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Economic Committee Papers - EC/O/72-21 - Cameroon - Country Program Note

Country

ECONOMIC COMMITTEE

80

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OCT 21 2024

EC/O/72-21

February 8, 1972

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Cameroon: Country Program Note

1. Attached is the draft Country Program Note on Cameroon (EC/O/72-21/1, dated February 8, 1972) which has been prepared by the Western Africa Department.
2. Comments on the paper should be conveyed to Mr. Westebbe (Room C722, Ext. 4746) by 12:00 noon on Monday, February 14, 1972.

C. F. Owen
Acting Secretary
Economic Committee

Attachment

Secretary's Department

Distribution:

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EC/O/72-21/1
February 8, 1972

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COUNTRY PROGRAM NOTE

OCT 21 2024

CAMEROON

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IBRD/IDA Lending Program (\$ millions)

	<u>FY64-68</u>	<u>FY69-73</u>	<u>FY73-77</u>
1971 Population: 5.9 mil.	IBRD 7.0	36.1	67.0
1970/71 per cap. GDP \$187 ^{/1}	IDA <u>11.0</u>	<u>46.7</u>	<u>89.0</u>
	Total <u>18.0</u>	<u>82.8</u> ^{/2}	<u>156.0</u>
Current Population Growth Rate: 2.1% per annum		Operations Program	<u>207.0</u>

Current Exchange Rate:
CFAF 255.8 = US\$1.00

Annual Average per capita (\$)

IBRD/IDA	.62	2.81	5.38
IDA	.38	1.58	3.07

^{/1} Based on revised national accounts in current prices converted at \$1 : CFAF 277.71

^{/2} Lending program approved at last year's Country Program Review was \$101 million.

A. Country's Objectives

1. Since the Country Program Paper dated November 2, 1970 the following two major changes which have taken place are:

(i) There was until recently a continued sharp decline in cocoa prices (anticipated in the last CPP and economic report), and in the output of other major export crops.

This setback has significant implications for savings, investment, employment, and the balance of payments. The aggregate growth rate and foreign financing estimates made last year are still largely relevant, although there are significant differences in the components of the GDP estimates.

(ii) A new development plan which calls for a significant expansion in spending has been published, effective June 30, 1971 for the period 1971/72 - 1975/76. It is based largely on the assumption that the past growth rates of agricultural exports, public savings and private investment will persist or accelerate. The primary objective of doubling real per capita income in the twenty-year period 1960-1980 is retained, while "respecting the equilibrium of sectors and regions" for equity reasons.

2. In the political realm, Cameroon's foreign relations have remained calm during the past year. The only event of significance was the Government's formal recognition of the People's Republic of China; the severance of ties with Nationalist China followed inevitably. Cameroon's relations with its immediate neighbors continue to be good. Domestically, the political scene is quiet, and the problem of the Bamileke tribe seems less of a threat to stability than at any time since independence. The Bamileke area is still over-populated, however, and some tension remains due to this. Also, the Bamileke, because of their dynamism and ability, are regarded as a threat by other tribal groups. President Ahidjo continues to demonstrate his capacity for firm leadership and for reconciling the diverse regional and ethnic interests of his country.

3. Cameroon continues to maintain good relations with its neighbors and participates in several regional African political and economic organizations. It is one of the five members of the Central Bank for Equatorial Africa and has been the most important source of its foreign exchange revenues in the past. Its currency is the CFA franc, which is fully convertible with the French franc and was recently revalued with it against the US dollar, although some senior officials made a point of the economic disadvantages of following French monetary and exchange rate policy so closely. As trade with the dollar area is relatively small, the direct effects of the revaluation are expected to be small, as about 17 percent of total trade is with countries (US and others) whose currencies were devalued against the CFA franc and about 22 percent with countries (The Netherlands and Germany) whose currencies were revalued against the CFA franc.

4. France is the most important source of technical assistance and private sector capital and management. It has been the main source of foreign aid although it will be replaced in this respect by the World Bank on the basis of new commitments during the next few years. Cameroon is an associate member of the European Common Market (EEC), which is also an important source of financial assistance through the European Development Fund (FED). The EEC's trade advantage with Cameroon has recently been reduced by cuts, which had been proposed by Cameroon, in the UDEAC external tariff with the outside world. This was done in order to reduce dependence on France and the EEC.

5. In the six years from 1964 to 1970, Cameroon's GDP growth rate in real terms averaged 6.4 percent. This was in excess of the 5.8 percent

rate required to achieve the primary national economic objective of doubling real per capita income in the twenty-year period, 1960-1980. Population growth is 2.1 percent annually. Agriculture, particularly cash export crops, accounted for the bulk of the growth in value added followed by impressive gains in manufacturing, construction and transportation, supported by high levels of public investment in infrastructure and buildings. Rising rural incomes had favorable repercussions on the demand for manufactured products. Accordingly, a sharp rise took place in industrial projects for the production of import substitutes. In the late sixties private foreign investment began to fall off as import substitution opportunities for consumer goods were exploited. Increasing bureaucratic interference with the private sector also contributed to the decline. The President is personally directing an effort to establish a direct dialogue with the private investors in order to restore the confidence of existing and potential private foreign investors.

6. In 1970/71 the GDP growth rate fell to an estimated 2.6 percent, primarily due to declining output of coffee, cotton and groundnuts. No recovery in GDP is expected this year. In terms of expenditures on GDP and the financing of investment, the role of export crops, particularly cocoa, is central. The resources generated by the sharp rise in cocoa prices through 1969/70 were the equivalent in that year of one-third of gross investment and contributed importantly to public savings.

7. Gross investment rates have been about 15 percent of GDP of which some two-thirds were financed by national savings. In 1970/71, with reduced GDP growth, the decline in domestic savings and the continued outflow of factor payments, by expatriates and to pay dividends and interest, national savings must have lower and the inflow of resources from abroad larger. Largely as a result of the 45 percent decline in cocoa prices since 1969, and the continued rise of imports, the trade surplus of CFAF 5.3 billion in 1964/70 was turned into a deficit of CFAF 8.3 billion in 1970/71. The country's net foreign assets were the equivalent of 3.3 months' imports by mid 1971.

