provision of urban transport in Cameroon for vehicles with more than 7 seats. It was poorly managed, over-staffed, loss-making, and ineffective. Operating losses were CFAF 19 bn between FY88 and FY91. Tariffs were low and SOTUC was obliged to give special treatment to the police and military, who accounted for 28% of passengers and 8% of revenues. There was no scope to raise fares however; SOTUC's unit costs were higher than a taxi's, unless the taxi only had one person in it. This was partly due to substantial over-manning - the workforce was the same in FY90 as in FY86, though the fleet had halved in size. Management was weak, there was poor coordination between departments and no effective plan for computerization, training or maintenance. As a result of all this, despite the low fares, SOTUC's buses and other vehicles only carried 2.4% of traffic in Yaounde and 4.7% in Douala, much lower percentages than in other Africa cities. City dwellers in Cameroon catch cabs, or walk.[25]

Source: World Bank, Transport Sector Review, 1993

[25] SOTUC was recently liquidated.

2.88 The catch is that efficiency cannot be improved without investment, and public investment cannot be afforded without the improved economic efficiency necessary to generate surpluses. Is there a way out? In the last few years, many countries, particularly in Latin America, have opened up their infrastructure services to the private sector. Not only does the private sector improve efficiency; it also brings the investment finance necessary to extend infrastructure.

Box 2.11 Private Water Can be Sweeter

In May 1993, Aguas Argentina (AA) was awarded a 30-year concession to provide water and sewerage services for 6m. consumers in the greater Buenos Aires area. AA was chosen, on technical and financial criteria from four tendering international consortia. The regulatory rules (administered by a public authority) and future tariff adjustments are clearly defined. AA must serve an increasing percentage of population and meet water quality goals. Its bid? Zero cash payment - but a 27 percent reduction in the tariff, and a commitment to a large capital investment program. It will make profits by reducing inefficiency and system losses, due mainly to illegal connections. December 1993, shortly after AA took over, was the first month in 15 years without water cutoffs.

2.89 There are many ways to include the private sector in infrastructure provision. Management contracts for the private sector electricity and water companies, airlines and railways are a start, and often result in improved efficiency and better tariff collection rates. Private entry - allowing private entrepreneurs to set up services in competition with PEs can work, provided the playing field is level, and can provide a useful demonstrator of the advantages of private sector provision. Full privatization is also possible, and often desirable: although in order to avoid abuses of monopoly power, a proper regulatory framework has to be in place. Often elements of competition can be retained by periodic tendering for leases or concessions, or by using yardstick competition (privatizing similar parts of the same organization).

Box 2.12 "Private" Phones Lead the Way.

In the late 1980s, business surveys in Sri Lanka indicated that deficiencies in telecommunications services were a serious obstacle to growth. In 1989 the Telecommunications Authority licensed the first cellular operation; in 1992 it licensed the second. The effects of this competition have been dramatic. Sri Lanka's tariffs are now amongst the lowest in the world, and there has been a rapid expansion in the market. Other parts of the system (tele-paging, data communications) have also been liberalized, and the main telecommunications operator has been converted into a corporation, as a necessary step towards privatization.

2.90 The Government is aware that given the current unfavorable investment climate, overseas investors will have little interest in buying into infrastructure operations. At the same time, public enterprises in infrastructure have not responded to performance contracts (*Contrat-Plan*); and the need for private investment and expertise is urgent. Other countries have experienced a rapid turnaround in private sector interest and opening infrastructure up for private participation has often been key in this. Cameroon should adopt a phased opening up of these sectors, which could look as follows:

- rapid privatization of its transport companies (which largely operate in competitive markets);
- opening up one or two "easy", dollar earning sectors to the private sector - ports, cellular telecommunications, airlines;
- establishment of the regulatory framework for private participation in power, water and sanitation and telecommunications sectors as well as maritime and air transport;
- opening up other sectors to private entry (e.g. independent power producers);
- initial privatization of the management of the central power, telecommunications, and water and sanitation companies;
- followed by privatization of the assets, and responsibility for investment, probably on a concession or lease basis.

2.91 As far as the timetable is concerned, much depends on strong political commitment from the top. In Argentina, all this and more took four years - and the benefits have been enormous.

H. PRIVATE SECTOR SUPPORT SERVICES

2.92 There are a number of institutions in Cameroon involved in providing support services to the private sector, and in facilitating dialogue with the Government. These include GICAM, SYNDUSTRICAM, the Chamber of Commerce and Industry, the Chambre of Agriculture, the Agricultural Commodity Associations, the Hotel and Restaurant Association and a (number of) Groupement(s) of Entrepreneurs. However, the private sector is still not adequately organized to defend its own interests and private sector representation remains overall unstructured. The Chamber of Commerce has not been effective in providing the private sector with the support it needs. It is highly politicized and controlled by the Government through appointed directors. Furthermore, it represents only the large manufacturing firms. Locally-based, private sector-sponsored professional associations are sorely lacking, as only they could provide the necessary counterweight to central government authority. Businesses suffer from poor access to information. Even influential operators are un-informed about key features of the adjustment program. The information problem is compounded by the absence of the official gazette, making most business operators unaware of new legislation affecting them directly.

2.93 A variety of proposals is currently under consideration for the reform of the institutional framework supporting the private sector. The first involves the creation of a Steering Committee for the Promotion of Private Sector Investment, which would be a high level group facilitating the exchange of ideas between the private sector and Government. A second involves the decentralization of the Chamber of Commerce into a number of provincial groups, and enabling the President of each to be elected, rather than appointed by decree. A third proposal is to set up a new Investment Promotion Center which would operate under a mixed public/private Board, but would be privately managed. Various donors are also involved in providing assistance including: (a)

UNIDO, for the development of grass roots organizations; and (b) ILO/ UNDP, for the establishment of a network of private service-oriented firms, providing accounting, legal, technical and marketing services.

2.94 Lack of information is also a serious constraint to the private sector. A USAID MAPS study carried out in 1991 concluded that information about markets, product standards, and prices, especially information relevant to export markets, was the single biggest constraint facing the potential exporter - it was cited as an important constraint by over 87 percent of those firms exporting or interested in exporting. In the RPED survey, the importance placed on the **lack of business services** suggests that firms are seeking, but not finding, assistance in meeting the challenges of the post-adjustment business environment. The RPED survey, however, does not reveal what types of services are sought, but concludes that technological upgrading and training would be valuable.

2.95 Other needs include investment appraisal and preparation, financial planning and accounting. Attempts have been made by the administration in the past to provide such services free of charge. However, they have been unsuccessful, not only in the type of services provided but also in the fact that they discouraged the development of such services to be provided by the private sector. A similar story of ineffectiveness is true of Government attempts to help the SME sector directly, through the CAPME and FOGAPE.

2.96 The principal reforms in satisfying the private sector's needs for such services should be: (a) private sector ownership and management of institutions providing services to the private sector and dialogue with the public sector; (b) adequate representation of SME entrepreneurs; and (c) a non-prescriptive approach to institutional development in the sector, letting the private sector define what sort of associations it considers appropriate rather than trying to impose these from the top. Nevertheless, for those services whose nature is essentially that of public goods (this category including Government/ Private Sector dialogue), some form of subsidy is appropriate. One model which could be followed is a Bank project in Senegal which involves the creation of a National Private Sector Foundation. This foundation would provide funds for the establishment of groups or companies providing support services to the private sector according to clearly defined, transparent criteria. The design of this will need to take into account the political economy and ethnic diversity of Cameroon.

3. SUMMARY RECOMMENDATIONS AND FUTURE STRATEGY

A. INTRODUCTION

3.1 Prospects for improving the performance of Cameroon's private sector are promising in the medium term, but this cannot be achieved in the currently unfavorable business environment. The devaluation of the CFA franc and the recent progress achieved with respect to formal sector wages and with the divestiture program are positive steps towards increasing Cameroon's competitiveness and improving the country's investment climate. However, additional efforts by Government are critical to address the economy's fundamental structural problems, and the burden of internal and external arrears.

3.2 Agriculture, livestock and natural resources remain Cameroon's major potential sources of economic growth, with these sectors employing, on the aggregate, about two thirds of the population and generating 40 percent of export receipts. The scope of expanding production of a wide range of agricultural products is particularly strong, given favorable climatic conditions in Cameroon and the below-potential yields achieved at the present. In order to achieve its potential, however, Cameroon needs to pursue an aggressive strategy to diversify into new agricultural products and to attract private investment by improving the country's macro-economic environment. Although the main supply response must come from agriculture and transformation industries, this can only happen when accompanied by a fundamental reform in all sectors including transport and rehabilitation of the financial sector.

3.3 Although the private sector can function under the current circumstances, it is highly inefficient. Industries are geared to producing in areas where Cameroon does not have comparative advantage, because of the distortions in relative prices. Attempts to correct them through administrative controls and tariffs are undermined by corruption and smuggling. Furthermore, excessive Government controls of the economy are exacerbated by their uneven and arbitrary application. A non-functioning government means that, in all domains of economic life, considerable time, effort and money is wasted in transaction costs. As a result, resources are wasted in inefficiencies and investments are non-existent because of the overwhelming sense of uncertainty.

3.4 Nevertheless, Cameroon has a high potential. This includes a thriving entrepreneurial spirit, extensive natural resources, a relatively skilled population and a strong traditional system of financial intermediation. If left to its own devices, the private sector could lead the country to recovery.

3.5 There are, therefore, two pre-requisites to promoting private sector development in Cameroon. The first involves establishing the appropriate macro-economic conditions through improved fiscal and monetary management to maintain the gain in competitiveness from the devaluation. The second involves reducing the quantifiable and

non-quantifiable costs of doing business in Cameroon. The PSA has emphasized the extent to which the regulatory, judicial and administrative environment in Cameroon is fundamentally hostile to private sector development. It has also emphasized that, for private investment to pick up significantly, reforms affecting the business climate in Cameroon will need to be wide-ranging and deep.

3.6 The Government will need to define its responsibilities in a manner which is as clear, simple and transparent. Even for "good" regulations — environment, health, safety, etc. — the potential advantages have to be weighed against the costs of uneven administration. If health regulations are only used to close down factories because the owners are active and vocal members of the opposition party, as exemplified by the recent closure of a yogurt factory in Yaounde, then the country would be better off without them.

B. THE REFORM AGENDA

3.7 **Macroeconomic Management**. The economic crisis and political turmoil which has been accompanied by the serious institutional crisis, the disregard of the rule of law by the administration and the deterioration of the effectiveness of the judiciary system in settling commercial disputes has had a devastating effect on Cameroon's private sector. Much still remains to be done to improve the overall policy context, and to establish an environment where the private sector can flourish.

3.8 Until the devaluation in January 1994, the Government pursued a strategy of "internal adjustment" aimed at realigning the real exchange rate of its overvalued currency. With the change of parity of the CFA franc, Cameroon faces important challenges and in order to take full advantage of it, it is critical that Cameroon break with its past policies and make major improvement in its economic management. Key priority objectives should be to: (a) maintain a real exchange rate compatible with export-led growth, through disciplined monetary and fiscal policies, including control of the fiscal deficit as well as the level of public spending and public borrowing; (b) reform the financial sector, by resolving the high level of public domestic debt and arrears, restoring a solvent financial sector and re-establishing private sector confidence in the economy; and (c) adopt a vigorous divestiture program from economic activity and improve the efficiency and transparency of Government interventions in the delivery of public services. The Government will also need to adopt a rigorous action plan to: (a) reform customs; (b) reform the legal and regulatory framework; and (c) improve the efficiency of physical infrastructure.

3.9 With adequate macroeconomic management and the resulting financial stability, it would be possible to have progressive economic recovery with GDP growth on the order of 5 percent per annum, led by tradables in agriculture and industry and in non-traditional exports. A manifestation of this potential has been demonstrated by the recent boom in banana exports from a negligible base a few years ago.

3.10 **Core Measures for Recovery**. Although macro-economic stability is now critical for Cameroon's recovery of growth, it is not sufficient. The Government's competitiveness efforts and regulatory reform program need to be significantly accelerated before the private sector will respond. Given the extent of existing distortions and restrictive Government policies, discussed in Chapter 2, there is a need for massive long-term institutional reform. The recent introduction of the export tax on a selected number of commodities does little to encourage exports, a key factor in the country's economic recovery. To reinstate an internationally viable economy, Cameroon cannot simply implement marginal changes but should irreversibly withdraw from the present command economy which has so far discouraged private sector growth.

