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United Republic of Cameroon Economic Memorandum

(In Two Volumes)

Volume I: Main Report

March 22, 1978

Western Africa Region
Country Programs II

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Document of the World Bank

CURRENCY EQUIVALENT

1. Currency unit: CFAF Franc (CFAF)

2. Fixed parity: 50 CFAF = 1 FF

   The CFAF floats against other currencies.

3. The following rates have been used in this report:

Fiscal Years	1 $ = CFAF		Calendar Years
	FY	CY	
1977/78 and later	250	250	1978 and later
1976/77	248	245	1977
1975/76	225	239	1976
1974/75	222	214	1975
1973/74	230	241	1974
1972/73	241	223	1973
1971/72	265	252	1972
1970/71	278	277	1971
1969/70	274	278	1970

WEIGHTS AND MEASURES

1 meter (m)	=	3.28 feet
1 kilometer (km)	=	0.62 miles
1 hectare (ha)	=	2.47 acres
1 square kilometer (km2)	=	0.386 square miles
1 kilogram (kg)	=	2.205 pounds
1 ton (t)	=	2,205 pounds
1 liter (l)	=	0.26 gallons

Fiscal year of the Government = July 1 - June 30

Crop year = October 1 to September 30

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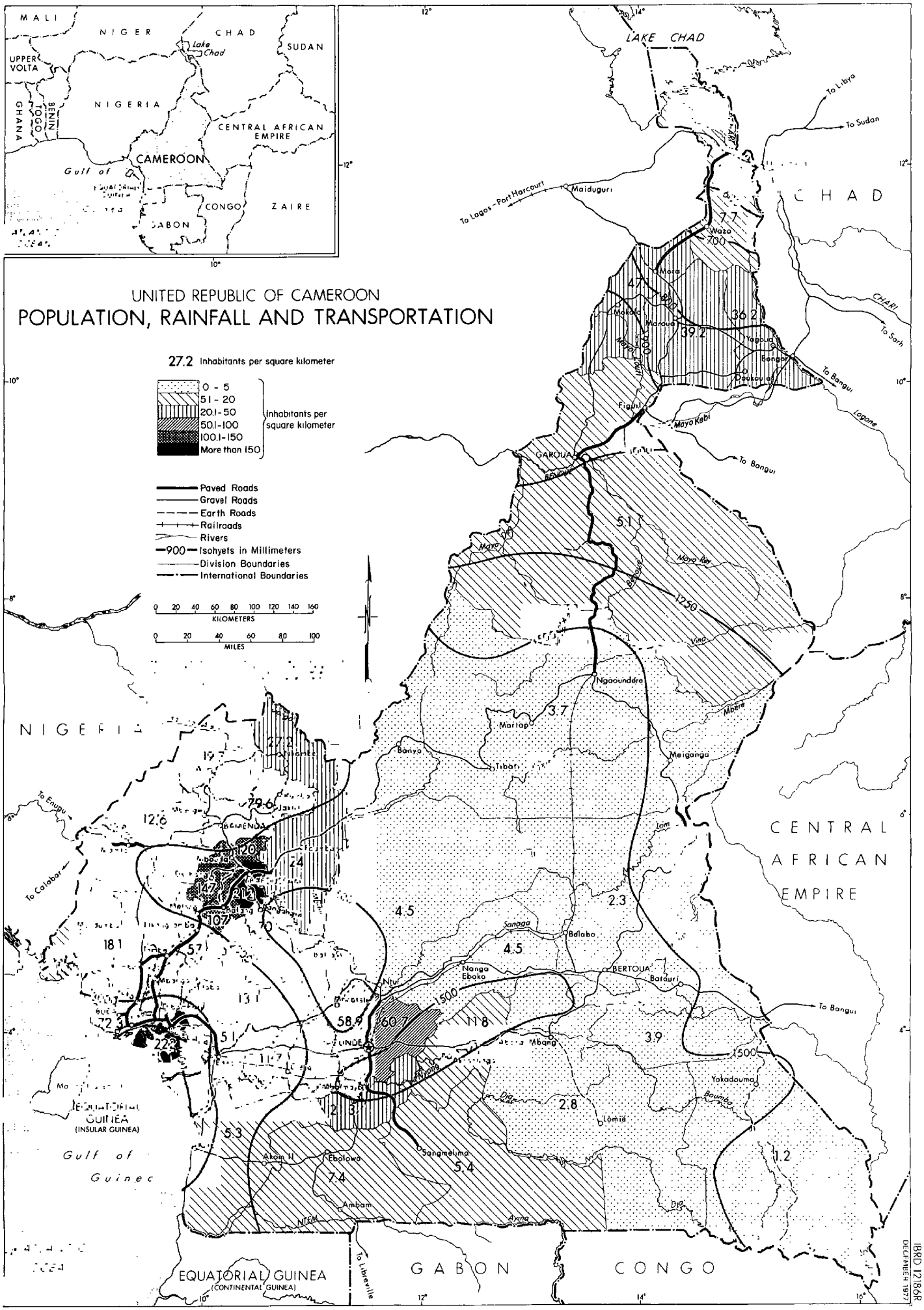
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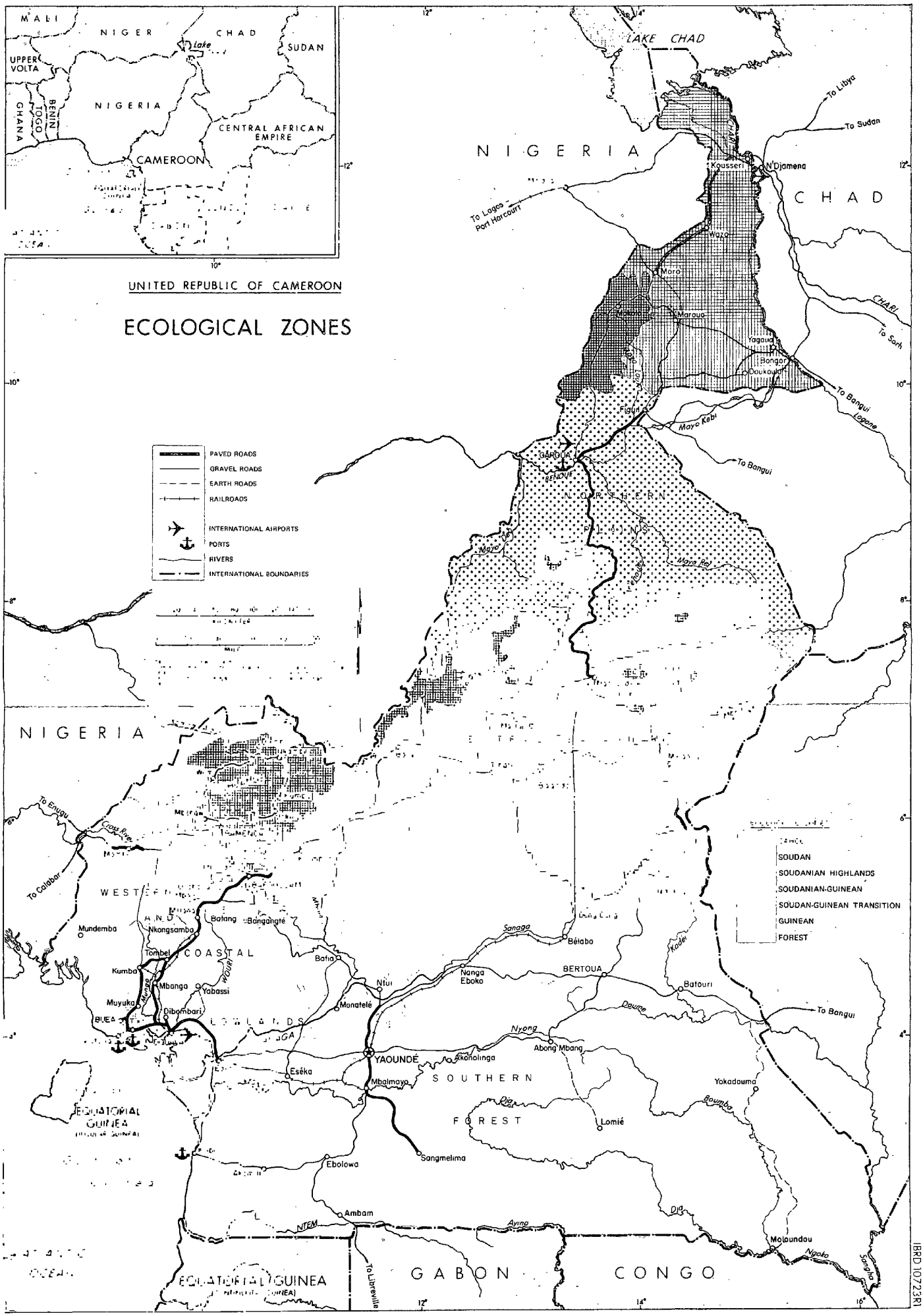
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PREFACE

This memorandum 1/ has two rather different overlapping objectives. The first objective, presented in the statistical appendix, is to provide a more comprehensive macro-economic framework than heretofore for the Bank's economic work on the country. It is used to describe developments during 1970/71-1975/76 in Part I of the Report. The second objective, presented in the Summary of Conclusions and Part II, is to evaluate the medium term economic and financial outlook as it appears in 1977/78. Earlier Bank economic reports had not, for reasons indicated below, been able to develop macro-economic time series systematically; the estimates presented here must still be considered subject to revision.

The application of this framework to the review of developments during 1970/71-1975/76 in Part I of the report does, however, reflect the main conclusions of the Cameroon authorities as represented in discussions with the Mission and in the 1977/78 Budget, and other official documents subsequently made available to the mission.

The main features of the macro-economic framework are:

(a) The development of a constant price series for the national accounts, without which it is difficult to derive a comprehensive picture of the rate and composition of real growth. Because the last full set of official accounts was prepared for the year 1971/72 and subsequent accounts (in current prices only) are based on partial data, these estimates must be considered provisional (see Appendix Tables 2.1-2.6 and Appendix Tables 3.1 and 3.2).

(b) The revision of balance of payments data (official series for calendar years begin only in 1970) to a fiscal year basis, to make the balance of payments useful for policy analysis and coherent with the budget and national accounts (see Text Table 15).

(c) The consolidation of foreign financial flows with domestic financial flows in the public sector (see Text Table 11). Information on the former was derived from balance of payments data provided by the Cameroon authorities and from debt data as reported by the authorities in the World Bank debt reporting system and converted to a fiscal year basis, but the reliability of the overall analysis of the public sector is clouded by lack of current information on some public enterprises, the need to convert stabilization fund operations from a crop to a fiscal year basis, and the fact that until mid-1972 the Federal and East and West Cameroon governments kept separate and unconsolidated accounts.

1/ Based on an economic mission in November 1976, comprising Michael Payson, Mission Chief and John Edelman, Kiem Huy Phan, and Pisei Phlong, economists; supplemented by desk studies and sector and project information gathered during the year by IBRD. Messrs. Payson and Phan returned to Cameroon to discuss the report with the authorities January 28 through February 4, 1978.

(d) Use of the Bank's standard computer projection program, which highlights the real effects of changes in the terms of trade and simulates long run debt service charges, based on the existing level and composition of outstanding foreign public debt and a variety of scenarios with respect to future borrowing.

SUMMARY AND CONCLUSIONS

Introduction

1. Cameroon experienced rather slow real output growth during the Third Plan period, 1971/72-1975/76, and a substantial rise in gross fixed capital formation during the last two years of the period. Together with the deterioration in the terms of trade, these developments placed considerable pressure on available foreign exchange reserves and domestic financial resources. The Government initiated the Fourth Five Year Plan (1976/77-1980/81) which calls for a total investment program approximately 80 percent more in real terms than the amount estimated to have been realized during the preceding five year period. In the first two years of the Plan period, there was a surge in world market prices for Cameroon's exports, particularly cocoa and coffee, which has led to a temporary easing of the financial situation.

2. Selected results of the first population census in Cameroon establish the total population in April 1976 at 7.7 million, which is from a half million to a million more than previous estimates based on extrapolated growth rates, sample surveys and other partial data. The census also established that in 1976 almost 30 percent of the population lived in urban areas, 10 percent in the two largest cities, that Cameroon has a youthful population with 43.4 percent of the total under the age of 15, that a high share of the active labor force (close to 80 percent) is engaged in agriculture, livestock, fishing and forestry, and that average population density is low nation-wide (16.5 per square kilometer) but with large variations among regions (from 74.5 per square kilometer in the Western Province to 3.4 per square kilometer in the Eastern Province). Population growth appears to have accelerated from a rate of about 2 percent per annum during 1960-1975 to an estimated rate of 2.3 percent in 1975-1980, mainly as a result of a large decrease in the death rate relative to a small decrease in the birth rate.

Trends in Output and Income

3. In contrast to the high 7.6 percent annual growth rate of GDP achieved during the Second Plan period, the growth rate during the Third Plan period was less than 3.0 percent, while gross domestic income grew even slower as import prices rose somewhat faster than export prices. Agriculture, accounting for about one third of GDP, grew at about 3.6 percent a year compared with 5.5 percent in the preceding five year period. Output of commercial crops rose by only 1.3 percent per annum, mainly owing to a fall in output of coffee and cocoa, which account for about 55 percent of Cameroon's commercial crops. These were adversely affected by unfavorable climatic conditions in some years, the lag in producer prices relative to those of competing cash food crops and of inputs (mainly fertilizers), the increasing age of cocoa and coffee trees and difficulties in countering the black pod disease of the cocoa trees. However, production of the main food crops expanded at about 6 percent a year, in response to favorable prices and strong demand in urban areas and neighboring countries. Livestock production was depressed by drought in the North of

Cameroon in 1972 and 1973, and subsequent recovery has been slow. Growth in manufacturing slowed as the first wave of import subsitutitin came to an end. With rising costs and higher claims on available public revenues, real growth in public administration was also reduced below the 1965/66-1970/71 rate. Construction actually declined during 1970/71-1975/76, and with a deceleration in exports, near stagnation in imports and the low growth in real income throughout the economy, other services (mainly trade and transport) rose only about one percent per annum.

Investment and Savings

4. During the Third Plan period, despite slow income growth, the investment rate including change in stocks increased from about 16 percent of GDP in the Second Plan period to slightly over 18 percent, and the share of public investment increased to almost 70 percent of total fixed investment. Gross domestic savings and gross national savings averaged 16 and 14 percent of GDP respectively, somewhat higher than in the past, but because debt service also rose, the gross inflow of external resources continued to finance about one-third of total investment, not a high ratio compared to other African countries at a comparable level of development. The substantial improvement in savings during 1970/71-1975/76 was due to a drastic reduction in the real growth of consumption, particularly private consumption, to less than 2 percent from 9 percent per annum during 1965/66-1970/71. The maintenance of a high investment rate during a period of low output growth results in a high incremental capital output ratio. Some of the apparent reduction in capital productivity was attributable to investments, such as oil exploration, which would lead to production only a number of years later, investment in transport infrastructure (about 20 percent of total investment) which would result in increased output through the years, and social infrastructure investments which would likely increase welfare more rapidly than output. Real private investment declined in the first two years of the Plan period, but recovered moderately in the last three years.

Public Finance and Balance of Payments

5 Public savings after debt service averaged about 36 percent of total public investment during the Third Plan period, a slighly lower share than in the preceding five years, but a substantial Government contribution in view of underlying economic trends. More than a third of public savings was mobilized through the stabilization funds, which kept farmgate prices at levels significantly lower than export prices. Central Government current and capital spending exceeded budget revenues by only 10 percent, on average, for these five years. The deficit was financed to an increasing extent by foreign resources.