8. The policy of keeping interest rates low, at 4.25 percent for high grade commercial paper with a 3.50 percent minimum Central Bank rediscount rate, may have had an impact on financial savings, and the willingness of business enterprises to keep funds in Cameroon. Under present rediscount policies, small businesses may find it more difficult to obtain credit than larger enterprises. The low cost of credit to public and private borrowers tends to encourage capital intensive investments; the authorities are forced to resort to direct controls and rationing in the allocation of credit. We intend to look further into the effects of present interest rate policies, as well as continuing our discussion and analysis of the economic development impacts of present exchange rates with Cameroonian officials.

9. Public savings rose sharply in the late sixties, reaching 5 percent of GDP in 1969/70, following the boom in export prices which led to increasing budgetary surpluses and rises in the stabilization fund. In 1970/71, cocoa prices fell by half and the resources of the stabilization fund declined making public savings negative. The prospects for public savings are not bright given the improbability of a renewed rise in export prices in the near future to the exceptionally high levels of recent years. Indirect and direct tax revenues are bound to be adversely affected by the decline in the value of exports and in the rate of growth of imports and domestic business activity which will follow an expected reduction in domestic demand. Accordingly, the near term prospects for public savings depend largely on measures which are taken to improve revenue collection as well as to restrain spending.

10. The new five-year Plan (1971/72 - 1975/76) contains a fairly realistic appraisal of priorities and sectoral development problems and their solutions in many fields. However, the Plan's aggregate growth targets are not very meaningful or important at this stage for economic policy purposes. No resource gap is projected. Foreign aid would be required to offset net factor payments abroad. A considerable part of the analysis was done by Cameroonians who also directed the planning work at the operational level. The new Plan calls for greatly expanded capital outlays of CFAF 280 billion, after debt service, at a time when domestic demand and public resources generation show the poorest prospects in years. About half of these outlays are to be public. The federal, federated and local governments are to finance some 51 billion, and the commodity stabilization funds CFAF 7 billion. Cameroonian authorities show awareness of the need to limit capital spending in accordance with a system of priorities, and in line with available resources. They regard the investment levels projected in the Plan as indicative.

11. The Plan projects a 7.3 percent rate of growth of GDP in real terms. This estimate appears too high in view of present and likely developments in export crops, the related prospects for manufacturing investment and output, the lag in project preparation and the effects of the transport bottleneck. A growth rate of about 4 percent for the period of the Plan would be more realistic. The main elements likely to stimulate output will be Government investment spending for infrastructure and construction, for which greatly increased foreign financing will be required. A higher growth rate would be possible if the output of cash export crops, particularly cocoa and coffee, were to greatly exceed our estimates. The growth rate is much less sensitive to variations in the output of other sectors.

12. Total investment spending in the period 1971/72 - 1975/76 of some CFAF 200 billion is regarded as both feasible, and in line with the growth projection. Of this CFAF 200 billion, about half, would be for the account of the public sector.

13. The feasibility of a public sector development program of CFAF 100 billion (\$391 million) will depend in large part on the ability of the Government to raise public savings. Public savings (including CFAF 19 billion by public enterprises and local governments) could reach a third of this or some CFAF 36 billion (net of government debt service) in the Plan period. This assumes the measures described below will be taken with respect to current revenues, current expenditures and it also assumes the net savings of public enterprises reach the level forecast by the Plan. Direct personal and corporate income taxes have considerable potential for increases. Fiscal exemptions under the investment code could be reduced in line with better international practice in this respect. Custom duty collections could be greatly improved. Measures are already under way for harmonizing East and West Cameroon revenue structures, which should raise substantial new revenues. The Plan proposes restricting the rise in current expenditures to 6 percent annually in constant prices including debt service. This degree of restraint on current spending has proved impossible of attainment in the past, given the inevitable increases in recurrent outlays in relation to new investments, the large annual increases in government personnel and other outlays, and the increasing charges for debt services. However, a good deal of the past growth in current expenditures was for low priority purposes indicating a need for a greater coordination between the planning and fiscal authorities with respect to the annual allocation of resources for current as well as capital spending.

14. Under the conditions of resource constraint facing Cameroon, a large measure of austerity in Government administration would seem in order. The mission assumes that current spending excluding debt service, can be kept to a 3 percent annual average rate in real terms, and that revenue will increase in line with GDP growth. Savings on the part of public enterprises, net of their debt service, are estimated at CFAF 16 billion in the Plan period. Debt service by the Government is estimated at an additional CFAF 15 billion during the Plan period. We have already expressed our concern to the Government about the prospects for public savings and the need to raise revenues and restrain expenditures.

15. The transfer of CFAF 10.5 billion (70 percent of the total) of stabilization fund resources for extrabudgetary capital projects including two stadiums, army trucks and a new presidential jet since December 1970, may leave funds sufficient for not much more than one year's support payment to farmers. Producer prices of cocoa may have to be cut with, of course, adverse effects on domestic demand. In any event, the stabilization funds are unlikely to make any further contribution to the financing of public investment for some time. These allocations have created a large additional pipeline of projects to be completed for the next two years. On the other hand, the expected tight budgetary situation will not leave much in the way of new public savings for substantial new capital budget project commitments to be financed from Cameroonian financial resources.

16. A basic problem for the next phase of development concerns the fundamental transformation taking place with the rapid shift of population from rural to urban, although the process is still in a relatively early stage. A good deal more knowledge will have to be acquired about such questions as the determinants of migration, and the impact of transportation on the location of economic activity, before effective public policy actions consistent with national objectives can be formulated. In 1963, 16 percent of the population was urban (settlements of 5,000 and over). By 1970, the level of urbanization was 22 percent, and by 1985 may be 38 percent. The comparatively rapid growth of modern sector employment in recent years has been accompanied by annual urban growth rates estimated between 5.5 to 6.5 percent. Yet, the fact that modern sector employment is a relatively small part of total employment means that a significant proportion of those migrating to the towns cannot find modern sector jobs and occupy themselves in marginal service pursuits. The cities of Yaounde and Douala have a combined 1970 population of 440,000 which is about one-third of the country's urban population. Although these two principal cities contain the greatest concentration of modern sector jobs, they also attract a high percentage of people of working age. In the country as a whole some 2 million urban residents will be added to the present 1.3 million. Much of this may be inevitable as part of the process of modernization and indeed there are probably substantial further economies to be gained in the further growth of the two main cities, as well as selected regional centers.