3.11 In order to achieve the goals described above, the Government will need to remove the maze of market distortions and restrictions to competition. All remaining price and market controls should be lifted and all fiscal benefits to investors and ad-hoc exemptions associated with strategic agreements, "*conventions spéciales*" and the newly introduced export taxes should be phased out or replaced by a system which is transparent, easy to administer and which closes the opportunity for tax evasion. Such a system will also go a long way in eliminating arbitrary decisions, bureaucratic delays and rent seeking behavior. **Investment incentives** should be merged into a unified system which should be an integral part of the tax core and should be granted on the basis of simple criteria. Exports, jobs, and training have all been candidates in other countries, though there is a strong argument for keeping the number of criteria as low as possible. In the spirit of increasing the public/private sector dialogue and keeping the private sector informed, it would be appropriate to establish a public-private committee to review incentives and the level at which they should be harmonized with the tax system.

3.12 The urgency for reforms in the **financial sector** and the judiciary cannot be under-estimated. Marginal improvements will do nothing but prolong the current malaise. To establish a sound financial sector, it is imperative that the Government: (a) settle the debt to the financial sector, which currently represents an estimated CFAF 802 billion (US$ 1.6 billion) to financial institutions, of which CFAF 246 billion (US$ 494 m.) to commercial banks; (b) support all regional initiatives and efforts to: (i) free interest rates; and (ii) improve regulations relating to the banking sector and help strengthen prudential supervision of commercial banks as well as the large savings and credit cooperatives and insurance companies; and (c) reorganize the Loan Recovery Agency (SRC) which, after four years of operation, has failed to collect any significant amounts on the outstanding loans; (d) restructure the banking sector by carrying out the necessary privatizations, liquidations and restructuring of banks; (e) refrain from applying pressure to banks to lend to public enterprises; and (f) reform the judiciary's capacity in enforcement of contracts and the recovery of bad debts.

3.13 The Government has recently re-affirmed its commitment to use privatization as a means to increase the efficiency of the PE sector, by defining in a Sectoral Policy Declaration, a strategy which adopts as its overriding objective the divestiture of all PEs currently engaged in production or commercial activities. The poor performance of PEs

over the years has become a severe drain, which is no longer sustainable by the State. Problems have included poor management, poor accountability, financial losses, direct and indirect subsidies and non payment of debt. It is important now that Government: (a) accelerate the **privatization/liquidation** of public enterprises (PEs) in a process which is transparent and which will give the private sector the right signals that the Government is committed to its divestiture program; and (b) open all sectors of the economy to private entry and competition. Furthermore, concrete action should be taken to improve the performance of PEs awaiting privatization.

3.14 Reform of **customs** must also be treated as a matter of urgency. UDEAC reforms should be implemented to simplify and reduce the dispersion in tariff rates and make the system more transparent. Associated with this is the need to continue the efforts to strengthen the tax and customs administration. This has now been started following signature of a contract with SGS to control customs activities.

3.15 **Long-term Regulatory Reform**. The range of reforms that is necessary in the **legal framework** in Cameroon is extensive and can only be realized in the long-term. Although priorities will need to be established and the reform process launched as soon as possible, Government's immediate attention should be given to the manner in which laws are implemented. In order to achieve stability and credibility in Cameroon's legal system, it is absolutely vital and urgent that the Government address the practical fundamentals of legislation, namely, establishing clear areas of authority, assuring consistent, effective implementation of decrees and public access to legislation and to key interpretative judgments. It is also critical for the success of institutional and legal reform that sanctions are applied on those who fail to comply with the law. Decrees should be issued by one sole ministry also responsible for maintaining a proper system of recording legislation. Improvements in the judicial system are also necessary. The establishment of arbitration procedures for commercial disputes, reforms of Company and Contract Law and the strengthening of the judiciary itself are the principal items on the agenda.

3.16 As far as the **labor market** is concerned, the new Labor Code enacted in 1992 is a significant improvement over its 1974 predecessor. It has increased the flexibility of the labor market and improved the nature of labor-management relationship. However, while this is commendable progress, not all application decrees have been issued. It is now important that the remaining decrees be issued to make the new Labor Code fully operational, to put an end to the validity of old decrees and resist the temptation to weaken the Code by over regulation.

3.17 The efficiency of **physical infrastructure**, electricity, telephones, transport and security, continue to be significant problems for Cameroon's private sector. Improvements in the delivery of services by these sectors is critical for the private sector's daily activities. Rapid privatization of transport companies and establishing the necessary regulatory framework for private sector participation in the power and telecommunications sectors are the principal items in the reform agenda.

3.18 **Private Sector Confidence**. The number and scope of the recommendations made in this report may initially appear daunting. However, beyond the reforms recommended, if the private sector is to flourish, the Government must shift its perspective fundamentally from economic control to the facilitation of private activity and create the economic environment that sustains this new approach. The Government needs to convince local and foreign investors that it now views the private sector as a positive force for development. Experience elsewhere in Africa indicates that private sector investment, especially foreign direct investment, is very cautious in its response to policy changes until it is convinced that reforms are permanent. As the PSA clearly demonstrates, the private sector in Cameroon is not convinced of the Government's commitment to sustained economic reform. It is, therefore, critical for the Government to convince the private sector of its commitment. The establishment of a forum to consult the private sector before making major changes in the economic environment is one way of increasing private sector confidence in the Government's commitment to the reform program.

3.19 If the confidence of private investors can be regained, Cameroon could once again achieve the growth rates which it has experienced in the past. Price realignments, following the devaluation will bring some improvement in the ability of domestic goods to compete with imports and will favor economic growth from the country's natural comparative advantage, i.e. from diversified agricultural and agro-processing exports, including transformation and manufacturing of wood products. Tourism and mining are other areas of possible future growth. However, if such reforms fail to be implemented, it is difficult to be optimistic about Cameroon's future. The constraints on government finances will not allow public investment to play the driving role it did in the 1980s. The private sector is the only card left to be played.

Matrix of Private Sector Constraints

Policy Reform	Priority (High/Medium/Low)	Short-Term/ Long-Term
1. Macro-economic stability and Fiscal Deficit Reduction a. Improve macro-economic management. b. Implement strategy for settlement of public domestic debt. c. Control spending, reduce fiscal deficit and limit wage increases. d. Improve tax collection and public resource management. e. Deepen civil service reform program.	High	Short-Term
2. Financial Sector a. Reform the judiciary focusing on enforcement of financial contracts and recovery of bad debts. b. Support regional initiatives to strengthen/establish regulatory and prudential supervision. c. Restructure & privatize state-owned banks. d. Deepen capital markets to meet needs for private investment & FDI. e. Restructure the insurance sector.	High	Short-Term
3. Reform/Divestiture of State-Owned Enterprises and Statutory Monopolies a. Abolish government marketing monopolies in agriculture and sell off government marketing ventures. b. Divest from commercial, financial and industrial activities by privatizing enterprises in an open, competitive, transparent tender process, possibly managed by a private sector agency such as a merchant bank.	High	Short-Term
4. Incentive System a. Abolish the need for prior investment approval. b. Abandon the system of investment incentives on reduced import taxes and replace with simplified and reduced tax rates (consistent with macro-economic equilibrium). c. Simplify investment incentives under the Investment Code. d. Eliminate the newly introduced system of export taxes. e. Refrain from signing new special agreements (*conventions spéciales*) and renegotiate old ones.	High	Long-Term
5. Customs and Trade Reform a. Reform customs administration by establishing a system which is transparent and not prone to arbitrary decisions and corruption. b. Implement UDEAC reforms effectively to simplify and reduce dispersion of tariff rates.	High	Short-Term

Matrix of Private Sector Constraints
(continued)

Policy Reform	Priority (High/Medium/Low)	Short-Term/ Long-Term
6. Business Law and the Judicial System a. Modernize the system of business law and laws on bankruptcy on contract disputes. b. Improve arbitration procedures for commercial disputes. c. Reform administration of the judicial system for business law and provide full support to OHADA initiatives. d. Improve access to legal information.	High	Long-Term
7. Fiscal and Regulatory Framework a. Rationalize the tax system. b. Move towards an indirect system of taxation involving payment of VAT. c. Abolish existing regulations which are not being applied effectively.	Medium	Long-Term
8. Inadequate Private/Public Sector Dialogue a. Place the Chamber of Commerce under private sector management, with financing, at least partly, from contributions by the private sector. b. Establish a National Public/Private Advisory Group.	Medium	Long-Term
9. Reform of Government a. Re-orient role of Government from economic and administrative controls to facilitating private sector growth. b. Introduce private sector, performance-based management of selected government functions (such as tax collection, statistics services, etc.). c. Continue to encourage private sector participation and intervention in the health and education sectors. d. Contract out public works by open competitive tender. e. Reform fundamentally the petroleum sector leading to privatization of the sector. f. Create enabling environment to encourage development of independent voluntary private sector associations.	High	Long-Term
10. Physical Infrastructure a. Privatize transport companies (which largely operate in competitive markets). b. Open up one or two "easy", dollar earning sectors to the private sector - ports, cellular telecommunications, airlines. c. Establish the regulatory framework for private participation in the power, water and sanitation and telecommunications sectors. d. Open up other sectors to private entry (e.g. independent power producers). e. Privatize initially the management of the central power, telecommunications, and water and sanitation companies; and subsequently the assets, and responsibility for investment, possibly on a concession or lease basis.	High	Long-Term

Political Constraints

3.20 The reform agenda set out above is extensive. While, much of it will need to be implemented before the private sector, particularly foreign investors, recovers its confidence in Cameroon, effective implementation of the reform agenda is itself a contributing factor over time to restoring investors confidence. The resolution of the current political uncertainty is a must for private sector investment to recover. If the private sector is to become the engine of growth the Government will need to continue the process of relaxing its stranglehold on the economy, and to implement the radical reform agenda described above.

TABLES

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Table 1: **CAMEROON - SELECTED INDICATORS**

	GDP PER CAPITA			INVESTMENT		INDICES		
YEAR	**Real GDP (CFA bn, 1987prices)**	**Population (Million)**	**GDP per capita (CFA 000s)**	**Gross Dom Fixed Inv (% of GDP)**	**Private Investment (% of GDP)**	**Index of Confidence**	**Terms of Trade**	**Real Effect. Exch. Rate (1985=100)**
1980	2652	8.59	309	18.0	7.9	-	151	100.3
1981	3160	8.85	357	22.3	6.6	-	148	92.9
1982	3150	9.11	348	22.0	6.6	35.2	144	90.9
1983	3334	9.38	355	23.5	7.4	36.7	142	94.3
1984	3330	9.67	344	26.2	8.8	35.7	148	96.7
1985	3618	9.96	363	28.9	10.2	36.6	131	100.0
1986	3839	10.25	375	31.6	11.6	38.1	108	110.7
1987	3858	10.56	365	34.3	13.0	37.3	100	123.9
1988	3362	10.88	309	21.8	11.2	34.8	89	120.0
1989	3245	11.21	289	16.5	9.3	31.8	99	110.8
1990	3099	11.54	269	14.7	7.7	27.7	98	114.1
1991	2891	11.89	243	12.6	7.3	23.8	111	110.0
1992	2752	12.25	225	10.7	6.5	21.8	109	110.4
1993	2690	12.61	213	10.8	8.6	21.6	103	100.4
1994	2587	12.99	199	9.3	7.3	19.7	124	67.4
1995						19.2		

Sources: GDP figures at Market Prices - *World Bank Economic and Social Database* (BESD), June 1995.
Investment Figures - IFC (1994), Trends in Investment, Constant Prices.
Index of Confidence - Institutional Investor Magazine, various issues. For description, see text.
Real Effective Exchange series - IMF International Financial Statistics.
Terms of Trade - World Bank staff estimates, based on constant 1987 US dollars.

Notes GDP and investment figures for 1993 and 1994 are provisional and projected respectively.
Investment figures for 1984-86 have been extrapolated.