6. In 1974/75 and 1975/76, imports of goods and non factor services, especially of capital goods, increased as a result of worldwide inflation and the higher public development expenditure, while exports rose more slowly owing particularly to a decline in volumes in 1974/75 and a decline in prices in 1975/76. As a result, sizeable external current account deficits occurred in the last two years of the Third Plan, following a small surplus

in 1973/74. The bulk of the current deficit was financed by net capital inflows, but a substantial drawdown of international reserves was also made in 1974/75. Net official international reserves were equivalent to about two weeks of imports of goods and non-factor services at the end of the Third Plan period.

Fourth Five Year Development Plan (1976/77-1980/81)

7. Cameroon is now implementing its Fourth Economic and Social Development Plan. Allowance for private investment is specifically included, and guidelines have been established to help to expand production capacity in agriculture, forestry, mining and manufacturing. Publicly guaranteed borrowing is, however, expected to provide a substantial share of the financing of private or joint private-public investments in the productive sectors, particularly for certain large projects in industry. The Plan investment program of some US$3.1 billion (in 1974/75 prices) is about 80 percent higher in real terms than the estimated level achieved in the last Plan period and almost triple previous plan expenditure in nominal terms. The Plan gives greater emphasis to agricultural development (about 16 percent of total investment), power (11 percent, mainly the Song Loulou hydroelectric scheme), and manufacturing and mining (22 percent, with a substantial part in oil exploitation, refining and storage). Transport infrastructure is allocated 26 percent, urban development and low-cost housing 7 percent and social infrastructure 7 percent.

Medium and Long-Term Development Strategy

8. Cameroon's main medium and long term potential lies in the development through both industrial plantations and smallholders of a diversified agricultural sector, comprising export crops and domestic food crops to feed the growing urban population and replace imports, particularly of grains (rice, wheat). Implementation of such a strategy depends on an appropriate mix of public intervention and support, and price and policy measures to stimulate private initiative; net financial returns to the public sector are more difficult to capture than in a less diversified foreign trade-oriented strategy. Factors which complicate the agricultural development effort further in Cameroon are the extensive dispersion of its main economic and population centers separated by vast underpopulated areas, its regional and institutional diversity, the competition between export and cash food crops, shortages of agricultural labor in some parts of the country, the dependence of a substantial part of public revenue and savings on cocoa and coffee, and the limited availability of skilled agricultural agents and administrators. Cameroon's effort to train manpower and develop public services in agriculture, as well as other sectors, is being supported by technical assistance and education projects through multilateral and bilateral aid sources. In industry the Government has moved to channel more financial resources for investment directly through the public sector, in addition to the incentives for private investment by tax and other measures, which have been in existence for many years. The Government is actively participating in a World Bank Group study of the manufacturing sector, whose results will help identify bottlenecks and opportunities to develop existing as well as new industrial activities.

Current Situation and Medium-Term Prospects

9. The high export prices for Cameroon's principal export commodities in the first two years of the current Plan (1976/77 and 1977/78) helped to boost government budget revenues dramatically, while the proceeds of export sales have permitted the accumulation of record stabilization fund surpluses, as well as major price hikes for cocoa and coffee farmers in the current year. The volume of both cocoa and coffee exports declined in 1976/77 but is expected to recover in 1977/78, partly in response to the Government's price and production support policies. Notwithstanding the jump in export prices there was no increase in net official reserves in 1976/77, as an expansion in imports absorbed the additional resources from higher foreign exchange earnings and net capital inflows. Prospects are promising for a modest increase in foreign exchange reserves in the current fiscal year, owing to the expected recovery in agricultural exports, the initiation of crude oil exports, and a further expansion in net capital inflows.

10. For the Plan period as a whole GDP growth should accelerate substantially to perhaps 6.0% annually. An expansion in agricultural growth during the period will however depend on the success of price and direct support measures in stimulating higher productivity in cocoa and coffee, the implementation of ongoing programs for the development of other tree crops, and maintenance of strong demand for annual commercial crops and livestock. Improved markets for wood and wood products are expected to stimulate recovery in this sector, with growth above previous peak levels facilitated by expanded transport capacity at the end of the period. Crude oil production started in 1978 and will exceed 1.0 million tons per year by 1980. Continuing growth of manufacturing production from existing and expanded facilities, particularly in food, beverages and construction materials, and the initiation of output from some new undertakings are projected to result in an acceleration in the growth of manufacturing compared with the past five years. With high growth in productive and investment activities, construction and services are also expected to increase at a higher rate.

Outlook for Investment and Savings

11. These favorable medium terms prospects will help facilitate achievement of a considerable increase of investment. Nevertheless, it does not seem likely that it will be possible to achieve in full the investment target of the Fourth Plan. Notwithstanding the growing capacity of public institutions to prepare and execute a diverse range of rural development projects and programs, physical implementation of certain proposals in this high priority sector is likely to be delayed beyond the Plan period. Moreover higher costs, expanded public participation, and some new projects are likely to incresae the share of public outlays in industry, transport, and power, and indeed could push total investment above Plan proposals unless reductions were made in social and administrative investments. Moreover, both medium and longer term financial prospects suggest that Cameroon would be prudent to limit the increase in total investment to a level about two thirds over the

Third Plan level in real terms rather than 80% as projected in the Fourth Plan. This implies a public investment level of only two thirds over the Third Plan (rather than the doubling projected in the Fourth Plan), since private investment of at least the Plan amount is needed to stimulate output and expand capacity in forestry, agriculture, livestock, fisheries and manufacturing. This conclusion is based on (a) the dependence of public revenue and savings on cocoa and coffee prices, which are projected to decline substantially from their record levels in the first two years of the Plan period, while import prices will continue to rise, (b) the need to maintain sufficient financial reserves to provide farmers adequate price and production support incentives for production and new plantings, and (c) the need to keep supplementary borrowing on commercial terms at prudent levels to preserve Cameroon's long term capacity to borrow. The investment rate during the Fourth Plan period would then be about 22 percent of GDP and total invesment in current prices would be about US$3.5 billion or about US$690 million per year. In making the necessary adjustments to keep the Fourth Plan within this framework, priority clearly needs to be given to projects with high economic and social returns. There are a number of projects in the Plan whose returns presently appear to be rather low or uncertain. These could be postponed or reduced in scope.

Longer-Term Outlook

12. The expected high public investment rate during 1975/76-1980/81 is not likely to be sustainable at least during the mid 1980s due to worsening terms of trade and to the necessity of prudent debt management to maintain the country's long-term capacity to borrow. However, there is a good resource potential which should help to maintain a healthy growth rate during the decade of the 1980s, if adequate private investment can be attracted to key sectors and if government policies and their implementation are strengthened in support of developments in key areas. The main possibility for substantial private investment is in forestry where the potential for expanded output and exports is very large. There are also reportedly some good iron ore deposits. Land resources are very good for continued expansion of rubber and oil palm, and for more rapid development of food crops and livestock; moreover there are significant possibilities for expanded exports of a number of these products, both to neighboring African countries and to other continents. These should be able to more than compensate for relatively slow growth rates expected in coffee and cocoa. Continued development of manufacturing for the domestic market in line with income growth is certainly feasible, and there is no reason why a significant beginning should not be made in manufactured exports before the end of the 1980s. The pace at which realization of these potentials can take place will of course depend in part on the government's success in stimulating private investment, in directing its own investment outlays to high priority sectors, and in developing the institutional base to ensure effective implementation of policies.

Financial Prospects and Creditworthiness

13. During the Fourth Plan period, public savings after debt service would finance more than 40 percent of public investment, compared with the corresponding shares of 39 and 36 percent for the Second and Third Plan periods. However, this share would be nearly two thirds during the first two years of the Fourth Plan period due to very favorable terms of trade, on the average more than 20 percent higher than the base year of 1974/75. During the last three years of the Fourth Plan period and thereafter at least until the mid-1980's, the share of domestic public financing would be only about one third or less as the terms of trade are projected to drop by about 17 percent between 1977/78 and 1978/79 and to decrease more gradually through the mid-1980's. Cameroon will also experience, during the period from the late 1970's on, a more normal and higher public debt service burden when amortization payments for the many concessionary loans begin and when the service on public borrowing at commercial terms will increase rapidly. Cameroon will have to rely increasingly on foreign financing for the bulk of its public investment, and foreign official lenders should continue to finance a high proportion of total project costs of externally financed projects, including local costs in appropriate cases.

14. An increasing reliance on foreign borrowing during a period of deteriorating terms of trade will require careful medium-term financial and external debt management. Thus the evaluation and summation of investment proposals in current prices is needed to determine domestic and foreign capital requirements, while medium-term financial planning is needed to improve annual phasing of investments and plan for adequate levels of resources to meet rising debt service obligations and sustain production incentives. Of particular importance is the monitoring of public enterprises, which play a significant role in both the mobilization and use of domestic and foreign funds in Cameroon. 1/ The recent establishment of an interministerial committee on current economic developments (Comite Interministeriel de Conjoncture Economique) and the creation of an autonomous amortization fund (C.A.A.) should help to strengthen overall financial management in the face of economic fluctuations and rising international obligations.

15. Cameroon continues to be creditworthy for World Bank financing on the basis of its ability to maintain and improve productivity in the utilization of the country's resources in the medium-term and its potential in the long-term to further diversify the economy by developing still unexploited resources. On the reasonable assumption that at least 50 percent of foreign public capital will be on concessionary terms, the foreign debt service ratio, about 6 percet of export earnings in 1976, could be maintained below 13 percent by 1983.

1/ See paras. 65-77

PART I

RECENT DEVELOPMENTS

Population and Employment

1. The first population census 1/ in Cameroon established the total population of 7.7 million in April 1976, from about an one-half to more than one million higher than previous estimates based on extrapolated growth rates, sample surveys and other partial data. Population growth appears to have accelerated from a rate of about 2 percent per annum during 1960-1975 to an estimated rate of about 2.3 for 1975-1980. This resulted from a much greater decrease during the period 1960-1975 in the crude death rate to an estimated 20.5 per 1,000, compared with a small decrease in the estimated crude birth rate of 43.6 in 1975 2/. The urban population has grown rapidly since 1960, at estimated rates exceeding 6 percent per annum. In 1960, 28.5 percent of the population lived in urban areas. The populations of the largest city, the port of Douala - 458,476, and of the second largest city, the capital city of Yaounde - 317,706, accounted for respectively 6 and 4 percent of the total population. The average population density was 16.5 per square kilometer in 1976. However, population density by province varied widely from 3.4 per square kilometer in the Eastern Province to 74.5 in the Western Province. The national average family size was 5.2 in 1976. The urban and rural averages were about the same, 5.1 and 5.2; but the average by province varied considerably from 4.6 in the Littoral Province to 7.0 in the North-West Province. The Cameroonian population was quite young in 1976, the result of continuous high fertility. In 1976, 43.4 percent of the population was under the age of 15. The rapid and regular narrowing of the population pyramid with advancing age brackets, reflects still high mortality. As a result of the rural-urban migration, the rural population had an important deficit of males in the 15-54 age group while the urban population had a surplus in the same age group.

2. In 1976, 52.9 percent of the population was of working age, from 15-64. The national average participation rate was 66.3 percent. The male and female participation rates were respectively 84.6 and 50.0 percent. The substantial difference between the participation rates of the rural (70.2 percent) and urban population (56.7 percent) was due essentially to the considerable agricultural activities by women in Cameroon. The female participation rate in urban areas was only 31.4 percent. In 1976, 79.4 percent of the active population was in agriculture, livestock, fishing and forestry, 6.7 percent was in the secondary sector -- manufacturing and mining (4.9 percent of the total active population), and construction

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1/ Selected results of the population census became available in early 1978. Current government plans project the publication of complete results in mid-1978. A fertility survey is being carried out to collect additional data for population projections.

2/ These are pre-census estimates. Cameroon itself has not proceeded beyond the tabulation stage and the data available so far do not permit the revision of these estimates.

(1.8 percent), and 13.9 in the tertiary sector -- services (8.0 of the total active population), trade (4.2 percent), transport and communications (1.4 percent) and banking and insurance (.3 percent). The self-employed represented the majority of employment, 64.2 percent, followed by unpaid family workers, 20.0 percent. There were substantial differences in these shares for the rural and urban areas, respectively, 69.6 and 44.6 percent, and 23.9 and 5.8 percent. Nationally, only 14.1 percent of employment were salaried employees. This share in urban areas was 44.7 percent compared with 7.7 percent in rural areas. In 1976, the unemployment rate was 6.1 percent. The urban unemployment rate was much higher, 12.2 percent, than the rural rate, 4.3 percent. The majority of the unemployed, 72.6 percent, were those seeking work for the first time. The unemployed were also mostly young people. The unemployed of the age group 15-24 were 55.5 percent of the total, 61.0 in urban areas and 50.0 in rural areas.

Trends in Output and Resource Use, Third Plan Period (1970/71 - 1975/76)

3. The mission's evaluation of trends in agriculture, industry and services indicates that real growth of output during 1970/71 - 1975/76 was probably higher than the 2.5 percent per annum growth in GDP derived from the official national accounts 1/. The statistical basis for the estimates of GDP in 1974/75 prices, the base year for the Fourth Plan is given in Appendix Tables 2.1 - 2.6. In summary, these tables show average annual economic growth in constant 1974/75 prices of 1.8 percent in the two years 1970/71 - 1972/73 and 2.8 percent during the following three years, with the highest annual growth of 6.6 percent in 1973/74 due to a considerable increase in exports, a slight decline in 1974/75 and a recovery of 3.6 percent in 1975/76, when the rate of domestic inflation appears to have abated. The estimates of real growth do, of course, depend critically on the available indicators for rates of price increase, which were derived for each sector and each major category of expenditure. According to these indicators the overall price index for GDP rose by about 10 percent p.a. during the five year period, with price increases of about 8.0 percent p.a. during 1971/72-1973/74 accelerating to 16.6 percent in 1974/75, and moderating to 8.1 percent in 1975/76. For the period as a whole agriculture expanded in constant 1974/75 prices by an average annual rate of 3.6 percent, modern sector manufacturing by 5.9 percent, and public administration by 5.2 percent. The estimate of overall growth during the Third Plan was thus depressed primarily because of very low estimates of growth in current and constant prices in trade and other services (which account for more than 30 percent of GDP) and negative growth in construction and in "traditional" activities in the remaining sectors; growth of the modern economy alone was probably closer to 4.0 - 4.5 percent. Even if real growth was higher than indicated in official national accounts, the behavior of the economy can generally be characterized as sluggish during the Third Plan, which is substantiated generally by independent analysis of the balance of payments, the public sector and money and credit.

1/ The Government does not make official estimates of growth at constant prices. The estimate of 2.5 percent growth is based on a deflation by the mission of official current price estimates for 1970/71 - 1975/76 using volume data or price indicators.

Table 1: GDP GROWTH BY MAJOR SECTOR
Billion CFAF at 1974/75 Prices

	1965/66	1970/71	1975/76	Growth Rate 1965/66-1970/71	Growth Rate 1970/71-1975/76
Agriculture	107.7	139.2	165.8	5.5	3.6
Manufacturing + Mining	32.3	49.5	68.0	10.1	5.9
Construction	20.1	24.8	20.9	4.5	-5.6
Public Administration	30.4	42.6	54.6	7.1	5.2
Subtotal	190.5	256.1	309.3	6.5	3.6
Other Services	120.1	188.8	191.6	9.1	1.0
GDP (Market Prices)	310.6	444.9	500.9	7.6	2.5

Note: Based on official current price estimates.

4. The 3.6 percent growth rate of agriculture in the first half of the 1970's represents a decline from the growth rate of 5.5 percent achieved in the last half of the 1960's. The main cause of the drop in the growth rate was a fall in output of cocoa and coffee, Cameroon's main export crops. These were adversely affected by poor weather in the past two years, but even more by the failure of producer prices to keep up with price trends of inputs (mainly fertilizer) and of competing food crops. Recorded growth in other cash crops also declined as a result of poor weather (cotton) and low producer prices (groundnuts). On the other hand output of food crops accelerated in this period in response to rapidly rising demand in urban areas and for export to Gabon, Nigeria and other neighboring countries (these exports are however unrecorded).