17. Cameroon is fortunate in that it still has the opportunity to plan urban land uses, housing and infrastructure on a more rational basis and at a lower cost, in order to avoid later many of the social and economic problems which beset countries that are at more advanced stages of the urbanization process.

18. Cameroon unlike so many countries also has real rural options in both food output and export crops, for raising rural productivity and incomes on a labor intensive basis, and with possibly important effects on migration flows while stimulating the growth of presently backward regions. Small farmers still produce the bulk of the country's cash and subsistence crops using traditional techniques. Past efforts in agriculture were not adequate and considerable efforts will be required to take advantage of the rural opportunities. A promising development is a new Bank financed rice irrigation project in the north, which will raise productivity for a larger number of farmers and help meet the rising demand for rice. It will also contribute to the Cameroonian objective of achieving a more balanced regional distribution of growth. Important opportunities exist for raising livestock production, at first for the growing domestic market, and eventually for export. The new Plan proposes to devote only 13 percent of public capital allocations for the rural sector. The availability of trained extension workers and transport links to markets are probably more critical than the amount of money spent directly in production.

19. Industrial development, which is intimately related to the process of urbanization, must be guided and aggressively promoted towards a new phase of growth, based in large part on foreign capital and knowhow, and directed towards intermediate products such as spare parts, tools and fertilizers for the domestic market and processed products for export. A particularly promising development is the preliminary agreement of a major international concern to set up a pineapple production and canning plant in Cameroon requiring an estimated investment of US\$20 million which will create some 3,000 new jobs.

20. Serious bottlenecks still exist in the transportation system which is most noticeable in the inadequate part of Douala and the rundown condition of the main rail transport artery to Yaounde. In addition, agriculture lacks feeder roads, and new forestry concessions cannot be fully exploited because of congestion in the ports, in the railway, and because of the lack of forestry access roads. These transport bottlenecks, if not overcome, will hamper the achievement of basic growth targets in the new Plan. Accordingly, transport has received, and will continue to receive the largest share of the Government's development investment. A sectoral breakdown of Plan investments is shown in paragraph 35.

21. In developing its human resources Cameroon has managed to raise the proportion of its eligible population in schools to about 74 percent in primary and 8 percent in secondary education. Yet, the quality of these schools is low in large part because of unqualified teachers. A great need exists to increase the number of trained people to fulfill the demands of an increasingly complex economy for skilled manpower, and to eventually replace expatriates who dominate the higher management and technical positions. Before this can be done effectively, the entire educational system including the important part run by the private sector, will need to be coordinated through a central planning unit. The separate primary school systems of the two federated states will have to be harmonized with each other and with the federal secondary and technical school systems. In the high priority field of agriculture East Cameroon maintains separate secretariats of state for agriculture and animal husbandry, each of them being responsible for its own education and training institutions, a fact which is a barrier to policy coordination, raises costs and has prevented the Bank from financing two schools in this field. In general, until adequate numbers of trained Cameroonians are available, reliance will continue to have to be placed on foreign expertise. In recognition of this, the policy of cameroonization of jobs has been pursued with moderation.

22. Despite the recent emergence of financial problems and the existence of administrative bottlenecks, the past record of Cameroon in the management of Government and the economy is comparatively good although at the middle level, it showed little skill in applying laws and policies to the private sector. In a West African context, the Government's performance is one of the best. The prospects are that with adequate external technical

assistance, the organizational reforms and coordination required to sustain a major development effort can be brought about thus permitting a reasonable rate of development to proceed under conditions of limited financial resources. It has been particularly encouraging to learn that the Government welcomes Bank economic work, appreciates the results, and is responsive to suggestions on ways to improve economic performance. In the public sector, the quality of the civil service is comparatively high and the number of trained and capable people is growing steadily. The main task here is one of improved direction and coordination of the development effort. This is discussed in more detail in paragraph 31.

CAMEROON: MACRO ECONOMIC OBJECTIVES
1976/77

Indicator	Unit	Current level 1970/71/1	Country Target ^{2/}		Bank Projection	
			Abso- lute	Growth rate	Abso- lute	Growth rate
GDP (constant 1966/67 prices)	CFAF bil.	249.4	389.6	7.3%	319.2	4.2%
Population	million	5.8	6.6	2.1%	6.6	2.1%
GDP per capita (constant prices 1966/67)	\$ US	168.0	225.0	5.0%	189.0	2.0%
Investment " "	CFAF bil.	36.4	57.1	7.8%	43.0	2.8%
Savings (gross domestic) " "	CFAF bil.	23.0	56.7	16.2%	32.0	5.6%
Exports (Constant prices 1966/67)	CFAF bil.	45.5	76.7	9.1%	67.5	6.8%
Imports " "	CFAF bil.	58.9	77.1	4.6%	78.0 ^{5/}	4.8%
Net Capital inflow (public, long-term)	<u>4/</u>	40.0	55.0 ^{5/}		50.0 ^{5/}	
Debt service ratio % <u>4/</u>		4.5%	3.7% ^{3/}	12.8% ^{6/}	6.5% ^{3/}	

- 1/ Preliminary mission estimate. Country figures are based on earlier national accounts estimates.
- 2/ Country 1975/76 targets projected, but based on mission estimates of GDP sources and uses in 1970/71.
- 3/ Foreign debt only, including Government guaranteed.
- 4/ Conversion to dollars at CFAF 255.8=\$1.
- 5/ Average aid requirement during 1970/71 - 1976/77.
- 6/ Rate projected for external debt repayable by the Government and excluding Government guaranteed debt.