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Table 2: **Distribution of Population Over Five Years of Age, 1987**

	Thousands		Thousands
Population Over 5 Years:	**7224**	**Occupied Population - By Status:**	**3167**
Inactive	3690	Independents	1855
Active Population	3431	Employers	12
Undeclared	103	Salaried - Permanent	468
		Salaried - Temporary	96
Active Population:	**3431**	Apprentices - Paid	9
Occupied	3167	Apprentices - Unpaid	29
Unemployed	264	Intra-family workers	686
		Undeclared	12
Inactive Population:	**3431**		
Householders	932		
Students/Schoolchildren	2276	**Occupied Population - Main Sectors:**	**3167**
Handicapped	67	Agriculture	2266
Other	414	Trade	227

Source: *Annuaire Statistique*, 1991

SUMMARY - Occupied Labor Force, 1987

	Number (000s)	Percent
Formal Sector - Private (iii)	358	11
Formal Sector - PEs (i)	72	2
Formal Sector - Government (ii)	146	5
Informal Urban (iv)	325	10
Agriculture and Traditional	2266	72
Total	3167	100

Assumptions: The formal sector comprises all and only salaried employees

(i) Source: World Bank staff calculations;
(ii) Source: Ministry of Public Service;
(iii) Calculated as a residual by subtracting Govt and PE employees from total formal sector employment;
(iv) Calculated as a residual by subtracting agriculture and employees from total occupied labor force.

Note: These data are outdated and their interpretation requires considerable caution. The have been used in the text solely to depict the approximate division of the labor force between broad categories (Figure 1.1).

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Table 3: **The Evolution of GDP, 1980-1994**

	CAMEROON GDP at Market Prices[1]	
Years	**Current Prices (CFAF Bn)**	**1987 Constant Prices (CFAF Bn)**
80	1569	2652
81	1980	3160
82	2303	3150
83	2785	3334
84	3195	3330
85	3922	3618
86	4007	3839
87	3858	3858
88	3597	3362
89	3469	3245
90	3320	3099
91	3288	2891
92	3136	2752
93	2942	2690
94	3244	2587

Source: World Bank, *Economic and Social Database* (BESD)

[1] GDP at Factor Cost not available

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Table 4: **Sectoral Breakdown of GDP - 1988/89 and 1990/91**

	1988/89		1990/91	
	CFAF bn	**Percent**	**CFAF bn**	**Percent**
GDP at Factor Cost	**3431**	**100.0**	**3252**	**100.0**
PRIMARY	**896**	**26.1**	**820**	**25.2**
Agricultural Crops	425	12.4	422	
Agriculture-industry and exports	209	6.1	104	
Livestock and hunting	134	3.9	160	
Fishing	5	0.1	5	
Forestry and logging	122	3.6	128	
SECONDARY	**1017**	**29.6**	**904**	**27.8**
Extractive Industry	310	9.0	320	
Manufacturing	494	14.4	451	
Electricity, gas, water	49	1.4	59	
Construction	164	4.8	144	
TERTIARY	**1179**	**34.4**	**1182**	**36.3**
Trade	530	15.4		
Restaurants/Hotels	25	0.7		
Transport and Communication	213	6.2		
Finance, etc.	406	11.8		
NON-MARKETED	**339**	**9.9**	**346**	**10.6**
Public Administration	297	8.7		
Private NGOs	15	0.4		
Domestic Workers	27	0.8		
Import Taxes (=Indirect Taxes)	81		72	
GDP at market prices	3512		3324	

Source: Cameroon, National Accounts, Ministry of Planning

SUMMARY: BREAKDOWN OF GDP BY FUNCTIONAL SECTOR, 1988/89

Public Administration	9.9	Private Agriculture (iv)	24.1
Public Enterprise, excl SNH (i)	18.0	Private Informal (v)	3.6
SNH (ii)	6.3	Private Formal (vi)	38.1
Total Public	**34.2**	**Total Private (iii)**	**65.8**

ASSUMPTIONS, SOURCES, NOTES:

(i) Source: World Bank staff estimates;
(ii) Estimated at 70% (the state's typical share) of extractive industry GDP
(iii) Calculated as a residual;
(iv) Somewhat lower than Primary Sector GDP, to allow for Agricultural PEs;
(v) Labor productivity assumed to be same as private agriculture. Employment estimates used from Table 2;
(vi) Calculated as the final residual.

NOTE: Because adjustments have been made in 1995 in the methodology of calculating GDP figures, these figures are not consistent with other GDP figures in the report.

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Table 5: SECTORAL BREAKDOWN OF GDP - 1965-1993 (CFAF bn)

	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
GDP at Market Prices	1,158.4	1,212.5	1,067.1	1,136.5	1,191.9	1,226.3	1,272.5	1,302.2	1,373.4	1,520.8
Value Added at Prod. Prices - Agriculture	354.0	368.2	391.4	412.0	434.4	455.7	461.6	488.4	507.5	532.0
Value Added at Prod. Prices - Industry	159.0	167.3	169.4	189.8	202.2	199.6	223.7	216.0	225.0	237.2
Value Added at Prod. Prices - Mining & Quarrying	3.3	3.3	3.3	3.9	3.9	8.9	18.9	6.7	9.4	12.8
Value Added at Prod. Prices - Services Plus ISCG, Duty and Disc.	645.6	677.0	506.2	534.6	555.2	571.0	587.2	597.8	640.8	751.5
	1975	**1976**	**1977**	**1978**	**1979**	**1980**	**1981**	**1982**	**1983**	**1984**
GDP at Market Prices	1,509.4	1,574.7	1,707.9	1,958.8	2,219.0	2,565.9	2,897.2	2,973.9	3,204.5	3,391.6
Value Added at Prod. Prices - Agriculture	538.6	545.8	553.0	573.9	659.6	714.5	808.5	839.4	775.8	844.3
Value Added at Prod. Prices - Industry	245.9	264.8	313.3	346.1	497.2	663.8	867.5	1009.2	1218.8	1270.9
Value Added at Prod. Prices - Mining & Quarrying	13.9	11.1	16.1	24.4	122.9	246.9	372.7	398.7	579.4	616.2
Value Added at Prod. Prices - Services Plus ISCG, Duty and Disc.	724.9	764.1	841.6	1038.8	1062.2	1187.6	1221.2	1125.3	1209.9	1276.4
	1985	**1986**	**1987**	**1988**	**1989**	**1990**	**1991**	**1992**	**1993**	
GDP at Market Prices	3,651.3	3,944.5	3,842.0	3,495.5	3,525.5	3,282.3	3.052.5	2,893.9	2,752.0	
Value Added at Prod. Prices - Agriculture	750.0	859.4	844.0	769.1	847.1	748.2	671.3	646.2	612.6	
Value Added at Prod. Prices - Industry	1179.8	1299.7	1179.0	1074.7	1045.4	955.7	914.6	881.3	833.9	
Value Added at Prod. Prices - Mining & Quarrying	501.4	497.8	265.0	270.2	270.1	255.0	255.0	246.7	233.4	
Value Added at Prod. Prices - Services Plus ISCG, Duty and Disc.	1721.5	1785.5	1819.0	1651.9	1633.0	1578.5	1466.6	1366.4	1305.6	

Source: World Bank, BESD, December 1994

NOTE: This table could not be updated as the system of calculating these figures was revised in 1995 and would therefore differ slightly from other figures quoted in this report

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Table 6: **Index of Financial Depth in Cameroon and Other Countries**

Country	GNP per Capita, 1989 (US$)	Money and quasi-money as % of GDP 1989
Morocco	880	50.5
South Africa	2,470 (1)	45.8
Botswana	1,600	36.0
Zimbabwe	650	31.8
Côte d'Ivoire	790	29.7
Kenya	360	35.9(4)
Dominican Republic	790	27.5
Senegal	650	25.5(3)
Ghana	390	13.4(1)
Cameroon	1,000	20.2(4)
Colombia	1,200	19.3

Source: IMF International Financial Statistics

(1) 1990; (2) 1988; (3) 1986; (4) 1993

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Table 7: **Ownership of Banks in the BEAC Zone**
Percentage Distribution
(December 1993)

	Cameroon	Congo	Gabon	Equa. Guinea	CAR	Chad	BEAC Zone
Government	28.7	58.0	15.7	40.7	47.2	51.7	40.3
Foreign Banks	47.0	42.0	53.0	51.0	51.2	35.8	46.7
Other Nationals	18.6	-	12.6	8.3	1.6	1.9	7.2
Other	5.7	-	18.7	-	-	10.6	5.8

Source: BEAC

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Table 8: **Average Wages in the Public Administration with respect to GDP per capita in selected countries (1988) (in thousands of CFAF)**

Country	Average monthly wage (1)	Annual equiv. (2)	GDP/capita (3)	Ratio (2)/(3)
Cameroon	140	1,680	290	5.8
Côte d'Ivoire	175	2,100	205	10.3
Ghana	17	204	120	1.7
Nigeria	50	600	120	3.0
Morocco	65	780	180	4.3
Guinea	28	336	100	3.4
Indonesia	20	240	105	2.3

Source: *Côte d'Ivoire Public Expenditure Review, 1990.*

(1) 1990; (2) 1988; (3) 1986

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Table 9: **GDP Shares of Industry and Manufacturing of Selected Countries, 1991**

Country	Share of Industry	Share of Manufacturing
Cameroon	33.1	23.8
Côte d'Ivoire	20.1	18.7
Zimbabwe	36.6	25.5
Malaysia	n/a	n/a
Indonesia	41.2	21.3
Kenya	22.4	11.9
Ghana	17.5	9.5
Madagascar	14.1	n/a
Senegal	18.9	13.3

Source: World Development Report, 1994

NOTE: Figures are percentages of GDP at factor cost

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Table 10: **Ownership Structure, By Sector**

SECTOR	Food/ Beverage		Textile/ Clothing		Wood/ Furniture		Metal/ Machinery		Overall	
Private Cameroonian Shareholders	64,8%	(35)	85,4%	(35)	62,8%	(32)	61,0%	(36)	67,3%	(138)
Private Foreign Shareholders	3,7%	(2)	4,9%	(2)	25,5%	(13)	11,9%	(7)	11,7%	(24)
Private Shareholders (C+F)	14,8%	(8)	2,4%	(1)	11,8%	(6)	13,6%	(8)	11,2%	(23)
Public & Private Shareholders (Pr.C)	1,9%	(1)	0,0%	(0)	0,0%	(0)	3,4%	(2)	1,5%	(3)
Public & Private Shareholders (Pr.F)	0,0	(0)	2,4%	(1)	0,0%	(0)	8,5%	(5)	2,9%	(6)
Public & Private Shareholders (Pr.C+F)	11,1%	(6)	4,9%	(2)	0,0%	(0)	1,7%	(1)	4,4%	(9)
Public Shareholders (C+F)	3,7%	(2)	0,0%	(0)	0,0%	(0)	0,0%	(0)	1,0%	(2)
TOTAL	**100%**	**(54)**	**100%**	**(41)**	**100%**	**(51)**	**100%**	**(59)**	**100%**	**(205)**

Source: *Manufacturing Enterprises under Adjustment in Cameroon: A Survey Perspective*, RPED, May 1994

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Table 11: **Educational Indicators: 1990**

Country	GNP per capita	Adult literacy	Enrollment			Primary Pupil/ Teacher Ratio
			Primary	Secondary	Tertiary	
Cameroon	960	54	101	26	4	51
Côte d'Ivoire	750	54	73	20	3	36
Sub-Saharan Africa	340	51	68	17	2	41
Senegal	710	38	58	16	3	58
Nigeria	290	51	72	20	3	41
Ghana	390	60	75	39	2	29
Zimbabwe[1]	650	67	117	50	5	36
Kenya	370	69	94	23	2	31
Thailand	1580	93	85	32	16	18
Malaysia	2330	78	93	56	7	20
Indonesia	560	77	117	45	N/A	23

Source: *World Development Report*, 1993

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Table 12: **Investment in Cameroon**

FY	80	81	82	83	84	85	86	87	88	89	90	91	92	93 (est)
Total Investment (1)/GDP	18.0	22.3	22.0	23.5	n/a	n/a	n/a	34.3	21.8	16.5	14.7	12.6	10.7	10.8
Private Invest. (1)/GDP	7.9	6.6	6.6	7.4	n/a	n/a	n/a	13.0	11.2	9.3	7.7	7.3	6.5	8.6
Public Invest. (1)/GDP	10.1	15.0	15.5	16.1	n/a	n/a	n/a	21.3	10.6	7.2	7.1	5.2	4.2	2.2
Private Inv. as % of Total Inv.	43.7	29.8	29.8	31.5	n/a	n/a	n/a	37.9	51.6	56.2	52.1	58.4	61.1	79.6
Private Invest. ($M)	496	523	608	824	n/a	n/a	n/a	1997	1506	1243	1013	916	758	863
Net FDI inflows	130	135	111	214	18	316	19	12	67	0	(62)	(21)	10	15
Profit Remittances as FDI	-115	n/a	n/a	n/a	n/a	-342	-149	-133	0	0	0	0	0	0

Source: IFC 1994 *"Trends in Private Investment in Developing Countries"*, World Bank *"World Debt Tables 1993-94"*.

