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Report No.P-1614-CM

REPORT AND RECOMMENDATION  
OF THE  
PRESIDENT  
TO THE  
EXECUTIVE DIRECTORS  
ON A  
PROPOSED CREDIT  
TO  
THE UNITED REPUBLIC OF CAMEROON  
FOR A  
SMALL- AND MEDIUM-SCALE ENTERPRISE PROJECT

June 16, 1975

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CURRENCY EQUIVALENTS

CURRENCY UNIT		:	CFA Franc (CFAF)		
US\$	1	=	CFAF	225	<u>1/</u>
CFAF	1,000	=	US\$	4.4	
CFAF	1,000,000	=	US\$	4,444	

FISCAL YEAR

July 1 to June 30

1/ Floating exchange rate.

INTERNATIONAL DEVELOPMENT ASSOCIATION

REPORT AND RECOMMENDATION OF THE PRESIDENT  
TO THE EXECUTIVE DIRECTORS ON A PROPOSED CREDIT TO THE  
UNITED REPUBLIC OF CAMEROON  
FOR A SMALL- AND MEDIUM-SCALE ENTERPRISE PROJECT

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1. I submit the following report and recommendation on a proposed credit to the United Republic of Cameroon for the equivalent of US\$ 3.0 million, on standard IDA terms, for relending to the Banque Camerounaise de Développement (BCD), to help finance a project for small- and medium-scale enterprises. Government will relend IDA funds to BCD at 5 percent per annum; the repayment period will include a three-year grace period and will be on a fifteen-year schedule, which could be revised from time to time to conform to the aggregate of sub-loan repayments to BCD. The Caisse Centrale de Coopération Economique (CCCE) of France would participate in the financing of the investment component of the project with a loan to BCD equivalent to US\$ 3.0 million for 15 years, including 3 years of grace, with interest at 5 percent per annum. UNDP has agreed to make a grant of US\$ 1.2 million for technical assistance, in addition to continuing its support (estimated at US\$ 0.8 million) of the Centre National d'Assistance aux Petites et Moyennes Entreprises (CAPME), and the Government of Cameroon will also provide US\$ 0.8 million for technical assistance.

PART I - THE ECONOMY

2. The report "The Recent Economic Development of Cameroon" (No. 72-247) was distributed to the Executive Directors on November 27, 1972. A basic economic mission visited the country in February 1975, coinciding with the preparation of Cameroon's Fourth Development Plan (FY77-81). Its preliminary conclusions are reflected in the following analysis.

Economic Potential

3. Cameroon's natural resources are varied, although not abundant. Soils and climatic conditions permit cultivation of a wider range of crops than is commonly found in Central Africa. These crops include oil palm and rubber in the south, cocoa and coffee in the central region, and rice, groundnuts, cotton, sorghum and millet in the north. The forest areas of the southeast contain large untapped timber resources, and the north holds promising potential for livestock development.

4. While the main opportunities for development lie in the expansion of agricultural production, Cameroon has potential for expanding production of import substitutes needed for a growing domestic market, as also for the processing for export of alumina and agricultural and forestry products. A bauxite project is in the early stages of preparation, while offshore oil and gas prospecting has so far yielded only modest results.

5. Commerce, transportation and transit services are also important economic activities: Cameroon is a relatively large country with its main economic centers separated by vast underpopulated areas, and the country serves as a main export route for landlocked Chad. As a result, large investments in port and inland transport infrastructure are prerequisites to promoting agriculture, forestry and industry, and strengthening Cameroon's role as a regional trade center.

#### Past Performance

6. During the first decade of independence (1960-1970) the Government's primary objective was to unify the nation and to ease serious internal political and social tensions. Although the need to devote substantial amounts of scarce resources to this end may have handicapped economic development, GDP at constant prices grew at a satisfactory rate of over 6 percent a year. Cash crop production rose steadily due to good export prices and favorable weather conditions, and manufacturing production increased as a result of the liberal investment climate that attracted substantial foreign private capital.

7. During the 1960s total gross investment averaged about US\$ 200 million annually (in constant 1974 dollars), i.e. 14 percent of GDP. Public investment accounted for about 57 percent of total investment with the largest part devoted to the transportation network, the most immediate development constraint; while substantial effort was also directed at expanding education and diversifying agriculture. Significant increases in fiscal revenues, combined with stringent expenditure controls, produced sizeable budget surpluses that made it possible to finance a large part (up to 40 percent) of public investments out of local revenues as well as to accumulate reserves. However, this policy also imposed excessive restraint on much needed current expenditures in such areas as road maintenance, public health and education.

8. In the early 1970s, economic growth slowed down to less than 3 percent p.a. or little more than population growth. This was caused by (i) low export prices for cocoa and coffee during 1971-72 and a drought in the north, and (ii) a decline in private investment triggered by the relative stagnation of the agricultural sector, in addition to the completion of the most obvious import substitution projects during the preceding decade.