5. For the period of the Third Plan the available sources 1/ indicate average annual growth of value added in modern manufacturing in current prices in a range of 17-20 percent and in constant prices in a range of 7-10 percent. Real growth was slower than in the 1960's, but still considerable in view of the higher level of output in the base period and the need to adjust to changes in domestic and international market conditions which emerged in the 1970's.

1/ The IBRD industry sector mission examined in detail a sample of 31 firms, which account for about 80 percent of manufacturing output, narrowly defined, excluding particularly saw mills and agro-industries such as vegetable oil and rubber. The sample itself is biased towards the largest and most evidently "modern" firms in the sector, which have probably experienced the fastest growth in recent years.

Table 2: INDICATORS OF ANNUAL GROWTH RATES OF MODERN INDUSTRY OUTPUT

1970/71 - 1975/76

Current Prices	
SYNDUSTRICAM a/	19.9
National Accounts	17.1
Sample of 31	16.6
Constant Prices	
National Accounts b/	7.1
Sample 31 c/	9.9

a/ Turnover (chiffre d'affaires) of members of the Syndicate des Industriels du Cameroon which includes most modern enterprises.

b/ Deflated by Douala high income consumer price index.

c/ Deflated by industrial sector mission, based largely, on a physical output series.

6. Food and beverages, including breweries, account for about half the value added in the industry mission sample and grew at about 10 percent p.a. during 1970/71 - 1975/76. Textiles grew at a faster rate, but slowed down in 1975/76, while shoes and clothing stagnated or declined, in part because of imports from Nigeria at favorable exchange rates. Aluminium, which had been constrained below installed capacity by limited supplies of electric power throughout the period, increased in the last two years, accounting for a considerable part of the rise in output. Output of sawnwood, railroad ties and wood chips probably grew somewhat faster than log production, which was low for the period as a whole, since there was an expansion in processed wood sales both for the local market and exports. "Traditional" manufacturing is estimated to have increased by only 2.0 percent p.a. while value added in mining dropped in the first year of the period and then rose slowly as research and development, particularly in crude oil, picked up.

7. Value added in construction in real terms according to the official national accounts 1/ decreased during the Third Plan period. The share of the traditional sector in total value added in construction (the value added of traditional housing construction and individual construction workers) decreased from about one-half in 1970/71 to less than one-fifth in 1974/75. Although there could have been some underestimation in traditional construction, the trend in the construction industry was still that modern construction increased, both in absolute real value and as a share of total value added while the reverse was true of traditional construction. The growth rate in public administration of 6 percent p.a. during the first three years of the Third Plan period was cut to 3.6 percent during the last two years.

1/ See footnote 1, p. 2

Table 3: STRUCTURE AND GROWTH OF RESOURCES AND USES
THIRD PLAN PERIOD

	Structure in Current Prices (Percentage Shares)		Growth Rate a/ (Percent)
	1970/71	1975/76	1970/71 - 1975/76
GDP	100.0	100.0	2.5
Imports of Goods and NFS	29.7	31.6 b/	1.3
Exports of Goods and NFS	25.9	28.3 b/	2.9
Domestically Available Resources	103.8	103.3	2.0
Consumption	87.6	86.6	1.7
(Private)	(72.7)	(71.4)	(1.2)
(Public)	(15.0)	(15.2)	(4.1)
Gross Fixed Capital Formation	14.1	17.1	3.4
Change in Stocks	2.0	-0.4	20.0

Source: Appendix Tables 2.4 and 2.5.

a/ Expenditure on GDP at 1974/75 prices.

b/ Both imports and exports are probably underestimated in recent years as a result of an increase in unreported trade, especially with Nigeria.

8. Table 3 shows that imports remained roughly constant as a share of the resources available to Cameroon, valued in current prices, but in real terms recorded imports rose more slowly than either GDP or exports. Thus the increase in import prices beginning in 1972/73 clearly constituted a burden on the Cameroon economy. In this period of rising prices, the replacement of imports by local manufactures, domestic food production and available hydro-electric facilities all helped dampen import demand. Estimates of the volume of merchandise imports based on customs data do show very little increase in practically all categories of merchandise imports and a substantial decline through 1973/74.

Table 4: COMPOSITION OF IMPORTS
(in billions of CFAF at 1974/75 prices)

	1971/72	1972/73	1973/74	1974/75	1975/76
Intermediate goods and petroleum	58.8	55.7	57.6	69.0	60.2
Food and consumption goods	29.0	26.0	24.6	24.8	24.2
Capital goods	32.2	31.3	21.4	32.2	33.4
Total goods	119.9	113.1	103.6	126.0	117.8
Total Imports, inc. NFS	142.6	138.0	131.7	152.8	158.5

The rise after 1973/74 was attributable entirely to capital goods, intermediate goods and non-factor services, which in the case of the latter may also cover some merchandise imports as well as contruction services. Exports increased in relation to GDP both in current and constant prices. The relatively favorable five year trend in export volume was due mainly to agricultural products, which account for about 70 percent of total exports. Exports declined in 1974/75 and then recovered in the last year of the Third Plan but were still below the peak year 1973/74.

Table 5: COMPOSITION OF EXPORTS
(in billions of CFAF at 1974/75 prices)

	1971/72	1972/73	1973/74	1974/75	1975/76
Agricultural Products	72.6	73.9	93.7	74.4	83.0
Semi-processed goods	16.9	17.3	17.4	18.6	18.9
Manufactures	5.8	6.4	7.0	5.0	7.6
Other	12.7	8.9	7.8	15.6	9.3
Total goods	100.0	102.5	125.3	106.9	116.4
Total Exports incl. NFS	126.0	129.8	153.9	132.1	153.3

Of the major agricultural exports, downward trends for cocoa (25 percent of total exports in constant prices) and natural rubber contrasted with clear upward trends for robusta coffee (reaching 17 percent of total exports in 1975/76 as a consequence of large exports from accumulated stocks), bananas and tobacco. Logs exports, which account for 8-10 percent of total exports, reached a peak in 1973/74 but in the following two years dropped below the first year of the Plan period.

9. Export and import prices both rose during 1971/72 - 1975/76, except for a decline in export prices in the last year. But import prices rose more rapidly than export prices in 1974/75, import prices increased in 1975/76 while export prices declined resulting in a deterioration in the terms of trade of 6.7 percent and 7.6 percent, respectively during these two years.

Table 6: TERMS OF TRADE

	1971/72	1972/73	1973/74	1974/75	1975/76
Export a/ price index	60.6	67.5	85.8	100.0	99.7
Import a/ price index	63.7	71.5	80.1	100.0	107.9
Terms of trade	95.2	94.4	107.2	100.0	92.4

a/ Including non-factor services, Bank staff estimates.

10. The official estimates imply a real increse in total consumption at a rate of only 2 percent. Growth in public consumption of 4.1 percent p.a. was less than growth in output of the public administration, because real purchases of goods and services rose less rapidly than wage and salary payments. Private consumption does not keep pace with population growth. If, as we have suggested, real growth in production was underestimated, part of the upward adjustment should be allocated to private consumption. Still, private consumption was probably not very dynamic during this period, while there was a substantial increase in total savings, which is supported by evidence of a substantial rise in financial savings with the banking system.

Investment Structure and Trends

11. During the course of the Third Plan total gross domestic fixed capital formation in 1974/75 prices is estimated to be at least CFAF390 billion. Of this, 70 percent was public in the sense that it was financed by or through the Government and other public entities, and 30 percent was private, a low ratio in comparison with other comparable countries. The estimates of fixed investment in the national accounts correspond rather well to those contained in Plan execution reports, which in turn are based on project implementation in the public and modern private sectors and should be quite reliable 1/. The trends in private investment of enterprises also seem plausible, but the level of private investment is probably underestimated in housing, agriculture and private transport 2/. The overall incremental gross capital to output ratio for the 1971/72-1975/76 period was about 6.0. Year to year changes and available data on the composition of investment do provide some insight into this relatively low productivity of investment, although allowance should be made for such factors as weather which cause output to behave independently of investment.

Table 7: GROSS FIXED CAPITAL FORMATION
(In billions of CFAF at 1974/75 prices)

	71/72	72/73	73/74	74/75	75/76	Cumulative Total 5 years	Growth 4 years
Public Investment	49.1	52.6	45.3	46.2	62.0	255.1	6.0
Private Investment	23.9	14.6	20.8	35.2	25.9	120.9	2.0
Total GFCF	73.0	67.2	66.1	81.4	87.9	376.0	4.0

Sources: National Accounts for GFCF; Report on Plan Execution, adjusted by the mission for public investment; private investment is residual.

1/ The mission has, however, adjusted these estimates slightly to reflect independent estimates of disbursements of foreign public loans.

2/ A correction for this apparent underestimate suggests that total private investment may have been around 40 percent of total investment.

12. The annual changes in public investment in real terms show a pattern which might be repeated in the present planning period, although the level will certainly be higher and the structure of financing different. In general it appears that when domestic resources were available to the Government, real investment could be increased rather readily but when the Government had to rely more on public foreign resources, the rate of implementation depended on the prior negotiating of new commitments, which in turn depended on the speed of project preparation. Thus when the Third Plan got under way the Government was able to raise public investment substantially in the first year by drawing on deposits which had been accumulated in earlier years with the Central Bank to finance economic and administrative infrastructure and in the second year because both the Government and foreign donors had already started to finance the Northern extension of the railroad, which entailed a large rise in disbursements of foreign loans and grants. In the next two years real public investment actually declined, because domestic resources were limited, while disbursements of public foreign loans and grants on commitments made at the beginning of the plan period tapered off. Finally, in the last year of the Third Plan, public investment in real terms rose to a level 30 percent above the first year, with the financing of the increase largely attributable to a doubling of disbursements on foreign loans which had been committed during the Third Plan. This reflects some acceleration in project preparation, although substantial amounts were also obtained from private lenders with less stringent commitment criteria.

13. Private investment appears to have been quite stable, with a significant increase in 1974/75. This is consistent with independent estimates made by the IBRD industry sector mission, which show a fairly steady level of total investment expenditure by a sample of 31 medium and large scale private industrial firms which however indicates a decline in 1974/75. This period in fact was one of consolidation following the "first wave" of import substitution which took place in Cameroon as well as many other African countries in the 1960's. The most important modification to the investment situation in industry towards the end of the period was a rapid rise in Government participation, especially through Societe Nationale d'Investissement largely in the form of minority holdings with foreign partners. According to the Report on Plan Execution, during the Plan period about 37 percent of privately financed investment was for tourism, trade and transport services, mainly cars and trucks, 22 percent for industry, 24 percent for housing, 12 percent for energy and refining (of which a large part was oil exploration) and only 2 percent for agriculture. As noted earlier, private investment in housing and agriculture seem to be underestimated. When a rough adjustment is made for these, the upward trend in total private investment may have been more pronounced.

14. Investment expenditure of the Central Government is classified according to whether it is financed through budget or extra budgetary accounts, a distinction which deserves a brief explanation. The Cameroon budget contains separate authorizations for current expenditure and an

investment budget, with debt service (except in 1975/76) and financial participations also included in the latter. The investment budget is prepared, initially, by the Ministry of Economic Affairs and Planning and reflects plan priorities and the status of Plan implementation in the year for which the budget is prepared. In the last few years the amount of the investment budget was frequently reduced below initial proposals, while during the course of the year actual appropriations (credits de paiements) have been less than initial authorizations. On the other hand, extra budget accounts were opened to finance projects often not included in the Plan, funded by liquid resources available to the treasury, mainly in the form of credit facilities from the central bank, transfers from the stabilization funds 1/ and to a lesser extent foreign borrowing. During 1971/73-1974/75 financing through extra-budget accounts contributed about 30 percent of the financing of Central Government investment and 10 percent of the total investment of the public sector. Disbursements of foreign loans and grants, which accounted for 40 percent of the financing of public sector investment during 1971/72-1974/75 (48 percent for the whole five-year period) are also not included in the budget, but only the Government's domestic contribution associated with foreign-financed projects.

1/ Stabilization funds also made expenditure for investment on their own account.

Table 8: ACTUAL COMPOSITION OF PUBLIC INVESTMENT BY SECTOR AND EXECUTING AGENT THIRD PLAN [1971/72 - 1975/76]
(In percent)

	Central Government Budget	Central Government Extra Budget	Public Enterprise	Stabilization Funds	Local Government b/	Foreign Project Loan and Grants	Total Public Sector
Directly Productive Sectors							
Rural	9.7	2.9	23.2	84.5	2.5	21.0	19.9
Energy and Refining	0.0	0.0	12.3	0.0	-	2.4	3.1
Industry and Services a/	1.3	8.8	27.2	-	9.3	12.3	11.3
Subtotal	11.0	11.7	64.7	84.5	11.8	35.7	34.3
(Share of Agent in subtotal)	(7.2)	(3.4)	(31.6)	(12.2)	(1.0)	(44.5)	(100.0)
Transport and Communications Infrastructure	25.5	35.6	23.1	11.1	51.1	51.3	37.2
(Share of Agent in subtotal)	(15.5)	(9.7)	(10.4)	(1.5)	(4.0)	(58.9)	(100.0)
Social Infrastructure							
Education, health	18.1	9.4	-	0.0	6.7	6.9	8.4
Urban water, housing	4.2	14.8	11.6	0.9	10.8	5.7	6.7
Sports, admin. buildings	30.2	23.9	0.5	2.6	19.6	-	10.2
Subtotal	52.5	48.1	12.1	3.5	37.1	12.6	25.1
(Share of Agent in subtotal)	(47.1)	(19.4)	(8.1)	(0.7)	(4.3)	(20.5)	(100.0)
Studies	5.2	0.0	-	0.8	-	1.3	1.8
Financial Participations	5.0	4.7	0.0	-	-	-	1.6
Grand Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
(Share of Agent in Grand Total)	(22.6)	(10.0)	(16.7)	(5.0)	(2.9)	(42.8)	(100.0)

a/ Includes trade

b/ Includes only local government investment expenditure for the first four years of the Plan period.

Source: Report on Plan Execution.

Structure of Public Capital Expenditure

15. During the Third Plan period capital expenditure of the Central Government accounted for about 32.7 percent of total public sector outlays, public enterprises 16.1 percent, stabilization funds 5.0 percent, local governments 2.0 percent and foreign sources 42.8 percent. As might be expected, the preponderance of Central Government resources was allocated to social and administrative infrastructure, while the largest part of funds invested by public enterprises and directly by stabilization funds went to production sectors, the latter almost entirely to agriculture. The transport sector received the highest amount of public capital expenditure, about 37 percent of the total. About half of the foreign financing went to this sector, mainly for rolling stock and extension of the Trans Cameroon Railroad line and construction of major roads (grands axes). The share of foreign finance which went to transport reflects the high foreign exchange cost and priority of investment in this sector in Cameroon. Even so, execution of some important transport investment projects was delayed until the Fourth Plan period in order to complete studies and secure financing. With respect to other sectors, the past priorities for foreign financing were agriculture (mainly in association with public enterprises), industry and productive services, and education and health, in descending order.

Investment and Saving

16. During the last Five Year Plan gross domestic capital formation including investment in stocks exceeded gross domestic saving, although in one year, 1973/74, there was a resource surplus and saving was higher than investment. On average during the period gross domestic savings represented 16.4 percent GDP at current market prices and 90 percent of total capital formation. However, net payments of wages and salaries for foreigners resident in Cameroon, and net interest and dividends on foreign borrowing and capital absorbed about 3.2 percent of gross domestic income, so that national savings accounted for 13.2 percent of GDP at current market prices and 73 percent of capital formation. Finally, after provision for amortization of foreign medium and long term loans, net national investable resources represented about 12.0 percent of GDP and 66.5 percent of total investment in fixed assets and stocks. Thus about 34 percent of total investment was financed by foreign resources; approximately 30 percent came from disbursements of capital grants and public medium and long term loans and 5 percent through net operations on all other foreign accounts including the use of reserves.