B. External Assistance

23. In the five-year period 1965-1969, disbursements of foreign aid amounted to an estimated total of CFAF 46 billion (\$167 million) ^{1/}. The FAC provided 40 percent of this, and the FED 25 percent, as grants. Loans amounted to about 24 percent of the aid total, mainly from the Caisse Centrale, US AID, and the Kreditanstalt fur Wiederaufbau. Disbursements averaged about CFAF 9 billion annually (\$32.4 million). By 1970 the proportion of loans increased as grants declined. World Bank disbursements were very small during 1965-69. In 1970 disbursements amounted to CFAF 19 billion (\$69 million) from all sources, of which 30 percent from France. French aid was concentrated in infrastructure (40 percent) and productive sectors (30 percent). The common market program was primarily in agriculture (50 percent) with a relatively small emphasis on infrastructure (20 percent).

24. We estimate foreign aid disbursements of loans and grants to the public sector should amount to CFAF 64 billion during the Third Plan 1971/72-1975/76. This is roughly the size of the estimated resource gap, based on a 4 percent growth rate, and some CFAF 200 billion in gross investments. Approximately half of this investment would be for the account of the public sector. The public sector (budget and public organization) would finance 36 billion, after CFAF 15 billion of Government debt payments. This would leave, on an average annual basis, approximately CFAF 13 billion (\$50 million) ^{2/} in the form of foreign aid financing of public sector investment. Of this, the World Bank Group would become the main aid agency during the course of the Plan, followed by the FED and FAC. The FED will probably increase its program by only 5 to 10 percent over the level of the five past years; FAC assistance cannot be predicted because of annual allocation procedures, but it is expected to decline by as much as 40 to 50 percent, compared to the past five years. Some 40 percent of the foreign aid total is expected to be in the form of grants, with the balance being loans divided equally between the Government and public bodies guaranteed by the Government. In order for disbursements to reach the level projected, commitments by aid agencies will have to rise sharply. In view of the uncertainties in the program of some donors, some flexibility in amounts and terms will have to be shown on the part of major contributors if an adequate flow of foreign resources is to be maintained. Accordingly a net Bank Group lending program of \$143.7 million (CFAF 36.7 million) is projected for the period of the Plan (1971/72-1975/76), compared with \$101 in the CPP of November 1970. On this basis, the Bank Group would be contributing about 41 percent of new aid commitments for the period, followed by 13 percent for the FED and EIB, and 10 percent for the FAC; the balance would come mainly from UNDP, the Kreditanstalt, ADB, AID, and Canadian Aid (CIDA).

^{1/} \$1 = 277.71

^{2/} \$1 = 255.8.

25. Cameroon's external debt has been rising rapidly. In the past, this rise was mainly in the form of long maturities and relatively low interest rates. Recently, there has also been a substantial rise in supplier credits. For example, servicing for supplier credits are scheduled to rise from CFAF 800 million (\$2.9 million) in the 1970/71 federal budget to CFAF 1.5 billion (\$5.4 million) in the 1971/72 budget. (277.71 exchange rate) a situation we intend to follow closely. Assuming restraint is imposed on further increases in supplier credits and that new debt is on terms not more onerous than in the past, total public debt service by 1976/77 may be expected to rise to US\$17.5 million or 6.5 percent of projected export earnings in that year. This compares with a ratio of about 4.5 percent at present and 3 percent in 1970. The projected ratio is not excessive. However, in view of Cameroon's limited growth prospects and its relative poverty, foreign assistance largely on concessional terms, will be required for a considerable period in the future.

C. Bank Group Strategy

26. The Bank Group's basic strategy should remain unchanged: its purpose is to complement and reinforce the economic development program of the Government. The terms of lending, Bank/IDA blend, and local financing justification should also not be changed since the last CPP. The adjustments in strategy proposed at this time are (i) an increase in the amount of net lending FY72-76 (from \$101.0 to 143.7 million); (ii) a modification in sectoral emphasis in favor of transport and agriculture (see Section D); and (iii) and FY 73/77 program which continues current strategy at double the FY1969-73 amount. Since the third five-year Plan has finally been issued, it is possible to identify with considerable precision the proposed investments which have merit and deserve support. From these aggregate investments, specific projects were selected for incorporation into the Bank Group strategy on the basis of our past experience in the country, current lending activities, and the estimated project capability of the Bank in coming years.

27. The Bank Group's approved portfolio in Cameroon currently shows total commitments of \$70.8 million (Bank \$37.1 and IDA \$33.7 million). There are eight projects spread over four sectors of the economy, but the volume of lending is in agriculture and transport and is evenly distributed between the two. The first project in Cameroon was not undertaken until FY67. There were no projects in FY-68, two in FY-69, three in FY-70, but only one in FY-71 (there should be a more even flow of projects in the future given the increased effort being made in identification and preparation). It is too early to estimate how effective Bank activities have been except for one project, water supply FY-69, which was completed ahead of schedule with substantial savings. The effectiveness of the rest of the projects cannot be judged, either because they are in agriculture and have long disbursement schedules, or because they are still in the earlier stages of execution.

28. The implementation of projects has been moderately satisfactory, though there are some difficulties worth noting. Disbursements for the CAMDEV plantation project (IDA \$11.0 and Bank \$7.0 million) are slightly behind schedule, but neither the delays nor their causes are serious; management requires strengthening and CAMDEV has had considerable difficulty in recruiting a small number of foreign experts required on a medium-term basis. The Sopame oil palm project (Bank \$7.9 million) is almost on target in its disbursements, but it is now apparent that very substantial cost over-runs are to be expected, due primarily to higher palm oil mill construction costs and crop establishment costs, a detailed analysis of estimated expenditures required to complete the project is being made and consultation with the co-lenders, Fonds d'Aide et de Coopération (FAC) and the Caisse Centrale pour la Coopération Economique (CCCE), is under way. The water supply project (Bank \$5.0 million), as stated above, was completed ahead of schedule, but disbursements have lagged due to the strong working capital position of the borrower; the Bank

has emphasized that an acceleration of disbursements must take place. The education project (IDA \$10.5 million) was delayed in starting and work is about four months behind the revised implementation schedule. The roads project (Bank \$12.0 million and IDA \$7.0 million) is about fifteen months behind schedule, due primarily to administrative delays on the part of the implementing agencies. This problem has been reviewed with the Government on several occasions, and three contracts for construction and two contracts for consultant services are due to be signed shortly so that work can begin forthwith. The railway project (Bank \$5.2 million) is being implemented satisfactorily and full disbursement by the closing date of June 30, 1974 is expected. The first port development project (IDA \$1.5 million) is about six months behind schedule because of institutional changes required and time-consuming government procedures involved; a revised disbursement schedule has been set up. The Government's preparation of the major port development project, integrally linked to the first project, is also behind schedule by six months. The rice irrigation project (IDA \$3.7 million) was approved by the Board on January 25, 1972. To summarize the status of project execution, an obvious pattern can be distinguished: when implementation is by an independent agency, schedules can be more or less followed, but when the Government is executing agency, delays result. (See attachment No. 2 for details on disbursements).