(1) Fixed Investment for 1980-83

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Table 13: **1985 Salary Scale**

CLASSIFICATION	PUBLIC SECTOR	PRIVATE SECTOR DOUALA (1)
Non-Qualified	52,508	30,004
Qualified Worker	63,009	46,865
Technician	100,547	68,971
Specialized Technician	141,772	92,904
Middle-Level Manager	196,905	144,768
Manager	225,785	n/a
Top Manager	475,000	n/a

Source: Public Expenditure Review, 1990

(1) Base + 30% benefits: transportation, children allowance (can be as high as CFAF 60,000)

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Table 14: **Commercial Banks: Distribution of Ownership as at November 1995**

	SGBC	BICIC	SCB-CL	BMBC	STANDARD	CCEI	CAC	AMITY
Equity (CFAF billions)	6.0	6.0	6.0	6.3	1.0	1.0	4.9	0.5
Government and Parastatals (%)	26.7	64.0	35.0	25.0	34.0		80.0	
Foreign Banks (%)	Banque Nazionale del Lavoro 7.2 Bayerishe Vereinsbank 5.0 Crédit Suisse 5.0 Société Générale 37.8	BNP 36.0[1]	Crédit Lyonnais 65.0	Méridien 51.0[2]	Standard Chartered 66.0	Dutch FMO 15.0		
Foreign Other (%)	-	-	-	-	-	-	DEG 18.0	-
Nationals (%)	18.3	-	-	24.0	-	85.0	-	100.0
Others	-	-	-	-	-	-	Cooperatives 2.0	

Source: Commercial Banks

(1) Has withdrawn from the bank but has been prevented by COBAC from abandoning its shares.

(2) Meridien-BIAO Luxemburg and Meridien International (Bahamas) failed in spring 1995.

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Table 15: **Commercial Banks: Share of Public and Private Sector in Credits and Deposits, June 1994**

	CREDITS[1]					DEPOSITS				
	GOVERNMENT	PUBLIC ENTERPRISES	PRIVATE SECTOR	TOTAL		GOVERNMENT	PUBLIC ENTERPRISES	PRIVATE SECTOR	TOTAL	
	%	%	%	%	AMOUNT	%	%	%	%	AMOUNT
BICIC	35.0	0.6	64.4	100	138.9	23.9	9.6	66.5	100	130.4
SCB-CL	46.5	7.0	46.5	100	104.7	13.4	10.7	75.9	100	132.1
SGBC	25.6	1.9	72.5	100	114.5	3.3	4.9	91.7	100	105.2
BMBC	47.1	11.0	41.9	100	48.4	4.1	9.7	86.2	100	88.4
SCBC	40.2	21.7	38.1	100	44.3	24.9	26.9	48.2	100	57.9
CCEI	2.3	0.0	97.7	100	13.3	5.5	1.3	93.2	100	23.6
IBAC	15.4	0.0	84.6	100	2.6	0.0	20.8	79.2	100	24
CAC	2.0	0.4	97.6	100	24.8	29.8	11.0	59.3	100	35.6
AMITY	0.0	0.0	100.0	100	1.8	0.0	0.0	100.0	100	4.5
ALL	34.1	5.1	60.7	100	493.3	14.2	10.5	75.4	100	580.1

Source: BEAC

[1] Equipment bonds included.

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Table 16: **Comparative Infrastructure Penetration, Africa and the World**

	Base Year: 1990						
					Per 000 Capita		
	Pop (m)	Telephone No. of Main Lines	Electricity Capacity 000KWs	Paved Roads Km	Tel (No)	Elec. (KW)	Roads (KM)
Argentina	32.3	3086964	17128	57280	95	530	1.8
Bolivia	7.2	183880	735	1769	26	100	0.3
Costa Rica	2.8	281433	933	5600	101	330	2.0
Indonesia	178.2	1069015	11480	116460	6	60	0.7
Mexico	86.2	5354500	29274	82022	62	340	1.0
Morocco	25.1	402410	2362	29130	16	90	1.2
Philippines	61.5	610032	6869	22238	10	110	0.4
Thailand	55.8	1324522	9722	39910	24	170	0.7
Turkey	56.1	6893262	16316	45527	123	290	0.8
Venezuela	19.7	1494776	18647	26295	76	950	1.3
Average (1)					54	300	1.0
Nigeria	97.0	260000	4040	31002	3	40	0.3
Cote d'Ivoire	11.9	64177	1173	4216	5	100	0.4
Madagascar	11.7	30000	220	10503	3	20	0.9
Ghana	14.9	44243	1187	8250	3	80	0.6
Kenya	24.2	183240	723	6901	8	30	0.3
Zimbabwe	9.8	123665	2038	12896	13	210	1.3
Senegal	7.4	44326	231	4000	6	30	0.5
The Gambia	0.9	14000	13	510	16	14	0.6
Cameroon	11.7	37414	627	3593	3	54	0.3
Average (1)					6	80	0.6

(1) Unweighted

Source: *World Development Reports*, 1994, 1992.
UNIDO Investor's Guide to the Gambia

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Table 17: Cameroon -- National Accounts

1994 GNP per Capita (US$) : 680 a/
Midyear Population (millions) : 13.0

Part A : CURRENT PRICE DATA (Billions CFAF)

	Actual									estim.	
	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
GDP at market prices	3922	4007	3858	3597	3469	3320	3288	3136	2942	3244	4438
Net indirect taxes	190	214	224	182	201	194	168	173	178	202	337
GDP at factor cost	3732	3793	3634	3415	3267	3127	3119	2963	2764	3043	4101
Agriculture	790	888	941	873	896	804	820	822	936	1032	1430
Industry	1317	1334	1139	1032	1018	975	904	811	813	897	1215
Construction	228	279	265	185	164	144	131	84	105	..	..
Gas, electricity, water	38	45	47	47	49	60	61	60	60	..	..
Mining and quarrying	630	518	327	320	311	320	311	280	278	511	..
Manufacturing	422	492	501	480	494	451	401	388	343	378	542
Services, etc	1624	1571	1554	1510	1354	1348	1395	1330	1014	1113	1456
Resource balance	291	-60	-226	-140	-20	-125	46	10	12	171	286
Exports of GNFS	1284	956	655	584	727	684	695	657	571	951	1396
Imports of GNFS	993	1015	881	724	747	809	649	647	559	780	1110
Total Expenditures	3631	4067	4085	3737	3489	3445	3242	3126	2930	3073	4151
Total Consumption	2659	2989	3110	2971	2926	2832	2686	2669	2503	2611	3463
Government	345	465	477	391	378	370	384	371	343	257	288
Private	2314	2524	2633	2580	2547	2462	2302	2299	2160	2354	3175
Gross domestic investment	972	1077	975	766	563	613	556	457	427	462	688
Government	376	421	645	233	172	184	133	85	57	35	44
Private	579	627	324	529	429	414	423	372	369	427	644
Memorandum Items :											
Gross domestic savings	1262	1018	749	626	543	488	601	467	439	633	974
Net factor income	-254	-211	-147	-141	-150	-146	-197	-181	-194	-308	-419
Net current transfers	-92	-127	-155	-189	-115	-67	-59	-72	-95	35	-4.5
Gross national savings	916	680	446	296	278	276	345	214	150	360	557
Gross national product	3667	3796	3711	3456	3319	3174	3091	2955	2748	2937	4019
GDP at m.p. (current millions US$)	8324	10365	12103	12331	11000	11043	12239	11185	11086	7459	8510

a/ A straight conversion would give a GNP per cap of only US$ 520 in 1994.

Part B : SECTORAL SHARES OF GDP AT CURRENT PRICE (%)

	Actual									estim.	
	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
GDP at factor cost	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture	21.2	23.4	25.9	25.6	27.4	25.7	26.3	27.7	33.9	33.9	32.2
Industry	35.3	35.2	31.4	30.2	31.1	31.2	29.0	27.4	29.4	29.5	27.4
Construction	6.1	7.3	7.3	5.4	5.0	4.6	4.2	2.8	3.8	..	..
Gas, electricity, water	1.0	1.2	1.3	1.4	1.5	1.9	2.0	2.0	2.2	..	..
Mining and quarrying	16.9	13.7	9.0	9.4	9.5	10.2	10.0	9.5	10.1	16.8	..
Manufacturing	11.3	13.0	13.8	14.1	15.1	14.4	12.9	13.1	12.4	12.4	12.2
Services, etc	43.5	41.4	42.8	44.2	41.4	43.1	44.7	44.9	36.7	36.6	32.8

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Cameroon -- National Accounts

Part C : CONSTANT 1987 PRICE DATA (Billions CFAF)

	Actual									estim.	
	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
GDP at market prices	3618	3839	3858	3362	3245	3099	2891	2752	2690	2587	2672
Net indirect taxes	175	205	224	170	188	181	148	152	163	123	..
GDP at factor cost	3443	3634	3634	3192	3057	2918	2743	2600	2527	2465	2509
Agriculture	882	936	941	822	880	878	853	876	856	823	856
Industry	1069	1134	1139	1059	1034	961	844	761	744	715	727
Mining and quarrying	599	636	639	623	613	590	519	440	430	414	..
Manufacturing	469	498	501	436	421	371	326	321	313	301	324
Services, etc	1492	1565	1554	1312	1142	1079	1046	964	927	926	921
Resource balance	58	-65	-226	-115	-29	-61	-7	-29	-24	55	52
Exports of GNFS	756	705	655	620	802	774	739	771	705	769	792
Imports of GNFS	698	770	881	735	831	835	745	800	729	713	785
Total Expenditures	3560	3904	4085	3477	3274	3160	2898	2781	2714	2532	2680
Total Consumption	2404	2755	3110	2774	2762	2590	2378	2343	2285	2162	2269
Government	366	468	477	413	403	394	430	374	359	249	219
Private	2038	2287	2633	2360	2359	2196	1948	1968	1926	1913	2054
Gross domestic investment	1156	1149	975	704	513	569	519	439	429	370	416
Government	447	449	645	214	157	170	124	81	58	28	27
Private	689	668	324	486	390	384	395	357	371	342	390
Memorandum Items :											
Gross domestic savings	1214	1083	749	589	483	508	513	409	405	425	506
Net factor income	-249	-203	-147	-131	-141	-134	-176	-161	-179	-240	-247
Net current transfers	-90	-122	-155	-176	-108	-61	-53	-64	-88	-47	..
Gross national savings	875	759	446	282	235	314	284	184	138	139	..
Gross national product	3369	3636	3711	3231	3104	2965	2715	2591	2511	2348	2427
Capacity to import	903	725	655	593	809	706	798	813	745	870	..
Terms of trade adjustment	147	20	0	-27	7	-68	59	42	39	101	83
Gross domestic income	3765	3859	3858	3335	3252	3030	2950	2793	2729	2689	2890
Gross national income	3515	3656	3711	3204	3111	2897	2774	2632	2550	2449	..