Table 9: INVESTMENT AND SAVINGS
(Billions of CFAF and Percent in Current Prices)

	1971/72	1972/73	1973/74	1974/75	1975/76	Five Year Plan 1971/72-1975/76 % GDP	Five Year Plan 1971/72-1975/76 %Investment
Public Investment	32.0	40.7	39.5	46.2	65.5	10.5	58.2
Private Investment	15.7	11.3	18.1	35.6	27.3	5.1	28.0
Gross Fixed Capital Formation	47.7	52.0	57.6	81.8	92.8	15.6	86.2
Change in Stocks	8.6	10.3	14.0	22.0	-2.0	2.5	13.8
Total Investment	56.3	62.3	71.6	103.8	90.8	18.1	100.0
Public Savings	10.0	18.2	34.1	40.9	36.5	6.6	36.4
Private Savings	32.3	33.3	64.2	42.1	36.3	9.8	54.2
Gross Domestic Savings	42.3	51.5	98.3	83.0	72.8	16.4	90.6
Less: Net Payments for foreign Factor services	-8.7	-9.6	-15.4	-16.2	-17.4	-3.2	-17.5
Gross National Savings	33.6	41.9	82.9	66.8	55.4	13.2	73.1
Less: Amortization of Private and Public medium and long term debt	-2.7	-3.5	-4.5	-7.0	-7.6	-1.2	-6.6
Available for Investment	30.9	38.4	78.4	59.8	44.8	12.0	66.5
Disbursements of Grants and public medium and long term loans	14.8	22.1	18.1	20.7	38.1	5.4	29.7
Other long term capital, net	6.9	6.6	5.6	10.2	14.6	2.1	11.4
Use of other re ources, net	-9.4	-4.7	-23.4 a/	13.1 a/	-7.8	.	.
Increase in reserves	-13.1	-0.1	7.1	-11.7	1.1	.	.

a/ Comparison with the balance of payments suggests that total expenditure in the national accounts was underestimated in 1973/74 and overestimated in 1974/75

Source: Text Tables 10, 11, 15, Appendix Table 2.4

17. Throughout the period there was a surplus of private savings with respect to private fixed investment and stocks, while there was a deficit in public savings, which accounted for approximately half of public fixed investment. The magnitude of the private savings surplus is almost certainly overstated, which again could be attributable to underestimates of private investment as well as to the possibility of some discrepancies in coverage 1/. Still, the margin of error is less for estimates of public sector revenue and expenditure, and money and credit data do imply some transfer of private savings through the banking system, as the liabilities of banks vis-a-vis the private sector rose, while there was an expansion in net claims of the banking system on the public sector. The extent to which this process can continue is limited by a statutory ceiling on borrowing of the Central Government, while public enterprise borrowing is constrained by overall monetary policy and rules for credit allocation. Balance of payments data support the hypothesis that foreign capital outflows also provided an outlet for some of the savings of the private sector, particularly in 1973/74 when the increase in foreign exchange reserves was much less than the overall resource surplus.

Public Investment Finance and Financial Performance

18. Of cumulative public sector investment estimated at CFAF224 billion in current prices during the Third Plan, CFAF 114 billion was financed by gross disbursements of foreign grants and loans, CFAF 92 billion from the surpluses of central and local government, public enterprise and stabilization funds after debt service and CFAF 22 billion by use of treasury resources and net public sector borrowing from the banking system.

1/ Reclassification of some parapublic enterprises to the public sector could raise gross public savings and lower gross private savings.

Table 10: PUBLIC SAVINGS
(Billions of CFAF in current Prices)

	1971/71	1972/73	1973/74	1974/75	1975/76
Central Government	7.1	9.2	9.5	11.2	19.1
Stabilization Funds	-2.2	1.2	17.1	21.5	7.6
Public Enterprises a/	4.0	6.1	5.9	6.2	7.6
Local Governments b/	1.1	1.7	1.6	2.0	2.2
	10.0	18.2	34.1	40.9	36.5
Interest on foreign debt	1.3	1.7	2.3	2.5	3.5
Total Savings	8.7	16.5	31.8	38.4	33.0
Amortization foreign debt	1.7	2.2	2.7	3.2	4.6
Total available resources	7.0	14.3	29.1	35.2	28.4

a/ Details of financial operations of the eight major public enterprises and of local governments were not evaluated during the mission. For the Port, Railroad, CDC and Socapalm IBRD project appraisal and audit reports were used. For the other enterprises, we have extrapolated data from the technical annex to IBRD report No. 1097a-CM, "Note Technique sur les Composantes de la Consolidation Financiere du Secteur Public", dated 18 September 1975.

b/ For local governments we have used the Report on Plan Execution.

19. During this period total expenditure of the Central Government exceeded revenues. The deficit on budget and extrabudget operations averaged 11 percent of budget revenues, financed by use of resources from the stabilization funds, which earned substantial savings in that period, borrowing from the Central Bank, and some foreign borrowing. The expansion in Central Government spending, while high, was not excessive for the five year period as a whole, particularly when allowance is made for the rise in costs and international prices which began in 1973/74. Current expenditure increased by 13.5 percent p.a. while tax revenue increased by 14.8 percent p.a. However, total expenditure, including capital expenditure, rose faster than total budget revenue. The acceleration in current and capital spending towards the end of the period was rapid in relation to the growth of available resources, and revealed certain weaknesses in budget execution as well as the need to control underlying trends to avoid excessive deficits in the future. Thus there were wide year to year fluctuations in budgeted capital expenditure, and a fast rise in extrabudget expenditure, much of which was used to finance capital outlays not included in the Third Plan. During this period it appears not only that budgeted capital expenditure was squeezed, but that there were some delays in meeting outstanding commitments. In 1975/76 the Cameroon

budget made no provision for payment of foreign debt service, which was to be transferred to an autonomous fund to be set up and financed from special resources. In fact, debt service was paid out of extra-budgetary accounts. Partly because of such problems, the Government consolidated certain extra-budgetary accounts in the 1976/77 budget and established an economic forecasting unit (Division des Etudes et de la Prevision) to monitor current developments and provide information to strengthen overall financial management. For the first time, also, the budget provided for an overall deficit of CFAF 18 billion, to be financed from borrowing and special resources. This procedure was in fact a closer approximation of previous years' results and was not unrealistic provided additional extra-budgetary expenditure was not incurred.

Table 11 : SUMMARY OF PUBLIC FINANCE AND INVESTMENT
(CFAF Billions, Current Prices).

	1971/72	1972/73	1973/74	Prov. 1974/75	Estimate 1975/76
1. CENTRAL GOVERNMENT					
2. Budget Revenue	56.5	59.3	67.4	81.2	101.0
3. Current Expenditure, excl. interest on foreign debt a/	48.9	50.1	57.9	70.1	81.9
4. Current Surplus, excl. interest on foreign debt a/	7.1	9.2	9.5	11.2	19.1
5. Interest and Amortization, foreign debt a/	1.3	1.3	1.8	2 4	3.9
6. Available for Investment (4-5)	5.8	7.9	7.7	8.8	15.2
7. Capital outlays	12.8	9.6	12.0	18.1	24.4
8. (Equipment Budget) e/	(8.6)	(8.6)	(7.8)	(11.1)	(14.4)
9. (Extra-budget, excl. amortization, foreign debt) e/	(4.2)	(1.0)	(4.2)	(7.4)	(5.9)
10. Overall Treasury Deficit (6-7)	7.0	1.7	4.3	9.3	13.4
11. (Net Borrowing from Central Bank) b/	(10.3)	(0.8)	(-4.2)	(5.6) h/	(12.8) h/
12. (Transfers from Stabilization Fund c/	(-3.3)	(-0.2)	(7.0)	(7.2)	-3.8
13. (Other Treasury Accounts, net) d/	(0.0)	(0 2)	(1.0)	-4.4	-0.7
14. (Foreign Financing) a/	(0.0)	(0.9)	(0.5)	(0.9)	5.1
15. Foreign Capital Grants e/	2.7	2.2 g/	3.2	4.4	5.5
16. Foreign Loan Disbursements a/	4.4	5.2	6.6	9.8	22.3
17. TOTAL CENTRAL GOVERNMENT INVESTMENT (7+15+16)	19.9	17.0	21.8	32.3	53.5
18. PUBLIC ENTITIES INVESTMENT f/	11.0	22.1	16.1	11.4	14.8
19. Domestic Financing e/	5.0	10.0	13.4	9.3	10.0
20. (Borrowing)	(0.1)	(1.7)	(1.7)	(1.5)	(3.3)
21. (Self-financing)	(4.9)	(8.3)	(11.7)	(8.0)	(7.0)
22. Foreign Financing, net a/	6.0	12.1 g/	2.7 g/	2.1	4.8
23. (Debt Service)	(1.7)	(2.6)	(3.2)	(3.3)	(4.2)
24 LOCAL GOVERNMENT INVESTMENT e/	1.1	1.7	1.6	2.0	2.2 i/
25 Domestic Financing	1.1	1.7	1.6	2.0	2.2
26 Foreign Financing	0.0	0.0	0.0	0.0	0.0
27 TOTAL DOMESTIC PUBLIC FINANCING (4+10-14+19+25)	20.2	22.6	26.4	30.7	40.5
28 (Less: Payments Foreign Interest and Amortization)	-3.0	-4.0	-5.0	-5.7	-8.1
29 AVAILABLE FOR INVESTMENT	17.2	18.6	21.4	25.0	32.4
30 TOTAL FOREIGN FINANCING, GROSS	14.8	22.1	18.1	20.7	38.1
31 (Disbursements Grants)	(2.7)	(5.5)	(6.6)	(4.4)	(6.8)
32 (Disbursements Loans)	(12.1)	(16.6)	(11.5)	(16.3)	(31.3)
33 TOTAL PUBLIC INVESTMENT (29+30) = (17+18+24)	32.0	40.7	39.5	46.2	65.5

Memo Item:

Technical Assistance Grants Not Included Above	2.9	3.5	3.2	4.0	5.1

a/ IBRD estimates of debt service and loan disbursement
b/ Central Bank data , credits to government less deposits
c/ Ministry of Finance, change in deposits net of transfers
d/ Residual
e/ Report on Plan Execution
f/Includes investment expenditure of Stabilization Funds
g/ CFAF 6.7 billion reallocated Government to Railroad in 72/3-73/4
h/ Revised from IFS, June 1977
i/ Notional estimates

20. The financial resources of the commodity stabilization funds and the Produce Marketing Organization are derived from levies (prelevements) on exporters and special taxes of CFAF 1 per kg for cocoa and CFAF 3 per kg for both arabica and robusta coffee. These resources are used for price support payments, to finance expenditures to develop production and improve quality, and in recent years to finance a large part of the Government's extra-budgetary outlays. For financial planning purposes the management of the Caisses sets the levy or subsidy at the start of the trading period as the difference between a reference world market price and the producer price plus taxes, shipping costs, marketing charges, commissions, the cost of transporting the crop from local buying stations to the port of Douala, and the exporters' profit allowance. Because realized export prices usually differ from the posted reference prices, the actual levy or subsidy can only be determined when all accounts are settled after the trading season is ended.

21. Producer prices both for cocoa and coffee are usually announced before the beginning of each crop season, which runs from October to September. Producers of arabica coffee, who are organized in cooperatives, are paid in two advances, plus a supplement at the end of the year; in the past surpluses have generally been passed on to the arabica farmer cooperatives.

Table 12: SURPLUSES OF STABILIZATION FUNDS
(CFAF billions)

Fiscal Years	1971/72	1972/73	1973/74	1974/75	1975/76
Cocoa Fund	-3.5	-1.1	11.4	19.7	3.9
Robusta Fund	0.1	0.5	3.2	0.5	3.2
Arabica Fund	-	0.1	0.0	0.3	-0.2
Other a/	0.4	-	-	-1.0	-0.5
All stabilization funds	-3.0	-0.5	14.6	18.9	6.4
Add: Own Capital outlays b/	0.8	1.7	2.5	2.6	1.2
Total gross savings	-2.2	1.2	17.1	21.5	7.6

a/ Cotton, groundnuts, PMO.
b/ 1971/72-74/75, Report on Plan Execution.

Sources: 1971/72-1973/74, "Note sur les composantes etc.".
1974/75-1975/76 Mission Estimates.

22. During the five year period of the Third Plan, gross savings from the combined operations of the stabilization funds totalled about CFAF 45 billion, but the amount transferred to the Central Government is estimated at CFAF 14 billion. Deficits or small surpluses were obtained in the first two and last years of the plan period but in 1973/74 and 1974/75 there were substantial surpluses. The principal reasons for the stabilization fund deficits in 1971/72 and 1972/73 were low cocoa prices in both years and a stagnation in the volume of cocoa sales. Small surpluses were obtained by the coffee and other funds, but after allowance is made for the funds' own capital expenditures, the overall cash flow was negative. In the next two years, the cocoa fund earned substantial surplus, as export prices rose much faster than prices paid to the producers. Gross savings of the combined funds was between CFAF 17-20 billion in both years, and the amount made available to the Central Government was on average CFAF 7 billion. In 1975/76, the last year of the Plan, the price paid to the cocoa producers was again increased, but sales prices and export volume both declined. Still, there was a surplus of CFAF 3.9 billion in the cocoa funds, and the gross surplus of the combined funds in 1975/76 is estimated to be CFAF 7.6 billion. In that year CFAF 7.0 billion was transferred to the Central Government, while deposits of the Caisses with commercial and development banks rose by CFAF 10.0 billion.

23. As a share of government budget revenue central government debt service rose from 2.1 percent in 1971/72 to 3.9 percent in 1975/76. Interest and amortization payments on debts contracted directly by the Central Government amounted to 41 percent of total debt service for the period as a whole, while debt service payments of public enterprises, mainly in transport and public utilities, came to 59 percent. Average annual growth in total public debt service between 1971/72 - 1975/76 was 28 percent, but there was an acceleration after 1973/74, especially in the interest and amortization payments on loans contracted directly by the Central Government.

Table 13: PUBLIC MEDIUM AND LONG TERM LOANS - INTEREST AND AMORTIZATION PAYMENTS, 1971/72 - 1975/76
(Billions of CFA Francs)

	1971/72	1972/73	1973/74	1974/75	Prov. 1975/76
Central Government	1.2	1.3	1.8	2.4	3.9
Interest	0.5	0.5	0.7	1.0	1.7
Amortization	0.7	0.8	1.1	1.4	2.2
Public Enterprise	1.7	2.6	3.2	3.3	4.2
Interest	0.8	1.2	1.6	1.5	1.8
Amortization	0.9	1.4	1.6	1.8	2.4
Total	3.0	3.9	5.0	5.7	8.1
Interest	1.3	1.7	2.3	2.5	3.5
Amortization	1.7	2.2	2.7	3.2	4.6

Source: IBRD Debt Reporting System.

24. The existing level of interest and amortization payments due by the Central Government presents a manageable burden for the budget (about 4 percent of budget revenues) and appears to leave scope for some increase in these obligations relative to current receipts in the coming years. However, the estimates do not include repayments of short term loans, for example to the IMF, and moreover, to the extent that public enterprise debt service must be met from budget resources, the burden could become excessive.

25. During the Third Plan period, the trends in money and credit were plainly expansionary.

Table 14: INDICATORS OF MONEY AND CREDIT
(end of Fiscal Year)
MONEY SUPPLY AS A PERCENT OF GDP

	1971	1972	1973	1974	1975	1976
Money and Quasi-money	15.2	15.5	16.2	18.6	19.0	20.5
			Billions of CFAF			
Central Bank Credit to Government	0.0	0.0	0.0	0.4	7.9	16.6
Other claims on Government, net	-15.3	-5.6	-3.6	-11.4	-10.8	-12.3
Credit to Private Sector	45.8	54.6	61.8	79.1	98.7	115.7
Net foreign assets	20.9	8.8	8.4	16.4	6.1	8.4

Source: Appendix Table 6.8.