29. The proposed amount of Bank/IDA net lending has been increased for the period FY72-76 from \$101.0 million to \$143.7 million; the operations program has correspondingly increased from \$138.2 to \$172.7 million (for discussion purposes FY72-76 is referred to since that is the period covered by the Plan and relevant to the operational strategy being proposed here). There are a number of reasons to justify this increase in net lending by \$42.7 million, or about 42 percent. First, the economy is moving into a period of slower growth, export prices are declining, and the condition of public finances is tightening up sharply (see paras. 6, 7, and 9 to 15 above for details). Secondly, Cameroon's Third Five Year Plan, scaled down to a realistic amount, requires substantial foreign assistance if it is to be achieved (see paras 23 to 25 for details). Thirdly, there are no alternate sources to the Bank Group which can provide the volume of financing needed; besides, a net lending program of the amount envisaged would not be excessive, since it would approximate about 40 percent of foreign aid commitments expected over the FY72-76 period. Fourthly, the Government's debt absorption capacity can accommodate the magnitude of foreign aid required; the proportion of total external debt and debt service presently accounted for by Bank Group loans outstanding is 28 percent and an estimate of the magnitude by 1977, under the proposed lending program, would be 35 percent. Finally, Cameroon's possibilities for economic viability, its development potential, its key geographical position for stimulating growth in Equatorial Africa, its political stability and the serious approach to development of its Government -- all these constitute reasons for increasing the net contribution of the Bank Group by \$42.7 million.

30. The terms of Bank Group lending over the forthcoming five years should be softer than the terms of commitments outstanding (Bank \$37.1 and IDA 33.7 million). The previous CPP recommended a soft blend, and this policy should be continued. The proposed FY73-77 strategy shows the following blend: operations program (56 percent IDA) (44 percent Bank) and net lending program (57 percent IDA) (43 percent Bank). Of the other major sources of concessionary lending to Cameroon, FED will be increasing its program by no more than 5-10 percent over the next five years while it is expected that FAC, heretofore the biggest source of foreign grant aid, will cut its volume almost in half. In absolute amounts, lending on concessionary terms to Cameroon would actually decline if IDA credits were not substantially increased, and all this would occur at a time when a much greater volume of foreign aid is needed in any case. For these reasons, and because of the condition of public finances and the lower rate of public savings (see para 9), a soft blend of Bank/IDA aid would seem even more justified than before. The same reasoning would apply, on a project-by-project basis, to local cost financing, as long as total foreign aid to the particular project did not rise above 90 percent of total project costs net of taxes.

31. The schedule for achieving the proposed lending program depends almost as much upon the Bank's performance as upon the performance of the Government. PMWA has done well in identifying and preparing projects in the transport and agriculture sectors and will be sending a general agriculture identification mission to Cameroon before the end of FY1972. What is crucial to the success of this country program is the availability of Bank staff, in certain departments, to undertake project appraisal. On its part, the Government has, in general, performed adequately in coordinating with the Bank on preinvestment studies and in creating a national development plan. The preparation of projects by the Government could be considerably improved, however, and the Bank has suggested accordingly that a special project preparation unit, staffed by experts, be created within the Ministry of Planning. The major institutional development currently required is the establishment as soon as possible of a Federal Ministry of Agriculture, and the importance of this has been discussed by the Bank with the Government on several occasions. The need for action on urban problems, rural-urban migration, and population resettlement must be brought home to the Government which is still in the "awareness" stage. On the level of project implementation, the greatest need for improvement lies with the Ministry of Planning which is becoming a bottleneck for those projects to be executed by the Government itself; the Bank is exploring ways to correct this.

32. With regard to the Bank's economic work program, another economic updating mission is planned for the autumn of 1972. It will concentrate on measures taken to raise public savings, to reduce the Plan to a more realistic amount, and to translate it into high priority sector programs and projects. In particular, the mission will want to follow closely the institutional changes needed in plan implementation, agriculture, and education. A special effort will also be made to increase the Bank's knowledge

about income distribution, migration, and urbanization. The mission will be particularly concerned with identifying the resource allocation distortions and employment impacts of the artificially low interest rate structure and the overvalued exchange rate. The proposal has been made to have a special sector study of small business prospects, following up on Mr. de Wilde's study. Other sector studies which are proposed for execution before FY-76 are the following: a survey of mineral studies; water supply; regional transport; problems and prospects for exports industries, especially those based on transforming agricultural products; finally, an expert in forestry ecology should study the impact of present exploitation policies, and what should be done to introduce a comprehensive forestry management system in order to make the most economic use of this valuable resource for the future. A special study will be conducted in Cameroon and several other Western African countries, in consultation with the DFC Department, on the prospects for mobilizing domestic savings more effectively through changes in interest rate policy and the financial system.

33. The Government has applied for IFC membership but has not yet completed the formalities. The first IFC mission visited Cameroon in July/August, 1971 and has already made some preliminary efforts to attract investment to the private sector. The outlook is promising enough to expect at least one, maybe two IFC projects within the next five years.

D. Economic Sectors and Sectoral Distribution of Bank/IDA Operations

34. The last full economic report, dated December 1970, included four volumes of sector studies on agriculture, forestry, transport, manufacturing industry and investment finance. The economic updating mission of November, 1971 focused on the balance of payments, trade, public finance, and the new Plan. The last CPP reviewed all the basic sectors of the economy and is, therefore, still relevant.