Part D : ANNUAL GROWTH RATES (%)

	Actual			*Estimate*		
	1990	1991	1992	1993	1994	1995
GDP at market prices	-4.5%	-6.7%	-4.8%	-2.2%	-3.8%	3.3%
Agriculture	-0.2%	-2.9%	2.7%	-2.2%	-3.8%	4.0%
Industry, of which	-7.1%	-12.1%	-9.9%	-2.2%	-3.8%	1.7%
Manufacturing	-10.6%	-12.2%	-3.9%	-2.2%	-3.8%	7.7%
Services	-5.1%	-0.7%	-7.3%	-4.1%	0.7%	-0.5%
Exports (GNFS) a	-3.5%	-4.6%	4.4%	-8.5%	9.0%	3.0%
Imports (GNFS)	0.4%	-10.7%	7.4%	-8.9%	-2.2%	10.2%
Total expenditure	-3.6%	-9.0%	-5.9%	-1.0%	-10.0%	5.8%
Consumption	-5.5%	-9.0%	-4.3%	-0.8%	-9.5%	5.0%
Investment	11.0%	-8.7%	-15.6%	-2.3%	-13.7%	12.5%
Gross domestic income	-7.4%	-2.5%	-7.3%	-0.8%	-3.9%	7.5%
Gross domestic saving	-1.6%	-0.5%	-6.0%	-5.9%	11.2%	-0.3%
Per capita growth rates						
Per capita GDP (mp) b	-7.2%	-9.2%	-7.4%	-4.9%	-6.4%	0.5%
Per capita GNP (mp)	-7.2%	-10.6%	-7.1%	-5.6%	-10.4%	0.6%
Per capita total consumption	-8.2%	-11.5%	-7.0%	-3.5%	-11.9%	2.2%
Per capita private consumption	-8.8%	-14.7%	-5.0%	-2.9%	-7.9%	4.5%

a. "GNFS" denotes "goods and nonfactor services."
b. "mp" denotes "market prices"

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PRIVATE SECTOR ASSESSMENT

Table 18: Cameroon: Merchandise Exports

(Value in billions of CFA francs; volume in thousands of metric tons; unit value in thousands CFA francs per ton)

	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	Prelim. 1993/94	1994/95
Petroleum Products																
Value	83.6	216.0	289.8	411.6	531.4	723.3	425.2	253.4	245.6	238.1	247.6	297.7	243.5	206.7	257.7	303.1
Volume (millions bb)	14.4	25.6	29.5	38.4	47.1	57.4	52.5	57.2	53.3	52.3	50.8	51.6	48.7	44.4	42.5	37.2
Unit value in '000 CFAF/bb	5.8	8.4	9.8	10.7	11.3	12.6	8.1	4.4	4.6	4.6	4.9	5.8	5.0	4.7	6.1	8.2
Cocoa																
Value	61.0	57.1	43.9	57.1	89.0	106.5	94.9	87.4	79.5	66.1	47.0	34.0	37.1	30.4	78.2	104.5
Volume	91.9	113.7	80.2	107.3	102.1	109.0	95.9	118.3	128.7	117.5	107.5	95.3	104.7	102.8	103.9	117.4
Unit value	664.1	501.9	547.4	532.2	871.7	977.7	989.4	738.4	618.1	562.1	437.3	356.8	354.0	296.1	637.6	742.2
Coffee																
Value	67.4	59.9	45.3	70.9	94.2	111.2	113.1	83.7	58.6	59.1	42.8	33.0	31.3	27.9	78.9	248.9
Volume	98.7	101.7	107.3	129.3	130.5	93.9	98.4	79.7	97.4	98.6	123.6	109.1	117.7	109.8	117.6	.
Unit value	682.9	588.5	422.2	548.3	721.8	1184.3	1150.4	1050.2	601.5	599.6	346.4	302.5	266.3	253.9	652.8	1594.4
Timber																
Value	22.3	17.8	25.4	22.4	18.3	36.1	23.3	18.3	19.6	34.2	34.0	33.1	37.5	54.4	94.4	117.0
Volume	522.7	417.4	444.1	384.4	294.3	653.5	388.2	300.6	357.1	525.6	491.3	482.8	569.4	592.9	649.0	746.3
Unit value	42.7	42.7	57.2	58.3	62.2	55.3	60.1	60.7	55.0	65.1	69.3	68.6	65.9	91.8	145.5	156.8
Aluminum																
Value	10.0	9.2	4.8	23.0	25.0	33.9	25.0	16.3	18.9	40.6	40.3	29.7	24.1	22.5	42.1	86.1
Volume	33.1	19.8	13.2	63.4	47.1	70.6	59.6	46.9	41.0	69.3	71.7	67.3	63.9	64.7	71.3	87.0
Unit value	302.3	462.0	363.6	362.8	530.8	480.0	420.4	347.7	461.1	585.2	562.1	441.2	377.5	348.4	590.8	989.8
Cotton																
Value	7.3	10.4	16.8	17.8	20.0	9.1	11.8	13.2	8.7	21.9	28.4	13.5	17.4	15.6	37.7	58.2
Volume	22.0	26.6	27.6	27.3	22.5	27.0	29.6	35.7	23.4	56.3	59.4	31.1	45.9	46.3	49.0	61.2
Unit value	334.2	390.6	608.7	652.0	888.9	336.5	399.8	369.5	369.5	389.1	477.3	434.1	379.1	337.8	770.9	951.0
Other manufactured products																
Value	20.3	21.0	25.2	27.3	36.9	59.3	62.5	52.9	32.0	55.1	57.5	45.9	43.4	37.8	47.5	66.9
Volume	40.3	43.5	53.4	45.1	73.4	92.4	149.3	145.3	165.0	502.2	491.2	276.2	278.0	286.4	290.1	313.3
Unit value	504.2	482.3	471.9	605.3	502.7	641.8	418.5	364.1	194.0	109.7	117.0	166.3	156.3	131.8	163.8	213.5
Other agricultural products																
Value	16.1	14.1	17.1	19.3	22.3	22.7	34.0	26.2	24.3	30.1	22.9	30.5	34.4	35.6	89.4	128.2
Volume	102.7	90.1	78.8	89.5	91.3	92.3	163.5	137.6	114.1	126.2	132.6	164.5	210.7	217.6	251.5	343.3
Unit value	157.2	156.8	217.0	215.6	244.2	245.9	208.0	190.4	212.8	238.9	172.4	185.6	163.5	163.7	321.1	373.5
Adjustments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	34.2	45.4	62.4	74.2	39.3	79.1	102.8
TOTAL EXPORTS, f.o.b.	288.2	405.3	468.3	649.4	837.1	1102.1	790.0	551.3	487.2	579.4	565.8	579.9	543.0	470.3	812.7	1215.7
Memorandum:																
Petroleum Products	83.6	216.0	289.8	411.6	531.4	723.3	425.2	253.4	245.6	238.1	247.6	297.7	243.5	206.7	258.7	303.1
in % of total exports	29.0	53.3	61.9	63.4	63.5	65.6	53.8	46.0	50.4	41.1	43.8	51.3	44.8	44.0	31.7	24.9
Coffee, Cocoa, Timber	150.8	134.8	114.6	150.4	201.5	253.8	231.4	189.3	157.8	159.4	123.8	100.1	105.9	112.8	251.5	470.4
in % of total exports	52.3	33.2	24.5	23.2	24.1	23.0	29.3	34.3	32.4	27.5	21.9	17.3	19.5	24.0	30.1	38.7

Sources : Data provided by Cameroonian authorities; and IMF and/or World Bank Staff estimates.

FIGURES

(Source: CETAI, *Manufacturing Enterprises Under Adjustment in Cameroon: A Survey Perspective*, RPED, HEC Montreal, May 1994)

REPUBLIC OF CAMEROON
PRIVATE SECTOR ASSESSMENT

Figure 1:
Constraints to Private Enterprise in Cameroon
(by sector)

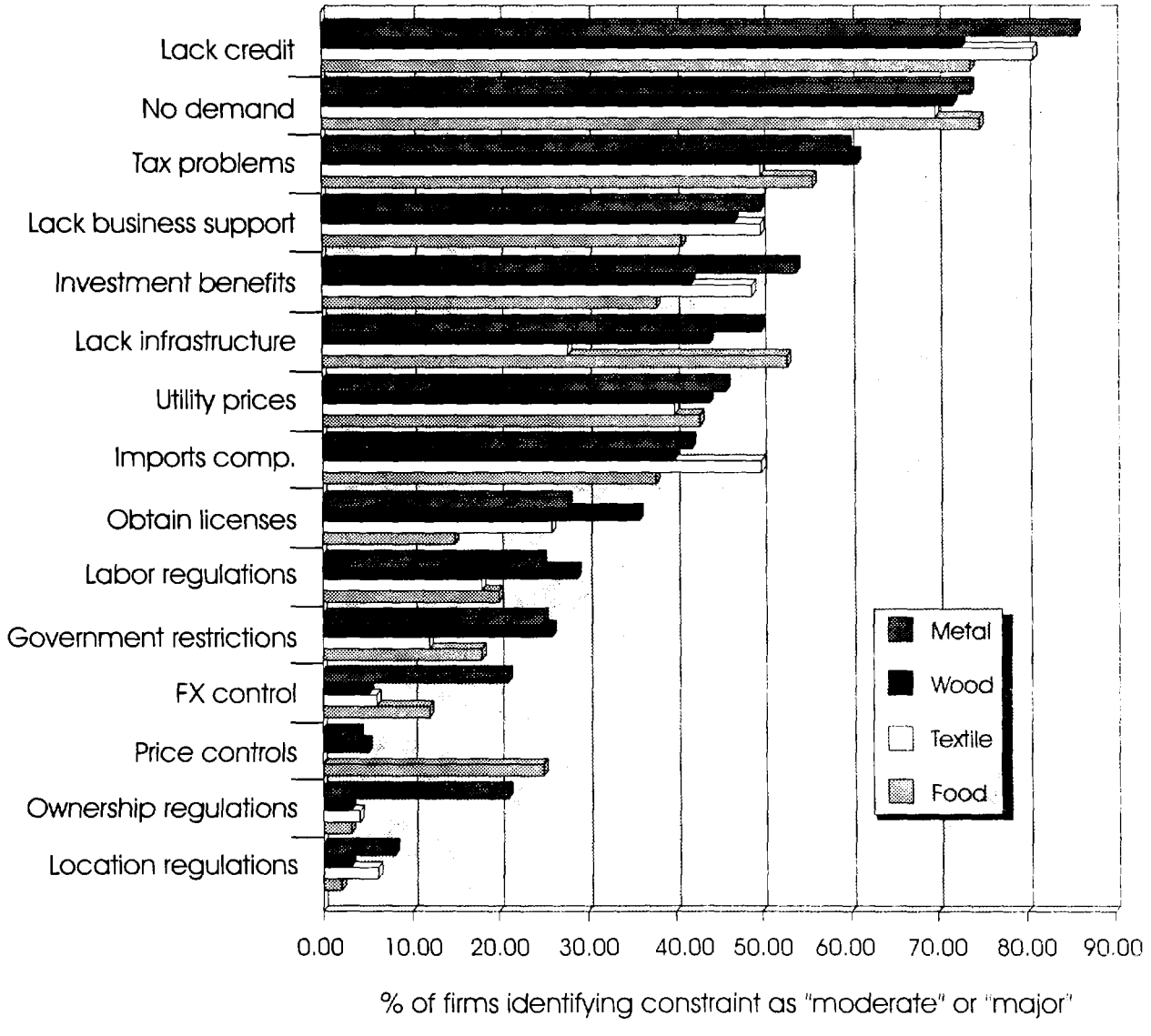

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Figure 2:
Tax Burdens by Size
(as a percentage of sales)