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26. Total money supply increased from about 15 percent of GDP at current market prices at the beginning of the period to over 20 percent of GDP at the end of the period, but quasi-money grew much more rapidly than demand deposits and currency in circulation. The principal source of the expansion in money supply was domestic credit since net foreign assets declined during the five years as a whole. Total domestic credit grew at an annual average rate of 30 percent while credit to the private sector increased at only about 20 percent, although private borrowing did accelerate in the latter years of the Plan. This was to some extent a result of increased credit to finance Cameroon's main export crops. The expansion in credit to the Government is attributable mainly to a CFAF 10 billion draw down in deposits with the Central Bank in the first year of the Third Plan and recourse to the Central Bank in FY75 and 76, when for the first time borrowing approached the statutory limit.

Balance of Payments

27. During the five year period Cameroon's cumulative current account deficit of CFAF 115.5 billion was financed mainly by net disbursements of public medium and long-term loans of CFAF 74.1 billion, capital grants of CFAF 19.8 billion and a drawdown in foreign exchange reserves. Gross public loan disbursements jumped to an estimated CFAF 31.3 billion in the last year of the Third Plan, more than double the annual average of the preceding four years. In the final year, drawings began to be made on loans four times the rate of loan commitments in the first two years of the Plan. The cumulative overall balance of payments deficit of CFAF 16.7 billion during the Third Plan period was financed mainly by drawdowns of foreign exchange reserves of CFAF 15.0 billion and in the last two years of the Third Plan also by IMF credits of CFAF 4.6 billion. As a result net official international reserves decreased throughout the Third Plan period, except in 1973/74, from CFAF 12.5 billion or almost two months of imports at the end of the first year of the Plan to CFAF 7.2 billion or less than 3 weeks of imports at the end of the last year.

28. Current account deficits during the Third Plan period resulted mainly from deficits in merchandise trade. Trade deficits averaged about 18 percent of imports except for the surplus in 1973/74. Deficits in factor service income, which accounted for about 40 percent of current account deficits, were due mainly to expatriate remittances. Investment income payments, including interest on the public debt, increased as both direct foreign investment and public borrowing abroad expanded. Net current transfer receipts also increased during the period, but were not enough to offset the deficits in merchandise trade and in factor service income by more than a small amount.

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Table 15: SUMMARY BALANCE OF PAYMENTS, 1971/72-1975/76

Tableau 15: BALANCE DES PAIEMENTS, 1971/72-1975/76

(In millions of CFA francs)
(millions de francs CFA)

	Actual					Estimated 3/
	1971/72	1972/73	1973/74	1974/75	1975/76	1976/77
Resource balance	-17,549.7	-11,080.4	14,123.4	-17,436.8	-31,971.9	-31,377.0
Exports of goods & NFS	(80,914.7)	(90,606.4)	(132,562.9)	(138,946.3)	(146,381.4)	(197,962.4)
Imports of goods & NFS	(-98,464.4)	(-101,686.8)	(-118,439.5)	(-156,383.1)	(-178,353.3	(-229,339.4)
Net factor service income	-8,701.5	-9,612.6	-15,349.2	-16,177.5	-16,915.4	-22,881.6
Interest on the public debt	(-1,442.4)	(-1,504.8)	(-2,266.9)	(-2,518.7)	(-3,288.8)	(- 6,191.0)
Other investment income (Net)	(- 462.5)	(- 774.6)	(-3,568.0)	(-6,053.0)	(-6,785.5)	(-8,964.4)
Workers remittances (Net)	(-6,796.6)	(-7,332.2)	(-9,514.3)	(-7,605.8)	(-6,841.1)	(-7,726.2)
Net current transfers	2,219.4	2,856.6	1,502.6	2,848.1	5,685.1	5,099.2
Of which: official aid	(2,855.9)	(3,470.4)	(3,154.0)	(3,952.9)	(5,633.2)	(5,624.2)
CURRENT ACCOUNT BALANCE	-24,031.8	-17,836.4	276.8	-30,766.2	-43,202.2	-49,159.4
Capital grants 1/	2,662.3	2,699.4	3,187.9	4,380.5	6,785.0	6,800.0
Public medium- and long-term loan (net) 2/	10,482.6	14,996.9	8,853.0	13,066.5	26,656.9	45,294.2
Disbursements	(12,053.2)	(16,698.7)	(11,575.2)	(16,243.5)	(31,261.8)	(52,306.4)
Amortization	(-1,570.6)	(-1,701.8)	(-2,722.2)	(-3,177.0)	(-4,604.8)	(-7,012.2)
Direct investment (Net)	2,603.8)	-1,803.8	3,487.0	5,442.6	7,767.0	9,400.0
Other medium- & long-term loans (Net)	3,174.3	6,554.9	335.1	911.6	3,840.0)	
Disbursements	(4,298.1)	(8,371.8)	(2,173.8)	(4,744.3)	(6,820.2))	
Amortization	(-1,123.8)	(-1,816.9)	(-1,838.7)	(-3,832.7)	(-2,980.2))	
Short-term credit (Net)	-3,672.4	4,800.2	-9,913.6	5,524.2	6,924.9)	-11,241.3
Capital transactions, n.i.e.	-493.7	-1,175.5	2,771.5	-3,755.3	-5,820.9)	
Errors and omissions (Net)	-4,880.9	-8,284.4	-1,943.6	-6,479.2	-1,581.2)	
Allocation of SDRs	1,030.0	-	-	-	-	
BALANCE OF PAYMENTS SURPLUS OR DEFICIT (-)	-13,125.8	-48.7	7,054.1	-11,675.3	1,074.0	-1,093.5
FINANCING: RESERVES AND RELATED ITEMS						
Assets	13,125.8	47.9	-7,041.9	10,269.3	-1,935.0	4,809.6
Holding of SDRs	(-1,030.0)	(.2)	(.3)	(55.7)	(267.0)	(-398.2)
Reserve position in the IMF	(-)	(-)	(-)	(1,877.7)	(-)	(-)
Foreign exchange & other claims	(14,155.8)	47.7)	(-7,042.2)	8,335.9)	(-2,202.0)	(5,207.8)
Liabilities	-	.8	-12.2	1,406.0	3,009.0	5,903.1
Use of IMF credit	(-)	(-)	(-)	(1,259.2)	(3,076.0)	(5,266.3)
Other liabilities	(-)	(.8)	(-12.2)	(146.8)	(-67.0)	(636.8)
Gross official international reserves (end of period)	12,577.5	11,196.4	20,521.9	11,116.1	11,708.3	16,517.9
Net official international reserves (end of period)	12,522.5	11,147.1	20,464.0	9,789.0	7,250.1	6,156.6

Source: World Bank Economic Mission, see Statistical Appendix Tables 3.1 and 3.2

1/ For 1971/72, 1973/74 and 1974/75: estimates by Cameroon's Third Plan Implementation Report; for 1972/73 and 1975/76: World Bank Economic Mission estimates using OECD data.
2/ From World Bank Debt Reporting System.
3/ World Bank Economic Mission estimates.

Source: Estimations de la mission économique de la Banque Mondiale, voir Tableaux 3.1 et 3.2 de l'Annexe Statistique.

1/ Pour les années 1971/72, 1973/74 et 1974/75: estimations du Rapport d'Exécution des Quatre Premières Années du troisième Plan; pour les années 1972/73 et 1975/76: estimations de la mission économique de la Banque Mondiale utilisant des données de l'OCDE.
2/ Provenant du Système des Donnée de la Dette Extérieure de la Banque Mondiale

3/ Estimations de la mission économique de la Banque Mondiale

29. Official Capital mainly capital grants and net public loan disbursements, financed about 50 percent of the current account deficits of about CFAF 21 billion per year in the first two years of the Third Plan period, FY72 and 73. Approximately the same level of official capital inflows was maintained in FY74 when there was a current account surplus as well as in FY75, when the current account deficit amounted to CFAF 31 billion. It was only in FY76, when net public loan disbursements doubled, that official capital inflows, amounting to about CFAF 26.7 billion, financed 65 percent of the current account deficit. During the first four years of the Third Plan period, gross public loan disbursements were fairly stable while loan amortizations increased, giving rise to a declining trend in net disbursements. The latter trend was compensated by a rising trend in capital grants, resulting in an annual level of net official capital inflows of about CFAF 14 billion. However, in real terms net official capital inflows were reduced by almost one-fourth from CFAF 21.2 billion (at 1974/75 prices) in the first year of the Plan period to CFAF 15.8 billion in the fourth. Moreover, while net official capital inflows doubled in FY76, compared with FY75, they were only about 33 percent higher than in the first years of the period, in real terms.

30. Net private non-bank capital financed respectively 25 and 18 percent of the current account deficits in FY72 and FY73. In FY75 when the current account deficit jumped, net private non-bank capital was at about the same level as in FY72, and financed only 13 percent of the current account deficit. Net inflows of private non-bank capital were accounted for mainly by disbursements on private medium-term loans during the first two years of the period and by net direct private foreign investment in the third and fourth years. In the latter two years (FY74 and 75), private medium-term loan disbursements were just slightly more than sufficient to meet amortization requirements. Net private medium-term loan disbursements improved to CFAF 3.8 billion in FY76. Outflows of private short-term capital were quite important in FY74 while inflows were largely offset by unidentified capital in FY76.

Current Situation and Short Term Outlook (1976/77 - 1977/78)

31. For the first two years of the Fourth Plan period Cameroon will experience very favorable world market conditions for its principal export commodities, cocoa and coffee; and more moderate price increases for most other exports as well. During the course of 1976/77 world market prices for cocoa and coffee rose rapidly; Cameroon's average estimated realized export price for these products was about double the preceding fiscal year, and for cocoa is expected to be another 60 percent higher on average in 1977/78. Realized prices for cotton were up some 64 percent, and rubber and palm kernels also experienced increases. With international inflation, the import price index rose perhaps on the order of 14 percent for the year as a whole and will continue upwards in 1977/78, but on balance the terms of trade improved markedly in 1976/77 and are expected to move favorably again in the current year. At least in the short run these price developments have improved the major financial parameters of the economy, namely potential public savings and the balance of payments position.

32. The improvement would be even greater if the export price increases were not highest for products whose volume growth declined in 1976/77, and if both the timing and quality of the products sold had been better. As it turned out not only was volume down in 1976/77 but Cameroon's unit revenues for both cocoa and coffee were substantially below world market prices. Moreover, with respect to exports there is reason to believe that some smuggling of coffee took place via Nigeria. The problems facing these crops are in large part of a structural nature and should not be overlooked in the euphoria of favorable prices. However, even allowing for structural constraints the mission anticipates some recovery of cocoa and coffee production in 1977/78, and expects that the expansion in available resources and a rise in public and private demand for goods and services will help to stimulate real growth in other sectors of the economy especially in construction, manufacturing and services.

33. Public savings almost doubled in 1976/77, since there was a modest central government current surplus, and stabilization fund surpluses are estimated to be on the order of CFAF 28 billion. Total central government budget expenditure of CFAF 137 billion in 1977/78 is only 7 percent above the preceding budget, and even if revenue and expenditure are both higher than projected, a substantial current surplus is a realistic possibility in this fiscal year. Moreover, stabilization funds will again provide the major share of public savings, estimated to be about CFAF 35 billion for cocoa and CFAF 13 billion for robusta coffee. Nevertheless, the mission estimates that the overall growth in aggregate demand during these years will raise imports to record levels and that the trade deficit will remain at approximately the same level as in 1975/76. With increased payments for debt service and other foreign factor service payments the current account deficit is likely to widen even more. Net capital imports, including new borrowing from private sources, will also rise but not enough to permit a sizeable expansion in reserves.

Table 16: CURRENT ECONOMIC INDICATORS

1975/76-1977/78

REAL GROWTH RATES (Constant 1974/5 Prices)	Provisional 1975/76	Estimate 1976/77	Projection 1977/78
Production			
Cocoa /a	- 18 %	- 12 %	14 %
Arabica /b	- 27 %	- 16 %	26 %
Robusta	- 27 %	10 %	-10 %
All other Commercial Crops	13 %	9 %	7 %
Food crops	3 %	4 %	4 %
Modern manufacturing /c	10 %	10 %	12 %
Logs /d	14 %	11 %	12 %
GDP	4 %	5- 6 %	6-7 %
Fixed Investment	8 %	19 %	30 %
Exports of goods	9 %	- 11 %	10 %
Cocoa beans	- 1 %	- 32 %	30 %
Coffee	46 %	- 27 %	8 %
Other Agriculture	- 2 %	10 %	5 %
Other Exports	3 %	- 1 %	9 %
Imports of goods	- 6 %	22 %	20 %
Capital Goods	4 %	27 %	33 %
Other	- 10 %	20 %	15 %
PRICE INDICES (1974/75 100)			
Import Price Index	107.9	122.6	134.1
Export Price Index	99.7	137.1	198.0
Terms of Trade Index	92.4	111.8	147.6
BILLIONS OF CURRENT CFAF			
Budget			
Current Revenue	100.0	110.0	137.0
Current Expenditure	81.3	91.0	98.5
Other Expenditure	18.7	37.0	38.5
Total Savings of Public Sector	40.1	76.8	103.0
Stabilization Funds Surplus	7.6	27.7	50.3
Balance of payments			
Trade Balance	- 28.2	- 24.9	- 28.2
Current Account Balance	- 43.2	- 49.3	- 54.9
Net Official Inflows	33.4	37.5	39.5
Other Capital Net	10.8	9.7	19.8
Change in Reserves	1.1	- 1.1	4.4

/a Revised on basis cocoa Project Supervision Mission, June'77

/b Revised on basis Western Highlands Appraisal Mission, June'77

/c Sample of 31 firms covered by Industry Sector Mission

/d Draft Budget document, 1977/78, for logs production in 75/6, 76/7, Mission forecast 77/8

PART II

ECONOMIC PROSPECTS AND FINANCIAL POLICIES

34. The foregoing review of the recent past strongly suggests that the principal task which faces Government economic policy during the medium term is to consolidate the recovery made possible by the rise in export prices during 1976/77 and 1977/78 and restore the economy to a more satisfactory rate of real economic growth. Of course, because of regional, cultural and ethnic diversity national integration and regional balance remain major political objectives. However, in the longer term it will be the productivity with which Cameroon's resources are put to use that supports the country's capacity to borrow, permits it to maintain investment and, ultimately, to improve the standard of living. In a memorandum such as this it would be unrealistic to suppose that one could present an inclusive analysis of the issues impinging on both welfare and growth in Cameroon, particularly since the diversity of interests and institutions make individual and institutional behavior quite complex. Moreover, to go beyond the description of rural/urban income distribution, migration and related matters contained in earlier Bank reports the administration needs to develop more comprehensive information on human resources, labor force and employment and individual and family incomes and consumption patterns. Furthermore, studies in other fields, some of which are being undertaken in association with World Bank projects (for example in transportation, maintenance, forestry) remain to be completed. The discussion will therefore focus rather narrowly on the outlook for national output, expenditure and financial prospects drawing conclusions from selective studies done by the mission, Bank project work, or from the analysis of specified alternatives.

Growth in the Medium Term

35. In the medium term, i.e. through 1980/81, the end of the Fourth Plan period, achievement of higher real growth depends mainly (abstracting from the effects of weather) on expanding the output of annual food and export crops, increasing the use of existing capacity in tree crops, industry, forestry and services, and expansion of capacity in some industries, such as food and beverages, which are operating at relatively high rates. Some new projects should come on stream in this period, particularly in agricultural processing, forestry, pulp and to a limited extent, petroleum, but the main source of additional output lies in existing economic activities. From the demand side conditions are expected to be generally favorable, as during the first three years of the 4th Plan period international prices for the most important export commodities will remain above the base period (though cocoa and coffee prices will decline rapidly after 1977/78); demand from Gabon and Nigeria should continue strong in Cameroon border areas; and domestic demand could be supported by higher incomes in export agriculture, and increased public investment and current expenditure. Thus in the medium term the principal question concerning real growth is whether market mechanisms and public policy will operate effectively to reduce or eliminate institutional and physical bottlenecks and call forth an expansion in supply.