35. The sector emphasis of the Bank Group strategy has been slightly modified. A comparison of the CPP and CPN proposed sector allocations is as follows:

<u>Operations Program</u>						
<u>Percentage Distribution of Funds, and number of Projects</u>						
	<u>Transport</u>	<u>Agriculture</u>	<u>Utilities</u>	<u>Education</u>	<u>Other</u>	<u>Total</u>
FY72-76 (CPP)	46%	13%	18%	9%	11%	100%
No. of Projects	7	6	3	2	5	23
FY73-77 (CPN)	54%	16%	15%	3%	12%	100%
No. of Projects	10	6	4	1	7	28
Change-% alloc.	+8%	+3%	-3%	-6%	-2%	
Change-No.proj.	+3	-	+1	-1	+2	+5

This shift in emphasis can be summarized as a modest increase in transport and a slight increase in agriculture -- at the expense of utilities, education, and "other". The total public sector investment of the Third Five Year Plan breaks down as follows:

Government Economic Plan: Percentage of Funds allocated by Sector

Transport	Education	Agriculture and Rural Development	Mining Industry Energy	Urbanism	Other
32%	13%	13%	10%	8%	24%

36. The Bank/IDA strategy focuses on transport because (i) it will contribute more than investment in any other sector to the development of Cameroon's export potential in diversified cash crops, timber, and minerals (see para. 20 above); (ii) the proposed projects are expected to yield a satisfactory rate of return; (iii) this represents a continuation of lending to agencies whose long-term programs are already susceptible to Bank influence through existing projects; and (iv) some of the transport investment contemplated will also produce benefits for land-locked Chad and the C.A.R. (The previous CPP indicated that these would be a shift away from transport in the future; this is still planned, but the time dimension for it has been postponed to the period after FY77).

37. Proposed lending for transport follows the priorities established in the Government's Third Plan. Roads II combines Roads II and III of the previous CPP and is scheduled for FY74 instead of FY73. This slip-page has occurred because of the Government's delay in concluding contracts with consultants who are to undertake the necessary studies and who are financed under our Roads I project. Beside including the Garoua-Mora and Douala-Pont du Nkam roads, as originally envisaged, the Government has now asked that the Pont du Noun-Foumban road, for which it is financing the studies, also be included in this project; for this reason, and due to a rise in cost estimates, Roads II has been increased from \$14.0 to \$18.0 million. (\$7.0 million Bank and \$11.0 million IDA). The Roads III project (Bank \$8.0 million, FY75) is for forestry access roads and is at the stage of preliminary identification by PMWA. Roads IV (IDA \$5.0 million, FY76) might represent the Bank Group's participation in the Yaoundé-Bafoussam connection, provided it is proven to be economically justifiable. The Cameroon-South Chad road (IDA \$10.0 million, FY75) is being prepared under FED financing, which was recently accorded in response to the joint request of the Chad and Cameroon Governments; studies should be under way this year. The Mining Transport project (IDA \$8.0 million, FY76) could be, for example, an access road for mineral development or a railroad spur to the bauxite deposits at Minim/MARTAP; this transport project might well be an integral part of a Bank mining project (see para. 40 below). Roads unidentified (IDA \$10.0 million, FY77) could be for any one of a number of roads found in the current or the next five-year Plan (1976/77-1981/82). Of these six road projects, it is expected that three out of the following four -- Roads III, Roads IV, Mining Transport, and Roads Unidentified -- might be dropped or would slip into later years.

38. The Ports II project (IDA \$15.0 million, FY73) is being delayed by institutional, legal, and organizational changes required under the on-going Ports I project. The amount has been increased from \$12.0 to \$15.0 million because FED is no longer going to participate in the project. The study of long-term port development, financed by the Government, is late in being completed; for this reason, and because of slow implementation of Ports I, this project has slipped from FY72 to FY73. Ports III (IDA \$10.0 million, FY76) could finance the next stage of the long-term ports program or, more probably, would help finance the deep water port planned for Victoria Bay, West Cameroon. The Railways II project (Bank \$12.0 million, FY74 or FY75) will be part of the proposed Douala-Yaoundé re-alignment and renewal program, for which an economic study is being financed under Railways I. Railways III (Bank \$15.0 million, FY77) will serve the same purpose.

39. In the agriculture sector, there have been a number of developments since the previous CPP. The tea project has been postponed to after FY77 because of the time needed to experiment with new plantings. The Government is financing consultants who are now making a study on the entire cocoa industry of Cameroon. PMWA is following the study closely and is in the process of identifying Cocoa I (Bank \$6.0 million, FY73). It is probable that substantial investment in cocoa will be required in coming years, although the definite need for this will have to be established by a detailed survey of cocoa planting; a Cocoa II project (IDA \$8.0 million, FY77) may therefore prove to be desirable. Livestock I (IDA \$6.0 million, FY74) has been identified by PMWA and should include a significant amount of local cost financing, given the nature of livestock projects. Cameroon has good potential to be a meat exporter and future projects could follow the first, if success warrants it. The food crop storage project of the previous CPP has been changed, on the advice of PMWA, to an Integrated Rural Development scheme (IDA \$3.0 million, FY74) to be undertaken in the North or in the region of the Bamileke tribe; this project could slip due to complications in preparation. A Rice project (IDA \$5.0 million, FY75) appears promising in the Noun Valley (Plaine de Ndop), and first results of agronomic experiments are expected in mid-1972 (the need for increased rice production is described in para. 20 of the last CPP). The Rubber Plantation project (Bank \$5.0 million FY76) is in response to the Government's request for assistance in developing this cash crop; however, long-run price indications for rubber will have to be more favorable if this project is to be considered viable. All of these projects will have the effect of increasing employment, raising agricultural incomes, and, thus, expanding the rural options open to the population (see para. 18).