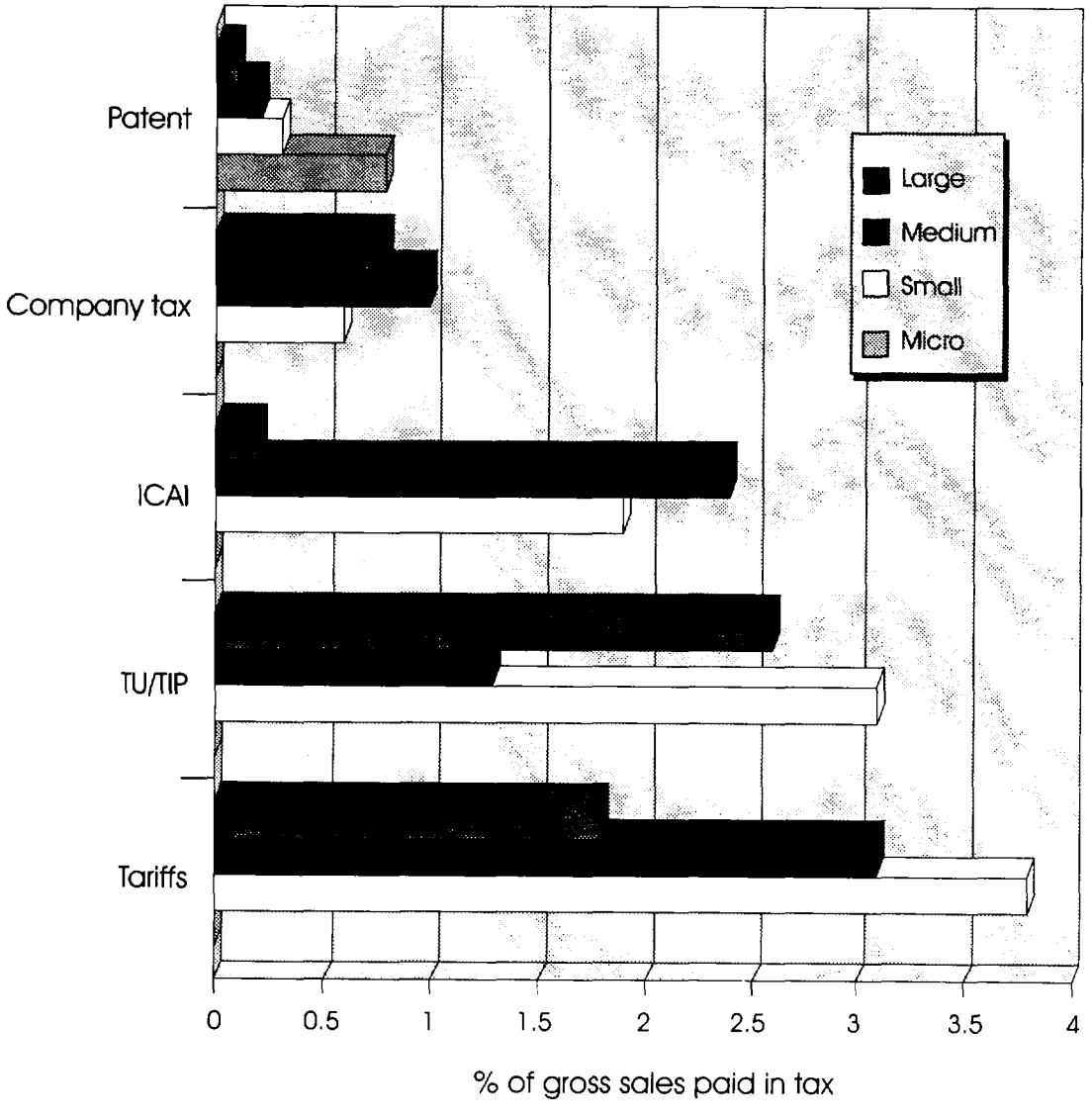

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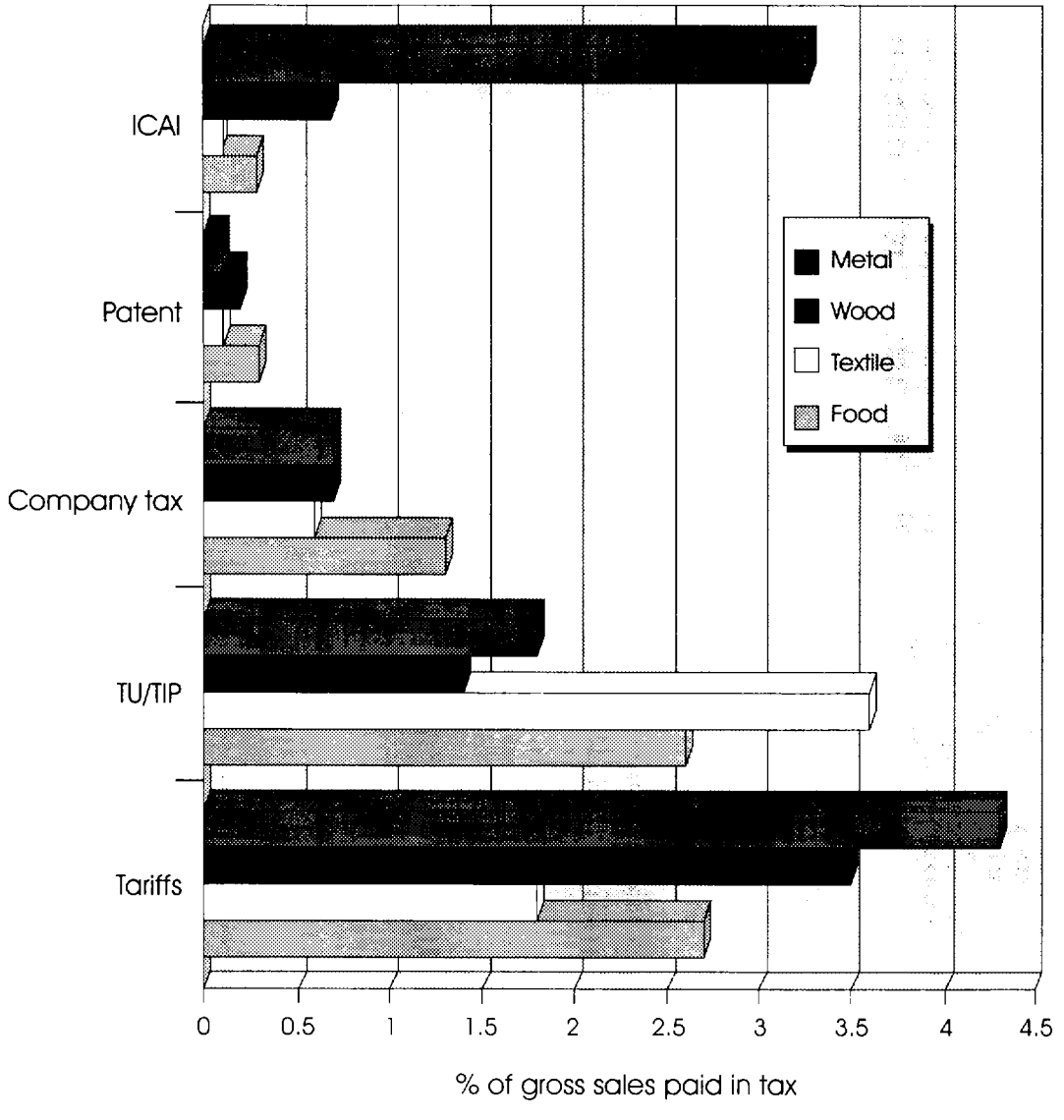
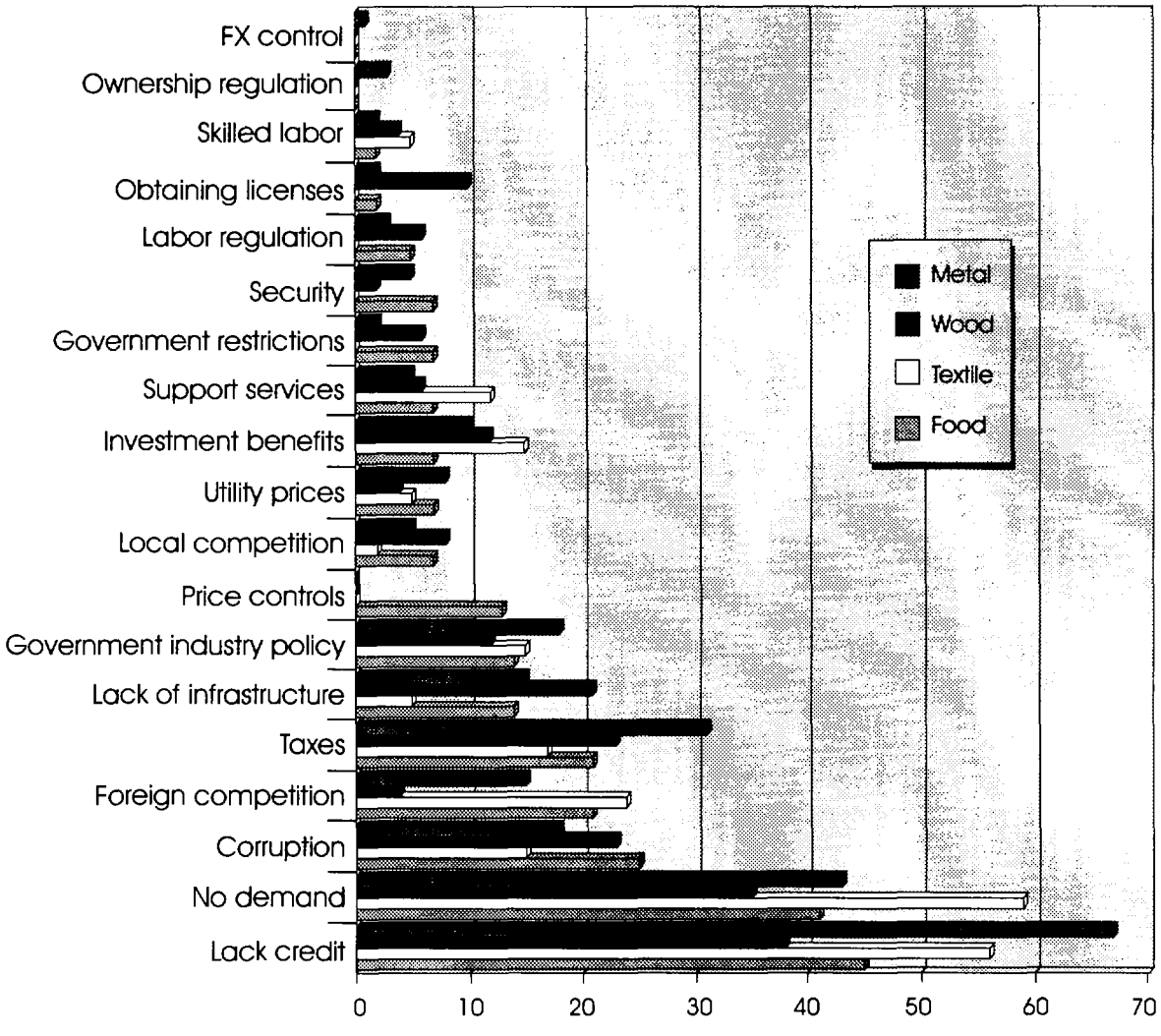
Figure 3:
Tax Burdens by Sector
(as a percentage of sales)



REPUBLIC OF CAMEROON
PRIVATE SECTOR ASSESSMENT

Figure 4:
Most Important Problems by Sector
(as a percentage of respondents)



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REPUBLIC OF CAMEROON
PRIVATE SECTOR ASSESSMENT

Detailed Matrix of Policy Reforms

Policy Reform	Priority (High/Medium/Low)	Short-Term/ Long-Term
1. Macro-economic Stability and Fiscal Deficit Reduction a. Settle Government arrears. b. Control spending, reduce fiscal deficit and limit wage increases. c. Improve tax collection and public resource management.	High	Short-Term
2. Financial Sector a. Reform the judiciary focusing on enforcement of financial contracts and recovery of bad debts. b. Support regional initiatives to free interest rates and to strengthen/establish regulatory and prudential supervision. c. Restructure and privatize state-owned banks. d. Deepen capital markets to meet needs for private investment and FDI. e. Restructure the insurance sector. f. Refrain from applying pressure to banks to lend to public enterprises.	High	Short-Term

Policy Reforms	Priority (High/Medium/Low)	Short-Term/ Long-Term
3. Reform/Divestiture of State-Owned Enterprises and Statutory Monopolies a. Abolish government marketing monopolies in agriculture and sell off government marketing ventures. b. Divest from commercial, financial and industrial activities by privatizing such enterprises in an open, competitive, transparent tender process, possibly managed by a private sector agency such as a merchant bank. c. Adopt a list of at least ten PEs to be privatized every year. d. Establish two separate institutions: one to carry out divestiture and the other to oversee the PE portfolio. e. Improve performance of PEs while awaiting privatization. f. Create a high level agency vested with the powers and resources for implementing divestiture. g. Reform the legal framework between PEs and the State so as to invest their managers with greater autonomy and accountability. h. Establish requirements that PEs prepare and audit accounts in a timely manner.	High	Short-Term
4. Incentive System a. Abolish the need for prior investment approval and simplify general procedures and licensing. b. Abandon the system of investment incentives on reduced import taxes and replace with simplified and reduced tax rates (consistent with macro-economic equilibrium). c. Simplify investment incentives under the Investment Code. d. Eliminate the newly introduced system of export taxes. e. Refrain from signing new special agreements (*conventions spéciales*) and renegotiate old ones. f. Implement a decree permitting remittance of dividends and profits overseas without prior authorization. g. (In time) extend this to all capital flows. h. Ease requirements for employment of expatriates. i. Establish centers (*Guichet Unique*, Chamber of Commerce), which provide an up-to-date and complete inventory of business laws and regulations. j. Computerize and update the companies registry.	High	Long-Term