36. With respect to real national income, the economy has received a boost from the high terms of trade in 1976/77-1977/78, but in 1978/79 they will deteriorate substantially and in 1979/80-1980/81 they will drop below the 1974/75 base year. However, relative to the last Plan period, the average increase in export prices compared to import prices will permit the economy to obtain a greater volume of imports for each unit of product exported. The absolute magnitude of this terms of trade effect on Cameroon's capacity to import depends, of course, on the composition and volume of exports, i.e. the higher the volume of the higher priced exports the higher the terms of trade effect. According to mission estimates, the cumulative increase measured in 1974/75 CFAF in Cameroon's capacity to import during 1976/77-1980/81 will be on the order of CFAF 52 billion, equivalent to about 8 percent of cumulative estimated domestic gross fixed capital formation valued in 1974/75 prices. It is estimated to be CFAF 68 billion during 1976/77-1978/79. Not all of this gain in real income during 1976/77-1978/79 would or should, however, be allocated to investment; some will need to be channeled into the reconstitution of reserves and some will permit a desirable expansion in both public and private consumption, in the former case to raise the standard and productivity of public services and in the latter to provide sufficient incentives to domestic producers to raise output and strengthen confidence with respect to future investment opportunities.

CAMEROON

Table 17: STRUCTURE AND GROWTH OF RESOURCES AND USES
FOURTH PLAN PERIOD 1/

	Structure (Three-year Average) (Percent share)			Growth Rate 4/ (Percent)	
	1974/75	1977/78	1980/81	1974/75-1980/81	1975/76-1980/81
Agriculture	33.2	32.4	31.6	4.9	5.5
Industry 2/	18.8	20.5	22.2	9.1	9.6
Services	48.0	47.1	46.2	5.6	5.6
GDP	100.0	100.0	100.0	6.1	6.4
Gains from terms of trade	-.04	4.0	-1.2	n.a	n.a
GDY	100.0	104.0	98.8	5.9	5.9
Imports (incl. NFS)	F) 30.0	35.6	32.6	6.7	6.0
Exports (incl. NFS)	29.8	27.6	29.5	7.0	7.0
Import capacity 3/	29.7	31.6	28.4	6.4	5.3
Resource gap	.3	4.0	4.4	8.5	11.5
Domestically available resources	100.3	108.0	103.2	7.0	7.0
Consumption	81.8	85.1	80.8	5.4	5.2
(Private)	(67.1)	(69.9)	(65.5)	(5.2)	(4.9)
(General Government)	(14.7)	(15.2)	(15.3)	(6.5)	(6.5)
Investment	18.5	22.9	22.4 5/	8.4	10.2
(GFCF)	(16.0)	(21.9)	(21.4)	(10.1)	(9.1)
(Change in stocks)	(2.5)	(1.0)	(1.0)	(n.a)	(n.a)
Memo item:					
Gross domestic savings	18.2	18.9	18.0	8.3	10.0

1/ National accounts data in 1974/75 prices
2/ Including manufacturing, mining, construction and public utilities
3/ Exports (incl. NFS) plus gains from terms of trade
4/ From regression growth equation: $\ln yt = \ln yo + bt$ (growth rate equals (e^b-1))
5/ "Medium" investment alternative.

Medium Term Constraints and Potential in Agriculture

37. To illustrate the importance of domestic price policies and market machanisms in agriculture, the mission examined the case of cocoa, which despite the stagnation in recent years is still Cameroon's most important single export crop and which has been the subject of considerable debate within the country. The medium term capacity constraint is determined by the combined facts of aging trees, rather low rates of new planting during the last few years of the Third Plan (estimated to be less than half of the average rate during the 1950's and 1960's of about 12,000 ha. per year) and the five years lag between new plantings and initial production. Thus in the medium term the maximum output that could be achieved in any one year is estimated to be 120,000-140,000 tons. To evaluate how production might move within that maximum an econometric analysis was done which assumes "normal" weather and simulates the past pattern of relative prices between cocoa and food crops, which families in the main cocoa growing areas of the country grow for their own consumption and sale. The analysis shows a strong positive relation between higher cocoa producer prices relative to food crop prices and cocoa output, and suggests that increased producer prices would also lead to new plantings. The analysis also suggests that higher relative cocoa producer prices are required for direct production support schemes (spraying, free distribution of fungicides, etc.) to be effective; with recent cocoa producer prices and cash food crop prices, farmers' return to labor has often been higher for food crops than for cocoa. To use the analysis for forecasting purposes, food crop prices are assumed to rise at alternative projected rates of increase in an index of selected farmgate food crop prices and various alternative levels were tested for producer prices. Recently the Government announced a 47 percent increase in the cocoa producer price to CFAF 220 per kilo, the effect of which will be a definite recovery in production above the 1976/77 level, a considerable increase in export earnings and government export revenues from cocoa in 1977/78 thanks to high export prices. While a favorable cocoa/food crop price relation could be maintained in the next two years, food prices are likely to rise relative to cocoa in 1980/81, in which case cocoa production would not exceed 110,000 tons. However, the Government doubled the funds allocated in 1977/78 to nearly CFAF 6 billion, or more than 10 percent of the projected cocoa export receipts and about 17 percent of the cocoa stabilization fund's surplus, to an expanded effort in production support schemes (mainly capsid and blackpod control) and rural access roads. If these efforts, now supported by a higher producer price, are more effective than in the past, the peak output during the Fourth Plan period as well as the lower output in 1980/81 (because of a possible less favorable producer price in relation to food crop prices in that year) can be higher than the levels mentioned above.

38. Cocoa represents more than 7 percent of the gross value of the agricultural production (including livestock and forestry) and about 26 percent of the gross value of commercial crops during 1971/72-1975/76, and comparable analyses have not, of course, been done for other crops in the sector. On the whole we assume overall growth in agriculture, including forestry and livestock, at 5.5 percent p.a. through 1980/81. The mission

has based its projections on the medium term market outlook for Cameroon's exports, historical trends in food crop production, projects which are under implementation, and certain policy alternatives. With respect to other tree crops, the same kind of capacity considerations apply as in cocoa, and production in the medium term is constrained by the area in plantation, and cannot in general expand very fast. Arabica may be an exception since there were substantial plantings in the late 1960's and early 1970's and it is assumed that arabica farmers, who are organized in cooperatives which receive year end bonuses out of actual export revenues, will go all out to maximize output. In robusta acreage trends are mildly up but the rate of expansion will again depend primarily on obtaining higher yields in response to increased producer prices, and even then is not projected to exceed by much the 78,000 ton peak achieved in 1974/75. The situation in palm oil and rubber, which are respectively partly and wholly grown in industrial plantations, is governed by development schemes which are known to the Bank through project work, and although substantial investments will take place before 1980/81 output growth will not be much above 4 percent p.a. The institutional framework for cotton is relatively strong and with projected expansions in acreage and good market prospects this crop should experience the fastest growth of all Cameroon's commercial crops. Sugar for the CAMSUCO project will also come into production during the Plan period, but at low world market prices the economic costs of undertaking this activity are likely to exceed the benefits. Rice, which is being developed in the North with World Bank assistance, will increase in the coming years, while large scale commercial corn production is expected to be delayed pending further studies. Economic conditions in Nigeria are likely to continue to create strong demand for groundnuts and rice grown in Northern Cameroon, which might, to some extent, divert land and labor from millet and sorghum production; although with normal weather these crops should at least keep pace with population growth. Finally, if as we recommend the Government gives emphasis to high valued cocoa and coffe during this period of favorable world market prices, production of food, which has grown on the order of 5.5 percent p.a. in the recent past, will be moderated somewhat. Livestock, of course, has good potential in Cameroon, and demand will continue strong on both domestic and neighboring foreign markets. However, administrative services need to be strengthened to improve cattle strains, feedstocks, etc., to contribute substantially to this growth of animal husbandry.

39 The medium term outlook in forestry which, for the most part, is exploited by domestic and foreign private firms is clouded by the lack of solid information on production, stocks, and domestic sales. While the severity of the transport constraint is uncertain, Government legislation is thought to be generally adequate, but taxation needs to be reviewed; administration is weak and the actual forestry potential, scope of enterprise operations, investment plans and transport requirements are the subject of a consultant's study. Exports of logs and sawn wood in 1976/77 were still below their 1973/74 peak of 700,000 tons, and although world market conditions are promising, we assume for purposes of this report that increased efficiency and some addition to transport capacity would permit exports of probably not more than 800,000 - 1,000,000 tons by 1980/81. Assuming some increase in the historical share of local processing and sales, this implies total production of 1.5-1.7 million tons, or annual growth from 1974/75 of 7-9% p.a.

Medium Term Prospects in Industry

40. We assume real growth from 1975/76-1980/81 in mining and manufacturing of 10 percent p.a. The assumption might be on the low side since about CFAF 20.0 billion in new value added in 1974/75 prices could come from the start up of crude oil production, Celucam, Camsuco and other projects. If all these projects do begin operations during the period, existing activities would need to expand at a rate of only 5-6 percent p.a. to achieve 10 percent growth for the sector as a whole. In fact, output from existing operations is likely to grow faster, particularly in food, beverages and construction materials, as a result of the demand outlook described above.

41. The preliminary results of the industrial sector mission do, however, require us to introduce an important qualification: namely that the growth of output as defined in the national accounts does not necessarily reflect the net economic gains to the country from expanding particular activities in manufacturing. 1/ Thus in certain existing activities in which some enterprises appear to operate well below capacity, particularly but not exclusively those which depend heavily on imports and apply only one stage of processing, growth of production may actually result in net economic losses. Moreover, new investment in some activities which process domestic raw materials, either for export of the local market, can cause loss to the economy if they have heavy capital costs or low labor productivity and face stiff competition from efficient producers in countries which purchase Cameroon's exports or can potentially supply Cameroon's imports. If activities such as these are protected by tax exemptions, subsidies, and tariffs or quantitative restrictions, the economy loses resources which could otherwise be devoted to more productive investment and the Government, in particular, loses revenues.

42. With respect to the actual situation in Cameroon it appears that reinvestment and the expansion of output in half of the industrial activities for which detailed analysis was done would clearly result in net economic gains to the country, while maintaining or increasing the use of existing capacity (without new investment) would result in economic gains in another 20 percent of the cases. The economic costs of current operations in the remaining 30 percent of the activities in the sample probably exceed the economic benefits, and public policy should certainly not encourage their expansion. Planned public investments in totally new activities such as Cellucam were not evaluated but should, evidently, be subjected to similar tests to establish overall economic viability.

1/ Or any other sector, for that matter. The difference arises from the fact that the costs of inputs and values of outputs are measured at current market prices in CFAF and need not reflect their actual economic values. For example, the accounts of an enterprise might understate costs to the extent that because of subsidies or tax exemptions the prices actually paid for imports of intermediate and capital goods are less than their economic values while they might overstate benefits to the extent that because of protection prices actually received for outputs are higher than their economic values. "Value added" and growth would then not reflect the true economic gains to the country.

Medium Term Prospects in Services

43. Prospective growth in the output of services is a function of the growth of agricultural and industrial production as well as a number of other factors. Thus the expansion in imports and exports foreseen during this period should add to the rate of growth of services provided in trade and transportation, while a rise in investment in various sectors of the economy will accelerate activity in the construction sector. With respect to government services, the outlook is, of course, determined mainly by the availability of public revenues and their alloction between capital expenditure, wages and salaries, and purchases of materials and supplies. Government budget revenues are now expected to increase by at least 40 percent in the two years 1976/77-1977/78, and if they keep pace with nominal growth in GDP will be more than double the 1975/76 level in 1980/81. To reflect the often repeated view that the efficiency of Cameroon's administration could be improved by increasing the availability of materials and supplies, the mission assumes an acceleration in real growth in public consumption, which means that wages and salaries would have to rise at a lower pace. Taking the foregoing factors into consideration, growth in output of services as a whole would be about 5.6 percent p.a., i.e. somewhat less than the anticipated growth of GDP, which is consistent with the historical relation between them.

Investment and its Finance in the Medium Term

44. Following an evaluation of sectoral investment opportunities and efficient resource allocation, the last comprehensive economic mission to Cameroon recommended a public investment program of CFAF 310 billion in 1974/75 prices. The main features of the program were a maximum effort (limited essentially by absorptive capacity) in the rural sector, higher absolute expenditure but somewhat lower priority than in the past for transport infrastructure (essentially because of the expected completion of major transport links) and continuation of about the same real level of investment outlays as was achieved in 1971/72-1975/76 in the social sectors. The economic justification underlying the priorities in this overall strategy remains valid, but decisions have since been taken which will almost certainly lead to a higher level of public fixed investment, particularly as a result of increased government participation in industrial projects (which were not included in "public" investment as defined by either the last mission or the 4th Plan), higher real costs of the Song Lou Lou hydro-electric scheme, and expanded purchases of transport equipment. Private investment will, under Government guidelines, also be encouraged to expand production capacity in agriculture, forestry, mining and manufacturing. These developments raise the immediate issue of how a higher anticipated level of total investment will affect the financial equilibrium of the economy.

45. To test the financial prospects in the medium term, the mission initially adopted the pattern of fixed capital investment shown in Alternative "A", Table 18, which is a high alternative based on the capital spending plans of private and public investors, including the expected programs of foreign aid donors. Conceptually the total envelope excludes projects which are not sufficiently advanced to be achieved during the Fourth Plan period

and includes some projects not foreseen when the Plan was prepared. It includes projects considered of high economic priority as well as a number of undertakings which have not been evaluated in detail and some whose economic viability is doubtful. The program is believed to be physically achievable but is about 80 percent higher, in real terms, than what we estimate was achieved in the last plan period and almost triple previous Plan expenditure in nominal terms. Subsequent analysis of the medium term prospects and long term creditworthiness showed that the financial burden of this level of investment would be excessive, and alternatives "B" and "C", representing reductions in real terms of 10% and 20% in planned public investment were tested.

Table 18: PLANNED GROSS FIXED CAPITAL FORMATION
(Billions of CFAF)

	1971/72-1975/76	1976/77-1980/81		
TOTAL GFCF		A	B	C
Constant 1974/75 prices	376	694	645	600
Current Prices	343	986	920	860

Alternative "A" 1976/77-1980/81
(1974/75 Prices)

	Public Investment	Private Investment	Total Investment	Percentage Share
Agriculture and forestry	66	25	91	13.1
Manufacturing and mining	68 a/	111 b/	179	25.8
Public power	61	-	61	8.8
Transportation	209	8	217	31.3
Other	86	60	146	21.0
	490	204	694	100.0

a/ Includes government participation and guaranteed borrowing for industrial enterprises.

b/ Includes private investment in petroleum development, storage facilities, _____.

46. The potential impact of the level of capital spending in Alternative "A" on the financial equilibrium of the economy is shown in Table 19. If this capital spending were realized (i.e. "ex ante") fixed capital investment would rise from 16% of GDP in current prices in 1974/75 to an average of 22.6% in the three years 1976/77-1978/79 mainly owing to an expansion in public investment. In this period public savings will be at an exceptionally high level and the rise in import demand should be easily accommodated by the rise in export earnings resulting from the high cocoa and coffee export prices in 1976/77 and 1977/78 and public and private capital inflows. However, during 1978/79-1980/81 notwithstanding a probable decline

in terms of trade and public savings, total fixed investment would be pushed even higher as the Government would endeavor to maintain its level of capital outlays, while there would be additional private capital outlays for new projects mainly in the oil and mining sectors. Compared with the Third Plan period (1971/72-1975/76) the total investment rate, including changes in stocks, in the Fourth Plan period (1976/77-1980/81) would rise from 18.1 percent to 24.7 percent. 1/ The main push at the beginning of the Fourth Plan period comes from public investment, but with the assumed rise in private investment after 1977/78, the average five year shares in total fixed investment would be 71 percent public and 29 percent private.