40. Turning to the remaining projects shown in the operational program, as mentioned in paras. 8 and 32 above, the two DFC projects (Bank \$3.0 million, FY75 and \$5.0 million, FY77) cannot take place until the financial structure is modified; both projects could slip to later years. The country's needs in education have been described in para. 21 above;

Education III (IDA \$6.0 million, FY75) continues the Bank's efforts of the on-going Education I and II. The mineral potential of the country has been sufficiently described elsewhere (see para. 38 of the last CPP) -- The Mining Unidentified (Bank \$5.0 million, FY76) would hopefully result from the survey of mining studies which the Bank has offered to make during FY73 (see para. 32); the possible transport component of such a project has already been mentioned (see para. 37). The need for projects in Population (IDA \$4.0 million, FY77); and Urbanization (IDA \$5.0 million, FY75) has been mentioned in paras. 16, 17, and 32 above; realization of these projects on schedule is questionable. The two projects in Tourism (Bank \$2.0 million, FY74 and \$3.0 million, FY77) should be identifiable after the tourism sector survey, to get under way this year and financed by the German Government, has been completed; the FY77 project could slip to a later year. In public utilities, there have been no changes since the last CPP on Water Supply I and II. Power I (Bank \$10.0 million) has slipped from FY73 to FY75 because of a reduction in estimated hydro-electric requirements. The Government has already requested assistance for the Lagdo project (Bank \$5.0 million, FY74), but Bank participation was declined pending more favorable results from the studies under way; the entire Lagdo scheme will be very expensive, and there may be some other element in it for the Bank to finance instead of the power component.

41. Although the operations program is reduced by 25 percent to render the net lending program, it is probable that the actual commitments made during the FY73-77 period will amount to more than the net \$143.7 million envisaged. The reason for this is, first, because the re-alignment of currency values will result in a higher dollar cost for all projects in the CFAF area. It is too soon in the project cycle, however, to arrive at the proper estimate of such cost increases except for those projects prepared for FY73. Also, there are some projects, like railways, which could increase substantially if the Government decides to turn more to the Bank and away from other financing sources used heretofore, namely, the French Government and FED. In any case, the operations program envisaged is considered adequate to support the net lending program.

E. Conclusions and Recommendations

42. The fall in cocoa prices is having adverse effects on public savings, domestic economic activity, and the balance of payments. The weakening of commodity export prices generally is likely to dampen the favorable growth rate of the past. The main problem for the next few years will be to retain as much as possible of the past growth momentum while making progress on needed structural changes in the economy.

43. Cameroon will only be able to carry out about 70 percent of the greatly expanded third Development Plan announced for the period 1971/72 - 1975/76. The Government will have to limit spending to high priority projects for which domestic and international financing can be mobilized. A total domestic program of CFAF 200 instead of 280 billion seems appropriate to maintain an average 4 percent growth rate; of this, CFAF 100 billion would be for the public sector, excluding government debt services. Although the targets of the Plan are overly optimistic given the likely prospects for export crops and government revenues, a great deal can be done to raise direct and indirect taxes. The increase in current government spending can be curtailed. Total public savings of CFAF 36 billion (net of government debt service) may be possible during the Plan period, leaving CFAF 64 billion to come from external aid sources.

44. External aid of some CFAF 64 billion seems feasible on the assumption that the World Bank increases, as proposed, its net lending program to US\$156 million in commitments for the period 1973-1977, compared with an estimated US\$82.8 million for the period 1969-1973. Some 60 percent of new Bank commitments would be on concessional terms. Total Bank Group aid would constitute some 40 percent of new commitments in the period. It is important that Bank aid be a soft blend term if total foreign assistance is to remain consistent with Cameroon's debt service capacity. Total foreign aid should not exceed 90 percent of total project costs, net of taxes, for any particular project. We estimate on the basis of the above that by 1976/77, the debt service ratio will rise to 6.3 percent assuming suppliers credits are not increased significantly.

45. The proposed lending program includes 18 projects spread over 8 sectors of the economy, but 70 percent is concentrated in transport and agriculture in accordance with our analysis of development priorities. We expect to have no difficulty in identifying projects on the scale proposed and assume sufficient bank staff will be available to undertake project preparation, appraisal and supervision.

46. Government administration in Cameroon is good by West African standards. Nevertheless a critical element in Cameroon's ability to carry out the proposed program is improved direction and coordination of the development effort. In particular, the planning authorities will have to improve the process of project identification, preparation and implementation, if available domestic and foreign resources are to be effectively absorbed; a special project preparation unit in the Ministry of Planning would be a constructive step forward. In agriculture, the setting up of a federal ministry would be instrumental in achieving basic objectives. In education, much better coordination is needed between the federated and federal systems as well as between the public and private systems. We have made specific suggestions in all these fields in the past, and intend to continue to press for change in forthcoming discussions with the Government.

47. In the future, our economic missions will concentrate on the problem of raising public savings and using available resources for high priority purposes. We will follow closely the above-mentioned problem of institutional change. A special effort will be made to improve our knowledge of income distribution, migration, and urbanization. In industry, work will concentrate on small business prospects and export transformation industries. In the future, we also intend to explore mining, regional transport, and forestry ecology and management. A special study will be done on the prospects for mobilizing domestic savings more effectively through changes in interest rate policy and the financial system.

Western Africa Department
February 8, 1972

Population 5.9 million
Per Cap Inc \$187. -

CAMEROON - ACTUAL AND PROPOSED LENDING THROUGH FY 1977
(\$ million)