Policy Reforms	Priority (High/Medium/Low)	Short-Term/ Long-Term
4. Incentive System (*continued*) k. Establish the office of Ombudsman to whom appeals can be made concerning improper application of regulations. l. The *Guichet Unique* should refocus on facilitating all other bureaucratic steps associated with creating a new enterprise (registration, etc.) and on investment promotion. Its partial privatization and integration with the ONZFI is desirable .	High	Long-Term
5. Customs and Trade Reform a. Reform customs administration by establishing a system which is transparent and not prone to arbitrary decisions and corruption. b. Implement UDEAC reforms effectively to simplify and reduce dispersion of tariff rates.	High	Short-Term
6. Business Law and the Judicial System ***1) Judiciary:*** a. Deter corruption in the judiciary through measures to (i) raise the status of the judiciary; (ii) provide adequate resources to personnel and courts while subjecting magistrates to disciplining; (iii) strengthen financial security of judges; (iv) improve transparency (by requiring that judicial decisions be written and requiring disclosure by judges of financial interests); and (v) enforce proper judicial conduct. b. Encourage independence of the judiciary by placing promotion and discipline of magistrates in the hands of a Counsel on the Judiciary, elected from among judges and the academic legal profession. c. Create a formal system for the assignment of commercial cases to judges expressing an interest in such work. d. Eliminate the requirement of paying court costs in advance and formulate alternative proposals. e. Reform administration of the judicial system for business law.	High	Long-Term

Policy Reforms	Priority (High/Medium/Low)	Short-Term/ Long-Term
6. Business Law and the Judicial System (*continued*) ***2) General Laws:*** a. Improve access to legal information; publish appellate court decisions to improve information flows between courts, and renew regular and timely publication of the *Journal Officiel*, privatize the *Imprimerie Nationale*, and draft appropriate regulations to ensure proper publication of laws by the private sector. b. Reform or replace the prime ministerial office responsible for ensuring consistency of laws. c. Prepare and implement texts for enactment of a revised Commercial Code. d. Prepare and implement texts for the enactment of remaining sections of the Labor Code (including new minimum wage provision). e. Enact an updated Company Law providing for, *inter alia*: (i) the creation of single shareholder companies; (ii) an increase in the shareholder and capital requirements to form SA and SARL; and (iii) the creation of holding companies. f. Amend the intellectual property law to provide greater protection to owners of industrial property rights who have failed to register under the *Organisation Africaine de la Propriété Intellectuelle*. g. Draft a bankruptcy code distinguishing between persons responsible for the insolvency and the enterprise itself; providing for corporate reorganization without going into liquidation and generally shortening bankruptcy procedures. ***3. Business Laws:*** a. Modernize the system of business law and laws on bankruptcy on contract disputes and improve arbitration procedures for commercial disputes. Harmonize with OHADA. b. Start work on creating a system of courts specializing in business matters; create a committee to assess the difficulties in implementing the regional banking regulations and propose measures to provide support to COBAC and define clearly the role of national jurisdictions. c. Establish an office of ombudsman to address concerns of foreign and other companies about the selective application of laws and administrative abuses to exert public pressure on officials. d. Draft legislation addressing anti-competitive behavior, with provisions setting out the criteria according to which competition is to be judged and providing for the establishment of a "*conseil de concurrence*" or anti-trust commission. e. Institute procedure for settling commercial disputes by arbitration by establishing a system of "revolving door courthouses", including the physical establishment of facilities and institution of arbitration training courses for law providers.	High	Long-Term

Policy Reforms	Priority (High/Medium/Low)	Short-Term/ Long-Term
7. Fiscal and Regulatory Framework a. Rationalize the tax system. b. Move towards an indirect system of taxation involving payment of VAT. c. Abolish existing regulations which are not being applied effectively. d. Re-evaluate the proposed policy on anti-dumping which realistically balances its supposed advantages against the likelihood of flawed application. e. Abrogate recent decrees which challenge the spirit of the 1990 Commercial Activity law. f. Issue a decree which establishes the private sector's right to trade or produce in all markets. g. Establish a functioning Competitiveness Advisory Committee with both public and private representation, to promote the widespread application of the law.	Medium	Long-Term
8. Inadequate Private/Public Sector Dialogue a. Place the Chamber of Commerce under private sector management, with financing, at least partly, from contributions by the private sector. b. Establish a National Public/Private Advisory Group.	Medium	Long-Term
9. Reform of Government a. Re-orient role of Government from economic and administrative controls to facilitating private sector growth. b. Introduce private sector, performance-based management of selected government functions (such as tax collection, statistics services, etc.). c. Continue to encourage private sector participation and intervention in the health and education sectors. d. Contract out public works by open competitive tender. e. Reform fundamentally the petroleum sector leading to privatization of the sector. f. Create enabling environment to encourage development of independent voluntary private sector associations	High	Long-Term

Policy Reforms	Priority (High/Medium/Low)	Short-Term/ Long-Term
10. Physical Infrastructure a. Privatize its transport companies (which largely operate in competitive markets). b. Open up one or two "easy", dollar earning sectors to the private sector - ports, cellular telecommunications, airlines. c. Establish the regulatory framework for private participation in the power, water and sanitation and telecommunications sectors. d. Open up other sectors to private entry (e.g. independent power producers). e. Privatize initially the management of the central power, telecommunications, and water and sanitation companies; and subsequently the assets, and responsibility for investment, possibly on a concession or lease basis.	High	Long-Term

REPUBLIC OF CAMEROON
PRIVATE SECTOR ASSESSMENT

Private Sector Assessment Seminar: February 28 to March 1, 1996

Proceedings

A seminar was held at the Mont Febe in Yaounde, from February 28 through March 1, 1996 to discuss the Private Sector Assessment. The opening sessions were attended by about 150 persons representing the public and private sectors, the academic community, unions, NGOs, the press, the diplomatic community and donors.

In his opening remarks, Mr. Joseph Ingram, Resident Representative, AF3CM, welcomed participants to the seminar which he presented as an important first step towards the establishment of a permanent dialogue and partnership between the private and public sectors in their search for solutions to the country's economic and social problems.

Mr. Justin Ndioro, the Minister of Economy and Finance, welcomed the participants. He began by saying that the seminar was taking place at an opportune time, when the Authorities are working towards establishing an economic, regulatory and fiscal environment which would contribute to a dynamic and profitable private sector. He said that, in order to address the country's economic crisis, the Government has implemented deep structural reforms, aimed at strengthening the private sector and improving Cameroon's competitiveness. The Minister emphasized that through its efforts to withdraw from the productive and commercial sectors, the Government is calling the private sector to play a critical role in reviving the Cameroonian economy and in becoming the country's engine of growth. He finally wished the participants success in their discussions.

Mr. Iain T. Christie, Chief AF3IE, then outlined the objectives of the seminar and made a presentation of the conclusions of the Private Sector Assessment. He indicated that the main purpose of the seminar was to launch a dialogue between the private and public sectors and to provide representatives of both sectors the opportunity to review existing constraints and make detailed recommendations on how to improve the current unfavorable business environment in Cameroon.

Presentations were made by a number of other speakers, including Mr. Ibrahima Diagne, Resident Representative, IFC; Mr. Bernard Gauthier of HEC, University of Montreal on the Evolution of Constraints and Performance of the Manufacturing Sector; Mr. Jan-Hendrick van Leeuwen, Consultant, on Can Africa be Competitive?; Mr. Henry Tame Soumedjon, President of FEPEC (an SME Association); and Mr. Douglas Swann, representing the BAT.

The second and third days of the seminar were dedicated to working groups. 110 participants were divided into seven working groups to review the following themes: (a) macro-economic and budgetary policy; (b) regulatory and fiscal framework; (c) financial sector; (d) the judiciary system; (e) infrastructure; (f) foreign and regional trade; and (g) divestiture and private/public sector dialogue. Following intensive discussion of these themes, the working groups submitted a comprehensive set of recommendations on macroeconomic and fiscal issues, on the judiciary, on trade, privatization and private/public sector dialogue. Recommendations for reforms in the judiciary system, the financial sector, for a continuous private/public sector dialogue, for rationalization of the incentive and tax systems, and for strengthening professional associations, including the Chamber of Commerce were made by most working groups, emphasizing the critical need for reforms in these areas. Except for one working group, which was not able to reach a consensus on whether the Investment Code should be abolished or not, all the others had a consensus on their recommendations. Participants overwhelmingly recommended the establishment of a "*Comité de Suivi*" to assure that there is close follow-up of the recommendations made during the seminar. Summary recommendations of each working groups were presented in a plenary session by a spokesperson selected by each group.

To close the seminar, Mr. Pierre Eloundou Mani, Minister of Industry and Commerce, congratulated the organizers of the seminar for selecting themes which reflected the actual concerns of the Government and the private sector. The Minister emphasized the Government's mission to create an economic environment and a judicial system which would promote private investment.

A "*Comité de Suivi intérimaire*" consisting of private and public sector representatives has been established at the initiative of GICAM to examine the composition and organization of a permanent committee to be responsible for private/public sector dialogue and to assure that the seminar recommendations lead to concrete results.

SEMINAIRE SUR L'EVALUATION DU SECTEUR PRIVE CAMEROUNAIS (RAPPORT DE LA BANQUE MONDIALE)

YAOUNDE DU 28 FEVRIER AU 1ER MARS 1996

SALLE DE REUNION DU MONT FEBE
****

PROGRAMME

MERCREDI 28 FEVRIER 1996

08H30 - 09H00	Accueil et mise en place des invités
09H00 - 09H45	Ouverture
	Discours de bienvenue par Monsieur Joseph Ingram, Représentant Résident de la Banque mondiale au Cameroun
	Allocution de Son Excellence Monsieur Justin Ndioro, Ministre de l'Economie et des Finances
	Présentation du Programme du Séminaire par Monsieur Atangana Mebara, Modérateur du séminaire
09H45 - 10H00	Pause-café
10H00 - 12H30	- Présentation de l'étude de la Banque mondiale par Messieurs Iain T. Christie, Chef de la Division Industrie et Energie de la Banque mondiale, à Washington (Rapport "Evaluation du secteur privé") et Bernard Gauthier du HEC de Montréal ("Evolution des Contraintes et de la Performance du Secteur Industriel au Cameroun").
	- Discussions
12H30 - 14H00	Déjeuner

14H00 - 16H00 Exposés

(i) - "Comment le Cameroun peut-il être compétitif" par Monsieur Jan Hendrik Van Leeuwen

(ii) - "Investir au Cameroun"

Conférenciers:

1. Société Financière Internationale par Monsieur Ibrahima Diagne, Res. Rep. de la SFI.
2. Investisseur camerounais par Monsieur Tame Soumedjong, Président du FEPEC.
3. Investisseur étranger par Monsieur Douglas Swan de BAT.

16H00 - 16H15 Pause-café

16H15 - 18H00 Discussions

JEUDI 29 FEVRIER 1996

Travaux en ateliers sur les sept thèmes suivants:

- Cadre macro-économique et politique budgétaire
- Cadre réglementaire et fiscal
- Secteur financier
- Droit commercial et système judiciaire
- Politique d'infrastructure
- Commerce extérieur et échanges régionaux
- Réforme du secteur public/privatisation et dialogue sur le secteur public/privé

Pour chaque thème, des participants potentiels ont été identifiés provenant des différents secteurs et milieux

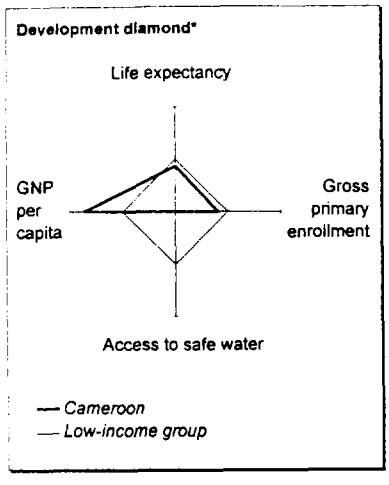
09H00 - 10H45	Travaux en ateliers
10H45 - 11H00	Pause-café
11H00 - 12H30	Travaux en ateliers (suite)
12H30 - 14H00	Déjeuner
14H00 - 16H00	Travaux en ateliers (suite)
16H00 - 16H15	Pause-café
16H15 - 18H00	Travaux en ateliers et rédaction des recommandations par atelier (suite)

VENDREDI 1er MARS 1996

09H00 - 10H00	Travaux en ateliers et rédaction des recommandations (suite)
10H00 - 10H15	Pause-café
10H15 - 13H00	Séance plénière: conclusions et présentation des ateliers. Recommandations Adoption d'un programme de travail à moyen terme (durée à déterminer)
13H00 - 13H15	Clôture du séminaire - Lecture des recommandations - Discours du Représentant Résident de la Banque mondiale - Discours de clôture du séminaire par Son Excellence Monsieur Pierre Eloundou Mani, Ministre du Commerce et de l'Industrie
13H15 - 14H30	Déjeuner