47. Analysis of the financial outlook in 1978/79-1980/81 shows the vulnerability of economies such as Cameroon, which depends on a limited number of primary commodities, to changes in the terms of trade. Because of the projected fall in export prices relative to import prices, it appears that investment would be constrained both by stagnating or declining public savings and by the high level of capital inflow required to finance the current account deficit. The reasoning on which this conclusion rests is as follows:

1/ These rates are from current price financing of investment calculations.

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Table 19: MEDIUM-TERM ALTERNATIVES FOR INVESTMENT, SAVINGS, AND FOREIGN FINANCING

Tableau 19: INVESTISSEMENTS, EPARGNE ET FINANCEMENT EXTERIEUR: VARIANTES A MOYEN TERME

	(In billion of CFA francs at current prices) (En milliards de francs CFA, prix courants)					(Percent of Total Investment) (Pour cent de l'investissement total)				
	1974/75	1977/78	1980/81			1974/75	1977/78	1980/81		
			A	B	C			A	B	C
Three Year Averages	Provisional Provisoire	Estimate Estimation	Projected Projection			Provisional Provisoire	Estimate Estimation	Projected Projection		
Public Investment	50.8	120.3	167.2	128.0	99.2	57.2	68.7	63.2	56.7	50.4
Private Investment	26.6	46.7	87.0	87.0	87.0	30.0	26.7	32.8	28.6	44.2
Fixed Investment, Total	77.4	167.0	254.0	215.0	186.2	87.2	95.4	96.1	95.3	94.6
Change in stocks	11.3	8.2	10.6	10.6	10.6	12.8	4.6	3.9	4.7	5.4
Total investment	88.7	175.2	264.6	225.6	196.8	100.0	100.0	100.0	100.0	100.0
Less: Deficit on goods and n.f.s.	11.7	42.8	63.6	54.3	40.3	13.2	24.4	24.0	24.1	20.4
Gross Domestic Savings	77.0	132.4	201.0	171.3	156.5	86.8	75.6	76.0	75.9	75.9
Public	(39.1)	(83.7)	(70.0)	(78.5)	(78.5)	(44.1)	(47.8)	(26.5)	(34.8)	(39.9)
Residual (Private savings)	(37.9)	(48.7)	(131.0)	(92.8)	(78.0)	(42.7)	(27.8)	(49.5)	(41.1)	(39.6)
Less: Net factor service payments	16.2	27.9	46.1	44.7	39.6	18.3	15.9	17.4	19.8	20.1
(Of which: Interest on public foreign debt)	(2.7)	(3.5)	(18.6)	(15.4)	(15.4)	(3.0)	(4.9)	(7.0)	(6.8)	(7.8)
Gross national savings	60.8	104.5	154.9	126.6	116.9	68.5	59.6	58.5	56.1	54.4
Less: Amortization on M&LT foreign debt	6.3	13.0	20.2	19.8	19.8	7.1	7.4	7.6	8.8	10.1
(Of which: Public)	(3.5)	(10.7)	(16.1)	(15.8)	(15.8)	(3.9)	(6.1)	(6.1)	7.0	(8.0)
Available for investment	54.5	91.5	134.7	106.8	97.1	61.4	52.2	50.9	47.3	49.3
Projected										
Current and capital transfers	8.1	14.0	16.0	16.0	16.0	9.1	8.0	6.0	7.1	8.1
Disbursements official M&LT loans	17.7	37.9	50.0	50.0	50.0	19.9	21.6	18.9	22.2	25.4
Disbursements private M&LT loans	11.2	16.3	41.7	32.4	21.8	11.6	9.3	17.9	14.4	11.1
Net direct foreign investment	5.6	12.6	22.2	22.2	22.2	6.3	7.2	8.4	9.8	11.3
Net use of other foreign resources	-7.2	4.4	0.0	0.0	0.0	-8.1	2.5	0.0	0.0	0.0
Change in reserves	1.2	1.5	0.0	1.8	10.3	.	.	.	.	.

	1974/75	1977/78	1980/81		
			A	B	C
Memo:					
Fixed investment/GDP	16.1	22.6	24.5	20.6	17.9
Total investment/GDP	18.4	23.6	25.5	21.7	18.9
GDS/GDP	17 6	17.9	19.3	16.5	15.1
GNS/GDP	12.6	14.4	14.9	12.3	11.7

Source: Mission estimates and projections
Estimation de la mission et projections

48. The medium term outlook for growth in the volume of exports is, on the whole, quite favorable. Most of Cameroon's traditional exports are expected to experience a recovery at least to previous years' peak in response to higher farmgate prices and known production possibilities, while exports of some annual crops will rise faster. In addition the outlook includes the initiation of crude oil exports in 1978/79 and some other new exports by 1980/81. However, export prices for coffee have already started to decline, and cocoa is expected to fall to half its peak price by 1980/81. Moreover, as noted earlier, owing to a "quality discount" Cameroon's realized unit values have historically been lower than adjusted world market prices, 1/ and this discount apparently widened when world market prices rose. Realized export prices for cocoa rose from CFAF 285 per kilo in 1975/76 to CFAF 500 in 1976/77, while Arabica coffee jumped from CFAF 336 to CFAF 778 per kilo, but adjusted world market prices 1/ for both commodities were about 20 and 40 percent higher respectively in 1975/76 and 1976/77. The discount assumed in this evaluation of the medium term outlook from 1977/78 is 20 percent, but because either export price projections could be too low or quality and marketing practices could possibly be improved, an alternative 10 percent higher price projection (assuming a quality discount of only 10 percent) is made for the longer term after 1980/81.

49. Even with a reasonably favorable export outlook, the deficit on Cameroon's current account will widen substantially in 1978/79-1980/81 owing to the combined effects of the higher level of real demand, higher import prices and higher payments for interest and other factor services. If, as our estimates suggest, Cameroon has already expanded imports of investment goods in 1976/77 and 1977/78, total imports of goods and non-factor services would now run at an annual rate of some CFAF 290 billion, compared with exports of goods and non-factor services of about CFAF 260 billion. Assuming real growth in imports of consumer goods and intermediate goods can be kept somewhat below real growth in GDP, the effects of a further sustained expansion in real investment during 1978/79-1980/81 would be to raise the deficit on goods and services to some CFAF 60 billion by 1980/81.

50. With total investment of CFAF 260 billion in 1980/81 and a deficit on goods and non-factor services of CFAF 60 billion, gross domestic savings, expost, would have to achieve a level of 200 billion. However, if export prices decline relative to producer prices, i.e. if the Government keeps producer prices for cocoa at their 1977/78 level in real terms and for coffee at their 1977/78 level in nominal terms, gross public savings (including the net results of stabilization fund operations) would not increase at all above the 1977/78 level and the required increase in private savings would clearly be excessive. Moreover, in 1980/81 public savings after payment of public debt service would finance considerably less than 25 percent of public investment. The low share of government financing would not only be attributable to the high level of investment; public savings would also be reduced because of expanded recurrent cost requirements.

1/ Adjusted to FOB Cameroon basis.

51. Finally, on the improbable assumption that with declining export prices domestic savings could be raised to the required level, the foreign borrowing requirements associated with the high investment alternative would still expose the Government to excessive risks. Prospective inflows of official capital grants and loans during 1978/79-1980/81 are unlikely to exceed an annual average of CFAF 53 billion, i.e. equivalent to $25 per capita in 1975/76 prices or more than twice the 1973/74-1975/76 level. However, foreign capital requirements 1/ excluding any provision to replenish foreign exchange reserves but including provisions for debt service would average CFAF 94 billion. With Government borrowing on commercial terms of CFAF 40 billion per year, debt service would approach CFAF 100 billion or 20 percent of the value of exports of goods and services as early as the mid 1980's, even on the most favorable export assumptions.

52. Reducing public investment by 10% or CFAF 45 billion in 1974/75 prices (about CFAF 22 billion per year in current prices) during 1978/79-80/81 would take some of the pressure off the balance of payments, reduce foreign borrowing requirements over and above official development aid by some CFAF 9.0 billion per year and permit some expansion in reserves in 1980/81. The risks associated with excessive foreign borrowing would thus be lessened, but either the prices or volumes of exports would still have to behave rather favorably to keep long run debt service within acceptable limits.

53. The public savings associated with this investment alternative are shown in Table 20. Following the rapid expansion in all components of public revenues, most notably the surplus of stabilization funds, in the period 1976/77-1977/78, budget revenues are expected to rise at more normal rates in 1977/78-1980/81, while the stabilization funds are expected to go into deficit in order to support farmgate prices at adequate real levels. 2/ Growth in current expenditure has historically been held somewhat below growth in tax revenues, but could hardly be lower in 1977/78-80/81 in view of the acceleration of public investment in the preceding period. The Government should, however, still be able to raise gross budgetary savings, but total public sector savings are more likely to stagnate or decline, marginally, as a result of the operations of the stabilization funds. With higher payments of interest and amortization, the decline in the resources available for investment will be even greater, but the Government should still be able to contribute about 40 percent to the financing of public investment. Official development aid would then represent about 44 percent of public investment, and additional public borrowing requirements 13 percent.

54. The medium public investment alternative appears just barely feasible with respect both to Cameroon's capacity to service the required amounts of new foreign borrowing from private sources and to contribute adequate amounts of public savings. On the above projections, the country could also maintain a positive net international reserve position which would give the Government some room to maneuver in the event of adverse short run balance of payments flucturation. However, even this level of investment involves substantial

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1/ After deduction of net direct foreign investment.

2/ Reduction or elimination of the "quality discount" would increase both stabilization fund receipts and export tax revenues.

risks in the medium as well as long term, and for this reason a low alternative amounting to a further 10 percent reduction in public investment again spread over the three years 1978/79-1980/81, should be considered.

55. Government savings remain the principal medium term question. As noted earlier, our knowledge of public enterprise operations is still partial and much depends on their ability to operate efficiently and to follow pricing policies which will permit them to earn some surpluses and cover full costs, including provision for replacement investment. The public enterprise "sector", of course, includes some enterprises which will clearly incur deficits as well as some which are likely to be profitable, but the net results assumed above are substantially positive. Further, the rate of increase in current budget expenditure assumed in alternative "B", while higher than both long run historical trends and in relation to the growth of budgetary revenue, could still be underestimated. After all, the public investment program, even when reduced by 10-20 percent, is still expansionary and will require an increase in current public expenditure of goods and services even in the medium term. Admittedly, the Government could still command additional resources by lowering producer prices below those assumed here. This would, however, mean a reduction in nominal terms below the present (crop year 1976/77) projected producer prices for Robusta and Arabica coffee (CFAF 195 per kg and CFAF 325 per kg including the year-end bonus) and a reduction in real terms in the cocoa price. We have argued above that at least for cocoa such a reduction would lower production, foreign exchange earnings, and export tax receipts.

Long Term Development Prospects and Constraints

56. The mission's conclusions concerning Cameroon's longer term development prospects and constraints do not differ significantly from those of earlier IBRD evaluations on which the Bank Group's development assistance strategy is based, although there are some differences of emphasis on sectoral prospects and in our overall evaluation of the longer term financial outlook. Thus while a sizeable expansion in public sector investment seems feasible in the present period of economic recovery and high export prices, the underlying institutional and structural features of the economy do not indicate a return before the mid 1980s to the high real rates of growth experienced in the 1960s, and difficult choices will therefore need to be made.

57. Cameroon's main long term potential continues to lie in the development, through both industrial plantations and small holders, of a diversified agricultural sector comprising tropical export crops, and domestic food crops to feed the growing urban population and replace imports, particularly of grains. Implementation of such a strategy, which is complicated in any country, depends on a judicious blend of public intervention and support combined with price and policy measures to stimulate private initiative. Pursuit of a diversified agricultural strategy does not have rapid financial returns, requires strong institutions and the careful definition and phasing of a wide range of measures. Factors which complicate the matter in Cameroon are the country's large area and relatively small

Table 20

PUBLIC FINANCE
(Alternative "B")

PAST AND PROJECTED TRENDS

	Three Year Average CFAF billion			Average Annual Growth	
	1974/75	Estimate 1977/78	Projected 1980/81	Estimate 74/75 77/78	Projected 77/78 80/81
Tax revenue	75.9	128.2	192.6	19.1	14.5
Other current revenue	7.5	12.8	18.7	19.5	13.5
Total current revenue	83.4	141.0	211.3	19.2	14.4
Current expenditure	69.5	105.5	157.9	14.9	14.4
Gross budgetary savings	13.9	35.5	53.4	36.5	14.6
Surplus of stabilization Funds	13.8	29.2	-3.8	.	.
Local Government savings	2.2	3.0	4.4	10.8	13.5
Other public savings a/	9.1	16.0	24.5	20.0	15.2
Gross public savings	39.1	83.7	78.5	29.0	neg.
Less:-Interest on medium and long term public loans	2.7	8.5	15.4	36.0	14.5
- Amortization on public loans	3.5	10.7	15.8	34.2	23.2
Available for investment	32.9	64.5	47.3	27.0	neg.
Public investment	50.8	120.3	128.0	33.2	2.0
Projected disbursements					
Capital grants	4.8	6.7	5.9	11.0	neg.
Medium and long term official loans	17.7	39.2	51.0	38.2	16.0
Required net use, other resources	-4.6	9.9 b/	23.8 b/	.	.
Memo: Tax revenue/GDP	16.7	17.4	18.5	.	.
Debt service/budget revenue	7.4	13.6	14.8	.	.

a/ Known public enterprises and social security fund.

b/ Disbursements on public loans from foreign private sources are now estimated at CFAF 19.4 and 28.3 billion, respectively.

Source: Statistical Appendix 5.1 and mission estimates.

population, its regional and institutional diversity, the competition for labor in some parts of the country between export and cash food crops, and the limited availability of skilled agricultural agents and administrators. Further, while the recurrent and investment costs of agricultural development are a burden on the Government it is difficult to derive public revenues from an agricultural policy oriented towards self-sufficiency, since import and export duties, including "prelevements", must be replaced by domestic taxes. Admittedly if output of such crops as groundnuts, palm oil, corn and staple foods can be expanded sufficiently, markets in neighboring countries will probably absorb the exportable surplus, but this also would be difficult to tax. On the other hand, assuming reasonable efficiency, an increase in supply of food for domestic consumption would help to restrain both the cost of living and urban wages and salaries, and in the long run contribute to a more competitive local industry. We conclude that development of exports of tropical tree crops along with production of foodcrops and grains both for export to neighboring countries and domestic consumption is a plausible and desirable long run strategy, but will require substantial strengthening of institutions to obtain improved levels of farm productivity, particularly when, as estimated, the supply of youthful rural labor is dwindling. The agricultural projects being undertaken by the Government in cooperation with the World Bank seek to achieve these goals.

58. While the foregoing strategy is clearly appropriate to the Fourth Plan's agricultural objectives of (a) reducing regional disparities and raising farmers' incomes, (b) increasing exports and import replacements, and (c) alleviating domestic food shortages, it will not in and of itself support a sufficiently high rate of growth in GDP, savings or exports to provide the financial resources wanted by the Government to overcome physical bottlenecks in power, transportation and communications and expand the availability of education, health and other public services. As long as cocoa and coffee account for more than half of Cameroon's exports the country's capacity to import and the Government's capacity to invest depend largely on the prospective performance and projected international prices of these commodities, supplemented to the extent possible by other commodity exports and net capital inflows. Yet, the slow rate of replacement of aging cocoa and robusta trees, which occurred in the 1970's, will dampen total exports of agricultural commodities in the 1980's, notwithstanding the considerable efforts now being made by the Government and foreign aid donors to rectify the situation, and even assuming quite rapid growth in exports of arabica coffee, cotton, groundnuts, palm oil and rubber. If moderate growth in the volume of exports is accompanied by a level of imports which regularly exceeds exports plus inflows of concessionary capital, debt service on the supplementary borrowing would soon rise too rapidly; additional gross foreign borrowing would have to be curtailed; and because of the increasing debt service net capital inflows would level off or decline. It is in this context that additional opportunities both to increase exports and relieve the Government of a rising burden of development expenditure must be found.