			Through 1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	Total 1964-68	Total 1969-73	Total 1973-77
CAMDEV Plantations			IBRD	7.0											
			IDA	11.0											
Sopame Oil Palm			IBRD		7.9										
7 CAM-AI-01	SEERY Rice	IDA					3.7								
7 CAM-AP-03	Cocoa I	IBRD						6.0							
	Cocoa II	IDA										8.0			
7 CAM-AL-01	Livestock	IDA							6.0						
7 CAM-AN-01	Integrated Development	IDA							3.0						
	Noun Valley Rice	IDA								5.0					
	Rubber Plantation	IBRD									5.0				
7 CAM-DD-01	DFC I	IBRD								3.0					
7 CAM-DD-02	DFC II	IBRD										5.0			
7 CAM-EE-01	Education I	IDA			10.5										
7 CAM-EE-02	Education II	IDA					9.0								
7 CAM-EE-03	Education III	IDA								6.0					
7 CAM-II-01	Mining Unidentified	IBRD									5.0				
	Population	IDA										4.0			
7 CAM-IF-01	Power I	IBRD								10.0					
	Power - Lagdo	IBRD							5.0						
7 CAM-QQ-01	Tourism I	IBRD							2.0						
	Tourism Unidentified	IBRD										3.0			
7 CAM-TH-02	Roads I	IBRD			12.0										
	Roads I	IDA			7.0										
7 CAM-TH-03	Roads II	IBRD							7.0)						
	Roads II	IDA							11.0)						
7 CAM-TH-05	Roads III	IBRD								8.0					
7 CAM-TH-06	Road Cam.-S. Chad	IDA								10.0					
7 CAM-TH-07	Mining Transp.	IDA									8.0				
	Roads IV	IDA									5.0				
	Roads Unidentified	IDA										10.0			
7 CAM-TP-01	Ports I	IDA				1.5									
7 CAM-TP-02	Ports II	IDA						15.0							
	Ports III	IDA									10.0				
7 CAM-TR-01	Railways I	IBRD			5.2										
7 CAM-TR-02	Railways II	IBRD							12.0						
	Railways III	IBRD										15.0			
7 CAM-UU-01	Urbanization	IDA								5.0					
7 CAM-WW-01	Water Supply I	IBRD		5.0											
7 CAM-WW-02	Water Supply II	IDA								5.0					
7 CAM-WW-03	Water Supply III	IBRD									5.0)				
	" "	IDA									5.0)				
Operations Program			IBRD					6.0	26.0	21.0	15.0	23.0	7.0	36.1	91.0
			IDA				12.7	15.0	20.0	31.0	28.0	22.0	11.0	46.7	116.0
Total							12.7	21.0	46.0	52.0	43.0	45.0	18.0	82.8	207.0
			No.				2	2	6	8	6	6	1	10	28
Lending Program			IBRD	7.0	12.9	17.2	-	-	6.0	21.0	10.0	15.0	7.0	36.1	67.0
			IDA	11.0	-	17.5	1.5	12.7	15.0	17.0	26.0	23.0	11.0	46.7	89.0
Total				18.0	12.9	34.7	1.5	12.7	21.0	38.0	36.0	38.0	18.0	82.8	156.0
			No.	1	2	3	1	2	2	4	5	5	2	10	18

IBRD Loans Outstanding
- including undisbursed
- excluding undisbursed

IDA Credits Outstanding
- including undisbursed
- excluding undisbursed

Last Economic Report
November 1971

CAMEROONINDICATORS OF DEVELOPMENT 1/

I. <u>ECONOMIC & STRUCTURAL INDICATORS</u>		1965-1966	<u>Annual Average</u>	
			<u>1967-1971</u>	<u>1972-1977</u>
1. GDP (in constant prices)		7.6	6.4	4.2
2. Manufacturing Output (constant prices)		1.5	8.6	4.0
3. Agricultural Output (constant prices)		17.0	6.3	2.1
4. Imports of goods	" "	-2.0	11.1	4.8
5. Exports of goods	" "	-3.7	4.5	6.8
6. Domestic Price Level		4.7	3.02/	-
		<u>1965-1966</u>	<u>1969-1970</u>	<u>1976-1977</u>
7. Gross National Savings	% GDP	11.0	15.0	-
8. Resource Gap	% GDP	2.0	+1.	+3.3
9. Net Factor Payments Abroad	% GDP	3.0	1.7/3	-
10. Gross Domestic Investment	% GDP	16.0	15.5	13.5
11. Debt Service	% export	2.0	3.1	6.5
12. Central Govt. Current revenues	% GDP	17.0	16.7	-
13. Central Govt. Curr. Surplus (Deficit)	%GDP	1.7	2.2	-
14. Public Exp. on Social Services	% GDP	4.8/4	4.3/4	-
15. Military Expenditure	% GDP	2.1/5	1.9/5	-
16. Manufacturing Output	% GDP	10.7	10.6	11.5
17. Energy Consumption	million Kwh	1133	1277	-
18. Fertilizer Consumption		n.a	n.a	n.a
 II. <u>SOCIAL INDICATORS</u>				
19. Population Growth Rate		2.1	2.1	2.1
20. Urban Population Growth Rate		6.0	6.0	6.0
21. Birth Rate - per 1,000		40.0	40.0	40.0
22. Family Planning		n.a	n.a	n.a
23. Income of: Highest quintile		n.a	n.a	n.a
24. : Lowest quintile		n.a	n.a	n.a
25. School enrollment: Primary		72.0	73.0	86.0
Secondary		7.0	8.0	n.a
26. Literacy rate		n.a	n.a	n.a
27. Unemployment rate		n.a	n.a	n.a
28. Population per hospital bed		n.a	n.a	n.a

1/ Fiscal years.

2/ Consumer Price Index Douala.

3/ Based on unreliable balance of payments estimates.

4/ Based on budget (national) estimates of education, youth and health expenditures plus East and West Cameroon education budgets.

5/ Armed forces current current budget allocations.

Last Economic Report (cont'd.)
November 1971

	<u>1970</u>
29. Male population (% of total):	48.0
30. Dependent population (% of total): <u>1/</u>	46.0
31. Urban population annual rate of growth:	6.0
32. Urban population (settlements of 5,000 and over - %of total):	22.0
33. Primary school enrollment (%of 6-13 years age group):	70.0
34. Modern sector employment (%of total active employed): <u>2/</u>	7.0
a. - Public(% of total): <u>3/</u>	30.3
b. - Private (% of total):	69.7
c. of which: 1. Primary:	24.4
2. Secondary:	20.2
3. Tertiary	25.1
35. Foreign employment (as a percentage of total private modern employment):	2.4
a. of which: 1. Management (% of total)	85.5
2. Senior level technicians (% of total)	73.6
3. Technicians (% of total)	34.8
4. Skilled (% of total)	6.0

1/ Population under 15 or over 60 years.

2/ Population employed between 20 and 55 years.

3/ Excludes armed forces.