Cameroon at a glance

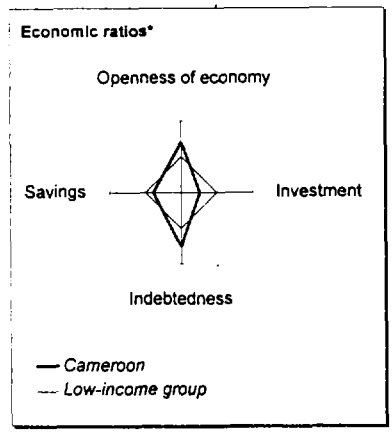
POVERTY and SOCIAL	Cameroon	Sub-Saharan Africa	Low-Income
Population mid-1994 *(millions)*	13.0	565	3,176
GNP per capita 1994 *(US$)*	680	510	390
GNP 1994 *(billions US$)*	8.8	288	1,239
Average annual growth, 1990-94			
Population *(%)*	3.0	2.9	1.8
Labor force *(%)*	2.2	2.7	1.8
Most recent estimate *(latest year available since 1989)*			
Poverty: headcount index *(% of population)*	..	..	..
Urban population *(% of total population)*	45	28	26
Life expectancy at birth *(years)*	56	52	65
Infant mortality *(per 1,000 live births)*	61	94	53
Child malnutrition *(% of children under 5)*	14	..	38
Access to safe water *(% of population)*	..	..	67
Illiteracy *(% of population age 15+)*	46	50	41
Gross primary enrollment *(% of school-age population)*	87	68	106
Male	..	77	112
Female	..	62	100



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

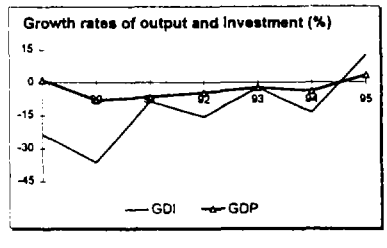
	1975	1985	1994	1995
GDP *(billions US$)*	2.8	8.3	7.5	8.2
Gross domestic investment/GDP	20.0	24.8	14.2	15.5
Exports of goods and non-factor services/GDP	22.7	32.7	29.3	31.5
Gross domestic savings/GDP	17.1	33.7	19.5	22.0
Gross national savings/GDP	8.4	26.9	11.1	12.4
Current account balance/GDP	-7.2	3.9	-6.2	-3.1
Interest payments/GDP	0.6	1.6	14.4	9.7
Total debt/GDP	15.3	35.3	129.2	108.2
Total debt service/exports	6.7	22.6	42.8	40.5
Present value of debt/GDP	..	..	86.1	..
Present value of debt/exports	..	..	284.3	..

	1975-84	1985-95	1994	1995	1996-04
(average annual growth)					
GDP	9.9	-4.0	-3.8	3.3	4.9
GNP per capita	7.3	-6.7	-10.4	0.6	1.9
Exports of goods and nfs	15.8	0.1	9.0	3.0	4.6

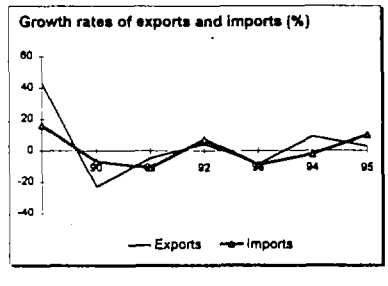


STRUCTURE of the ECONOMY

	1975	1985	1994	1995
(% of GDP)				
Agriculture	29.1	20.2	31.8	32.2
Industry	18.2	33.6	27.6	27.4
Manufacturing	10.3	10.8	11.7	12.6
Services	52.6	46.3	40.5	40.4
Private consumption	72.0	57.5	72.6	71.6
General government consumption	10.9	8.8	7.9	6.5
Imports of goods and non-factor services	25.5	23.8	24.0	25.0



	1975-84	1985-95	1994	1995
(average annual growth)				
Agriculture	6.1	1.3	-3.8	4.0
Industry	23.2	-2.9	-3.8	1.7
Manufacturing	14.7	-2.8	-3.8	7.7
Services	6.2	-8.4	-3.8	4.3
Private consumption	7.9	-2.7	-2.1	6.1
General government consumption	6.8	-4.9	-30.7	-12.1
Gross domestic investment	14.1	-15.9	-13.6	12.5
Imports of goods and non-factor services	6.5	-3.5	-2.2	10.2
Gross national product	10.5	-3.9	-5.6	3.0



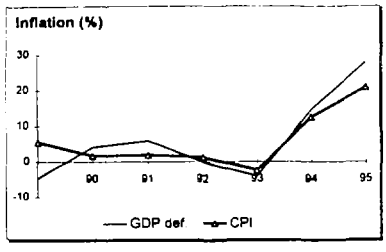
Note: 1995 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Cameroon

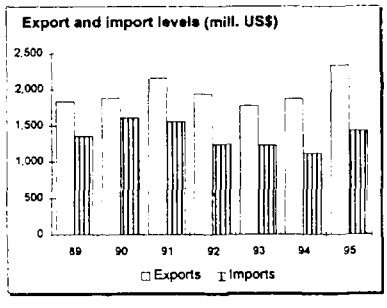
PRICES and GOVERNMENT FINANCE

	1975	1985	1994	1995
Domestic prices				
(% change)				
Consumer prices	13.6	11.5	12.7	21.0
Implicit GDP deflator	3.7	14.6	14.7	28.1
Government finance				
(% of GDP)				
Current revenue	..	20.6	10.6	12.0
Current budget balance	..	9.3	-6.2	-3.1
Overall surplus/deficit	..	-1.5	-9.7	-4.3



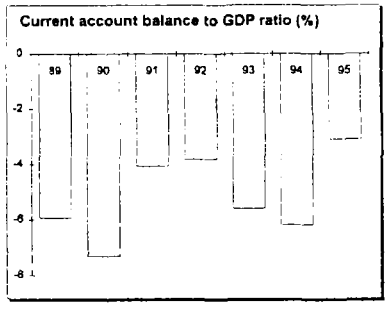
TRADE

	1975	1985	1994	1995
(millions US$)				
Total exports (fob)	..	2,339	1,868	2,331
Oil and refined oil	..	1,535	531	454
Cocoa beans, butter and cake	..	226	177	256
Manufactures	..	126	109	137
Total imports (cif)	..	1,231	1,114	1,428
Food	..	92	195	222
Fuel and energy	..	8	7	8
Capital goods	..	382	349	460
Export price index *(1987=100)*	..	126	99	121
Import price index *(1987=100)*	..	96	80	89
Terms of trade *(1987=100)*	..	131	124	136



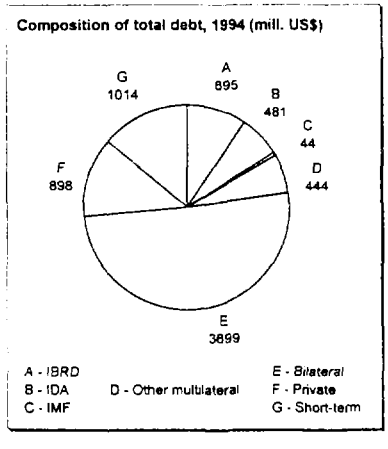
BALANCE of PAYMENTS

	1975	1985	1994	1995
(millions US$)				
Exports of goods and non-factor services	660	2,798	2,186	2,678
Imports of goods and non-factor services	790	1,898	1,792	2,128
Resource balance	-130	900	394	549
Net factor income	-46	-539	-707	-803
Net current transfers	-22	-33	-7	-92
Current account balance, before official transfers	-198	328	-234	-263
Financing items (net)	180	-290	341	249
Changes in net reserves	18	-38	-51	24
Memo:				
Reserves including gold *(mill. US$)*	29	125	25	23
Conversion rate *(local/US$)*	222.4	471.1	434.3	521.5



EXTERNAL DEBT and RESOURCE FLOWS

	1975	1985	1993	1994
(millions US$)				
Total debt outstanding and disbursed	420	2,942	6,818	7,275
IBRD	50	287	691	695
IDA	50	227	227	481
Total debt service	45	638	959	967
IBRD	4	35	173	140
IDA	0	3	8	6
Composition of net resource flows				
Official grants	31	44	110	333
Official creditors	56	101	257	256
Private creditors	48	-249	-1	-46
Foreign direct investment	27	316	5	105
Portfolio equity	0	0	0	0
World Bank program				
Commitments	22	159	0	209
Disbursements	37	51	59	202
Principal repayments	0	16	92	86
Net flows	37	34	-33	116
Interest payments	4	21	89	60
Net transfers	33	13	-122	56



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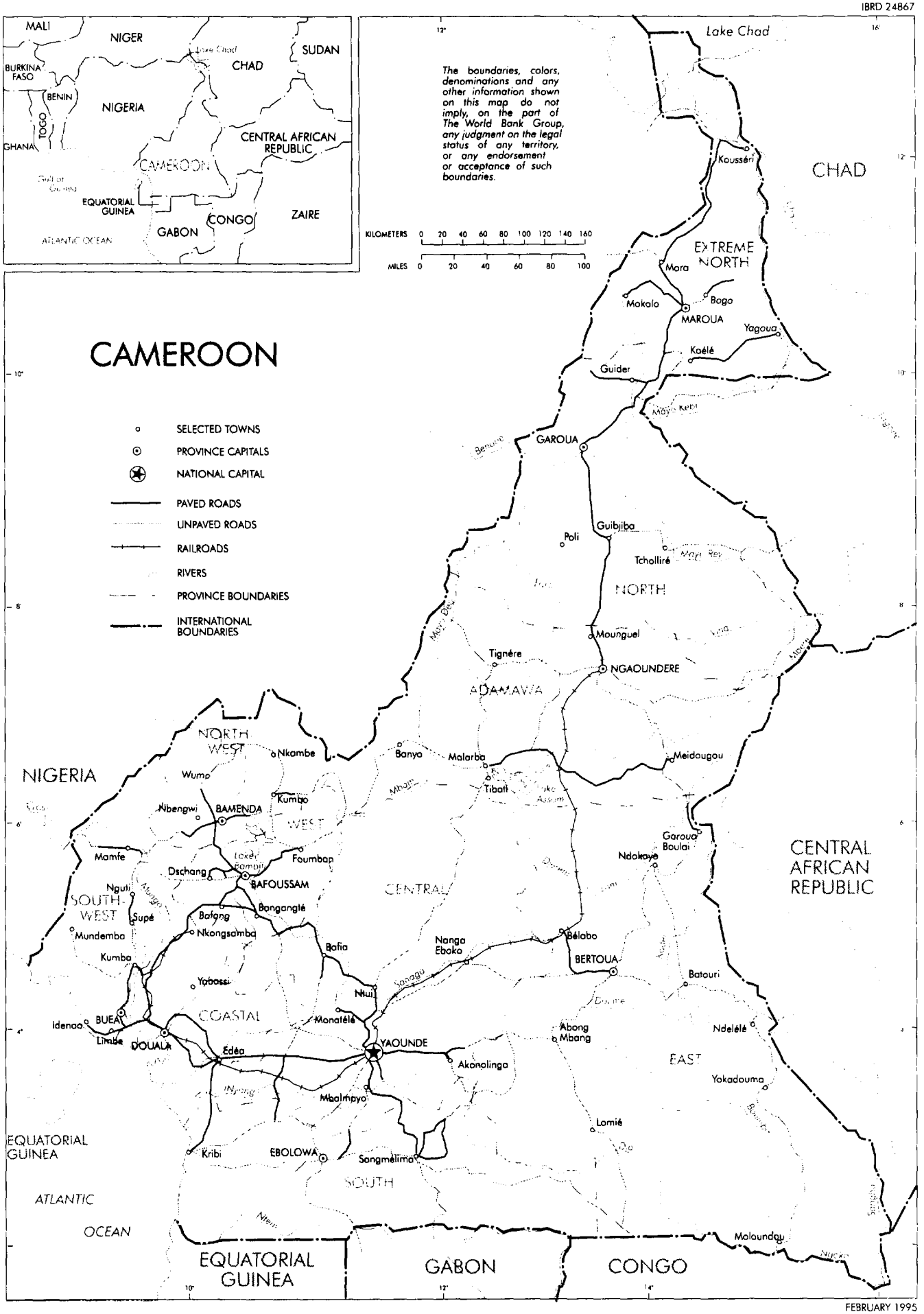

FEBRUARY 1995

IMAGING

Report No: 13955 CM
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