59. Fortunately, some additional opportunities to raise exports appear to exist and are given consideration in the Fourth Plan. The principal existing unexploited opportunity is more rapid development of the large but still indeterminate forestry reserves. Development of forest resources

has the advantage that in principle it is profitable enough to attract private capital, and public expenditure can be limited to the provision of economic and administrative services needed to support, control, and tax the activity. Direct public intervention is, of course, not excluded, and indeed Cameroon's participation in the pulp and paper complex and SOFIBEL are significant examples. In evaluating medium term growth prospects (para. 37), we have discussed the uncertainties surrounding the forestry outlook and studies which are being undertaken to resolve them. To handle this uncertainty about Cameroon's long term export prospects, "low", "medium", and "high" alternatives are tested. The high alternative assumes annual growth in exports of timber and wood products consistent with total production of 2.4 million tons in 1985/86 and 5.0 million tons in 1990/91, and includes a rising share of processed wood in total wood exports. Except for the 1976/77-1980/81 period this is essentially consistent with illustrative projections contained in an FAO study, but means average annual growth from 1980/81-1990/91 of about 14 percent for timber exports and 23 percent for processed wood exports. A low projection assumes average annual growth in timber of 7.0 percent and in wood products of 10.0 percent, while the medium projection lies between them.

60. The other principal new export opportunity which now seems reasonably certain is crude oil, which is expected to begin production during calendar 1978 at an annual rate at least as high as domestic products consumption, rising to levels exceeding domestic consumption requirements in the early 1980's. While the Fourth Plan envisages construction of an oil refinery, this project is not likely to begin operations until the end of this Plan period, so that all Cameroon's crude oil would be available for export until then. If the refinery is in fact implemented, part of Cameroon's crude would be diverted to it but imports of refined products would be replaced. However, experience with such refineries elsewhere in West Africa suggests that small scale and high unit capital costs make them uncompetitive with large refineries, and if commitments have not yet been undertaken, Cameroon might gain more by exporting all its crude and continuing to import products until the domestic market has grown enough to support a larger unit.

61. There is undoubtedly scope to expand exports of manufactured goods, particularly within UDEAC, provided Cameroon industries can remain competitive with imports from other countries. However, when one excludes processed timber, aluminum, and processed vegetable oils and cocoa, for which the outlook has been established separately, exports of other manufactures account for less than 5 percent of total merchandise exports. Even assuming better performance than in the past five years, the potential of manufacturing enterprises to add substantially to export earnings is modest in the next 5-10 years, while the import requirements of industrial enterprises tend to be high.

62. In addition to these new opportunities there are promising but still uncertain indications for the exploitation of iron ore. To be commercially viable iron ore for export would need to be developed on a fairly

large scale; it would also require substantial private investment and a lead time of at least five-seven years even assuming no major investments were required in infrastructure. Given the uncertainty of this development it has been included in one test projection.

Financial Management and Investment Planning

63. The discussion of Cameroon's medium term prospects has already brought out the need for the Government to be prepared to adjust to the impact of deteriorating terms of trade during 1978/79-1980/81. This conclusion is reinforced by a prudent assessment of the long term outlook for real growth and international prices, which suggests that even with the reductions in investment contemplated during 1978/79-1980/81, the rate of public investment during the Fourth Plan period is not likely to be sustainable in the long run. In so far as it is still possible, steps should be taken to maintain adequate international reserves (including access to IMF facilities) and treasury facilities to meet balance of payments shortfalls and stabilize producer prices. A reduction in the rate of increase in public capital expenditure should be contemplated, and investment during 1978/79-1980/81 limited to those projects which are clearly demonstrated to facilitate or expand long run production capacity at economic costs or to those having the Government's highest social priority. Of course, if the Government can shift more of the risk and the financing of the expansion of industrial, agricultural and commercial activities to private investors, the burden on its own budgetary expenditure will be lessened, while additional opportunities to raise tax revenues might be identified. The industrial study now underway should help to identify such opportunities in the industrial sector.

64. If the authorities had evaluated the cost of Fourth Plan investment proposals in current prices, the financial constraint might have been brought out more clearly, and commitments to projects having lower than average economic and social returns might have been avoided. Medium term financial planning can still help to make adjustments to the extent that it reveals that certain projects in the Plan would have to be cut back or dropped so that projects not included in the Plan could be implemented. Medium term financial planning would permit better annual phasing, i.e. the careful utilization of resources in years when, thanks to high international commodity prices, resources are plentiful enough to build up reserves which can be used to sustain development expenditure during periods, such as the last three years of the Plan period, when international commodity prices are expected to decline.

65. As part of an overall program to strengthen the financial planning of public investment expenditure there are three technical matters which suggest themselves for Government's consideration. First, because of the importance of foreign aid programs in the financing of public investment, investment planning and debt management would both be strengthened by integrating annual forecasts of disbursements and repayments of funds from foreign sources with the annual investment budget. Consolidated tables showing the anticipated financing of public investment could, in fact, be

presented as an unofficial annex to the Loi des Finances. This would help ensure coherence between budgeted capital expenditure and foreign aid programs, and provide the authorities with annual targets against which to measure realizations. Second, public enterprises have grown both in number and in scope, and are responsible for a large share of the savings and domestic and foreign borrowing of the public sector. To strengthen the monitoring and financial control of public sector investment up to date financial information on public enterprises is needed by both the Ministry of Finance and MINEP. Third, despite a number of studies in various sectors the impact of new public investment on current expenditure requirements is still imperfectly understood. Policies are still needed to define standards and provide for adequate maintenance and other recurrent expenditure associated with all projects undertaken by the Government. The estimated impact of a government project on current budget expenditure and revenue should continue to be an important criterion in the decision to invest.

Foreign Debt and Debt Management

66. At end December, 1976 disbursed public and publicly guaranteed medium and long term foreign debt amounted to $529.3 million and committed but undisbursed debt was $368.6 million, for a total of $897.9 million. Five years earlier total debt, including undisbursed, stood at $260.0 million; it is projected to be $1,202.4 million at end 1977 and $2,138.2 million at end 1981. This assumes total new commitments during the Plan period of $1,534.4 million, or $307 million per year, of which an average of $85.0 million per year in new borrowing from private suppliers and banks, which is the amount of borrowing that would be required on our medium investment alternative. This amount would, however, be higher in the last three years, because of the expected deterioration in the financial situation described above. The amount required to be borrowed from private sources on the high investment alternative would average $125.8 million per year, and on the low it would be $69.0 million.

Table 21 : DEBT PROFILE

A. Commitments of Medium and Long Term Loans (Millions of US dollars)

Calendar Years Three Year Average	Bilateral	Multilateral	Total Public Sources	Total Private a/ Sources	Total
Actual					
1973	51.0	37.8	88.8	28.3	177.1
1975	58.0	47.6	105.6	76.5	182.1
Projected					
1977	128.9	63.4	191.8	96.1	287.9
1979	144.3	84.0	228.3	62.1	290.4
1981	143.8	113.0	256.8	112.1	368.9

B. Disbursements of Medium and Long Term Loans

Three Year Average					
Actual					
1973	22.0	20.4	42.4	10.7	53.1
1975	34.4	29.6	64.0	57.4	121.4
Projected					
1977	89.2	36.3	125.5	84.5	210.0
1979	120.3	50.8	171.1	83.6	254.7
1981	132.2	59.4	191.6	100.0	291.6

C. Debt Outstanding and Disbursed

Year End					Total	
					Disbursed	Incl. Undisbursed
Actual						
1971	113.8	34.2	148.0	13.9	161.9	260.0
1973	124.8	85.1	209.9	28.5	238.4	430.2
1975	159.5	138.4	297.9	76.8	374.7	705.1
1976	190.7	164.9	355.6	173.7	529.3	898.0
Projected						
1977	279.6	194.0	473.6	249.8	723.4	1,195.4
1979	494.4	278.9	773.3	314.5	1,087.8	1,609.0
1981	721.6	392.2	1,113.8	387.6	1,501.4	2,138.2

a/ Projected amounts are for "medium" investment alternative.

67. Table 21 shows the main historical and projected trends and structure in Cameroon's external debt. At the end of calendar 1971, six months after the beginning of the Third Plan, debt due bilateral and multilateral official lenders was $148.0 million and debt due to suppliers and banks was $13.9 million. By the end of 1976, six months after the end of the Third Plan, these amounts were $355.6 million and $173.7 million, respectively. Borrowing from private sources had thus grown from virtually negligible amounts to a very significant sum. The mission estimates that considerably more private borrowing took place in 1977.

68. The projections of new borrowing from public sources reflect the intentions of aid donors. While the expansion in aid from bilateral donors could conceivably be overestimated, the estimate of assistance from multilateral donors is perhaps conservative. Bilateral donors do, of course, include OPEC countries and there has already been a rise in assistance for certain projects from them. Still, the estimated total amount of official development aid is likely to be close to a maximum, taking into account comparative per capita indicators for less developed countries in Africa and elsewhere in the world. The growth of debt due to private borrowers on the medium alternative would still have to be substantial, i.e. from $173.7 million at end 1976 to $387.6 million at end 1981. The share of this debt in total public debt outstanding and disbursed would, however, decline from 33 percent at end 1976 to 25 percent at end 1981. This phenomenon is in some degree attributable to the shorter grace periods and maturities of loans from private sources, which of course means higher debt service during the period for Cameroon.

69. The table also reveals an acceleration in the apparent rate of disbursements on bilateral loans (in this case meaning disbursements in any one year in relation to commitments in that year not in relation to past commitments). This is the result of the deceleration from the high (49 percent) rate of increase in commitments at the beginning of the Fourth Plan to the more normal rate of about 6 percent during the Fourth Plan period. The historical record in Cameroon suggests that disbursements could be slower than those assumed here. If this is true, either investment would again need to be lower or commitments of new loans would have to be higher. Because commitments from public sources are unlikely to be raised, higher commitments could only come from private sources. However, as already indicated the projections provide for a substantial increase in official borrowing from private sources.

70. Given the mission's projections of new borrowing to finance the "medium" investment alternative, and the projected volumes and prices of exports, the ratio to export earnings of payments of interest and amortization on public and publicly guaranteed medium and long term foreign debt would rise from 8.1 percent in 1977/78 to almost 12 percent in 1980/81. The ratio of these debt service charges to current budget revenues would increase from 13.6 percent to about 15 percent. 1/ This is a considerable burden for

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1/ The mission has not separated debt service on new central government borrowing from debt service on borrowing by public enterprises.

the Cameroon economy and requires stronger planning, monitoring and control to ensure that resources are properly planned and provided to cover debt service charges. Past irregularities in debt services payments have recently been straightened out, and apparently were attributable less to a lack of liquidity than to problems of management, particularly in 1975/76 when appropriations for debt service were omitted from the Loi des Finances, owing to the understanding at the time the budget was prepared that an Autonomous Amortization Fund (Caisse Autonome d'Amortissement) would be established. Debt service in that year was met from treasury resources. Appropriations have since been included in the budgets for 1976/77 and 1977/78 and the monitoring and reporting of new commitments and transactions has recently improved.

71. Nevertheless, problems of debt management and coordination remain including (a) omission from the financing estimates in the Fourth Plan document of explicit debt service forecasts; debt service charges were assumed to be covered by resources of the Commodity Price Stabilization Funds, (b) overlapping responsibility between the Ministry of Finance and MINEP for debt reporting and management, and (c) lack of systematic and current reporting by public enterprises of their transactions on foreign loan commitments (disbursements, payments of interest and amortization). The Cameroon authorities have, for a number of years, expected to centralize debt management through the establishment of an Autonomous Amortization Fund. The mission recognizes that the particular form of administrative and financial arrangement to manage public foreign debt is an internal matter but suggests that annual financial charges ranging from some $80 million in 1977/78 to almost $150 million in 1980/81 are of such importance that the Government needs to proceed with measures to ensure (a) longer term planning and authorization of funds specifically designated to meet its financial charges, and (b) centralize responsibility and authority to monitor new borrowing by all public entities and to forecast and budget expenditure from the funds designated to cover them.

Longer Term Creditworthiness (Capacite d'Endettement)

72. The mission's simulations of various long term alternatives bring out once again the vulnerability of a small agricultural economy like Cameroon, which is highly dependent on a few primary commodities for foreign exchange earnings and public revenue. Even though Cameroon is, compared with many other African countries, quite self sufficient in food and certain processed consumer goods, import requirements in the form of capital and intermediate goods and services associated with development expenditure remain high. It is this structural feature which, in combination with the inherent difficulties of accelerating real growth in agriculture, imposes the real macroeconomic constraint on high investment and growth. The real constraint will be even tighter to the extent that limited available resources are channeled into projects having low economic returns and/or the monetary costs of Cameroon's imports rise in relation to the monetary benefits from exports. As observed above, because export prices are now at exceptionally high levels this latter development is virtually certain in the medium term future, while longer term international projections continue to foresee an inexorable rise in import prices.

73. Against this background the simulations tested the three medium term investment alternatives, three rates of growth in the volume of forestry exports, a ten percent increase after 1980/81 in Cameroon's f.o.b. receipts from cocoa and coffee resulting from the cutting into half - 10 percent - the discount in cocoa and coffee import prices (from levels which Cameroon will obtain if it continues to be subject to the 20 percent discount in export prices projected during 1977/78-1980/81), and the introduction of exports from one large scale mining project towards the end of the 1980's. As we have argued at length, the public investment program will in any event be constrained by available financial resources in 1978/79-1980/81, so that only the low and medium (20% and 10% reductions from estimated five year fixed public investment of CFAF 490 million in 1974/75 prices) were ultimately used as a basis for the long term simulations. The simulations show that of the variables within the policy control of the Government authorities, the availability of adequate financial resources to sustain an investment rate as high as 20 percent of GDP is highly sensitive to projected growth in exports of timber and forest products. The "low" timber export projection would imply the need for very restrictive import and foreign borrowing policies, while the "medium" timber export projection would be consistent with a long term total investment rate on the order of 19 percent of GDP, provided either Cameroon could obtain 10 percent higher prices for its exports of cocoa and coffee or substantial mineral exports were developed by the end of the 1980's. However, even on either of the latter assumptions, owing largely to the rapid accumulation of supplementary debt from private foreign sources debt service on foreign borrowing would still rise to 20 percent of the exports of goods and services by 1989/90, which implies that financial constraints would impose heavy limitations on further economic expansion. We conclude that for the next Plan period the Cameroon authorities will need to consider a reduction in the investment rate from that of the present plan period; priorities will need to be carefully determined in relation to economic and social returns; and higher levels of foreign assistance will be needed on concessionary terms.

74. The country remains creditworthy for World Bank financing and in addition continues to have some scope to borrow on commercial terms. Cameroon's ability to maintain this capacity to carry debt depends ultimately on maintaining productivity in the utilization of the country's resources, but more specifically on reasonable prudence and sound practices in medium term financial and debt management, along the lines suggested earlier, and its success in achieving the kinds of long term trends simulated above.

75. Finally, from the simulations run by the mission, which bring out the vulnerable nature of Cameroon's small export-dependent agricultural economy and the consequent need for careful medium term resource allocations and financial management and for an appropriate development strategy to diversify the economy, a second perspective plan is strongly suggested for Cameroon. Cameroon did have a 20 year (1960-80) perspective plan , but apart from its objective of doubling per capita income within the period, it apparently provided little guidance on alternatives, constraints, development strategies and opportunities at least for the Fourth Plan period. It is time again for another perspective plan (1981/82-2001/02) to provide a framework for the 5th-8th five year plans.