9. The Government reacted to these developments by stepping up public investment, which increased in volume by 50 percent to reach annual averages of about US\$ 180 million, in constant 1974 dollars, during the Third Development Plan (FY72-76). This resulted in a substantial drawdown of Treasury reserves and a major increase in foreign borrowing. Fortunately, the availability of well-prepared high priority projects enabled Cameroon to obtain most of the increased inflow of foreign capital from public aid donors on concessionary terms. For this reason, as well as the country's low foreign

debt before the 1970s, Cameroon's external debt service has remained modest (about 6 percent of export earnings in 1974).

10. Although low economic growth over the last four years has significantly reduced import demand, exports maintained a remarkable growth and profited from higher prices in 1974. Therefore, the balance of payments was never under excessive pressure and the large inflow of foreign capital remained sufficient to cover the current account deficit. On the import side, the share of refined oil products out of total imports increased from 5 percent in 1973 to 9 percent in 1974. Increases in the price of imported food was compensated by a reduction in the volume of food imports. The terms of trade are now deteriorating and foreign exchange reserves seem to have diminished rapidly during the first half of FY75, announcing an era of more severe balance of payments and public finance problems.

#### Prospects and Development Strategy

11. As a result of the projected deterioration in Cameroon's terms of trade, exports will play a less dynamic role in economic expansion, while domestic demand is still too small to take up the slack. Therefore, overall growth in the next decade might run well below the rates achieved during the 1960s, in spite of Government's efforts to maintain a high volume of public investment and to develop the country's considerable opportunities for diversification, particularly within the rural sector.

12. Steady economic growth will depend largely on the extent to which the Government comes to grips with several structural problems: (i) rural production (except forestry) suffers from a lack of financial and technical assistance particularly for small farmers, who produce more than 90 percent of the country's agricultural output; (ii) despite heavy investment in recent years, the basic transport infrastructure is still insufficient; the Douala port and the Douala-Yaoundé corridor require increases in capacity, and the road system in general needs better maintenance as well as adaptation to traffic growth especially for the development of new agricultural and forestry zones; (iii) the education system still is not responding adequately to the country's changing needs; and (iv) serious economic imbalances persist among regions, between the towns and countryside, and between modern and traditional sectors.

13. To meet these challenges, the Government must strengthen its ability to choose, prepare and implement projects, particularly in the rural sector. Some progress is being made in this direction. Special planning units are gradually being established within the technical ministries. A para-public consulting firm - SEDA - was created under the Planning Ministry to accelerate project preparation. Commercially oriented public corporations are also serving to strengthen the project implementation capacity of the public sector. Nevertheless, further improvements are needed, particularly in the management of public finance, and in strengthening and coordinating rural development institutions.

14. Completing the overall transport infrastructure program already underway will absorb a high proportion of future public investment. If the Government succeeds in its present efforts to accelerate preparation and implementation of projects in the other sectors, particularly for rural development, future total public investment is likely to exceed US\$ 300 million annually (in constant 1974 dollars) during the Fourth Development Plan (FY77-81). Budgetary revenues already reach 20 percent of GDP and cannot be expected to increase much faster than the economy as a whole, while surpluses of the stabilization funds are likely to stagnate or even decline, considering the depressed price outlook for most export crops. On the other hand, current expenditures will have to be stepped up in line with recently increased public investments in transport, education and health, and public debt service charges will grow rapidly. Furthermore, savings of public enterprises are expected to decline as debt service will absorb a higher share of their operating surpluses. As a consequence, in the next five years, public savings after debt service will probably not exceed 25-30 percent of public investment, as compared with about 40 percent over the past few years. Hence, Cameroon will have to rely on external financing for the bulk of its public investment. Increasing reliance on foreign borrowing during a period of relatively slow economic growth and poorer terms of trade, will require careful foreign debt management. Assuming, however, that at least 50 percent of foreign public capital inflow will be on concessionary terms, the foreign debt service ratio could be maintained below 12 percent by 1980.

15. Cameroon's ability to make effective use of external resources and the Government's dedication to development are reasons for increased external support. With rising debt service absorbing an increasing share of gross public savings, Cameroon can make only a modest contribution to the financing of future public investment. To avoid further rapid buildup of debt service, lenders, including the Bank Group, should provide a large part of their assistance on concessionary terms. They should also be prepared to finance a high proportion of project costs including, when necessary, a part of local costs.

#### PART II - BANK GROUP OPERATIONS IN CAMEROON

16. The Bank Group's commitments in Cameroon now amount to about US\$ 180 million and, including the recent US\$ 16 million IDA credit for rubber, cover fourteen projects: six in agriculture, five in transportation, two in education and one in public utilities. Transportation represents the largest share (50 percent) of our past commitments, followed by agriculture (36 percent). Annex II contains a summary statement of Bank loans and IDA credits as of April 30, 1975 and includes notes on ongoing projects. Although delays and setbacks have been occasionally encountered in the execution of projects, the Government has consistently shown willingness to collaborate with the Bank Group for the determination and application of satisfactory solutions.

17. For the future, the Bank Group's strategy is to support the Government in its efforts to equip the country with infrastructure, to create productive employment in rural and urban areas, to stimulate investment by local entrepreneurs, and to increase the efficiency of Cameroon's institutions.

18. Given sharp traffic increases and the backlog of required investments, massive injections of capital will still be necessary in the years ahead, particularly for the expansion of the port of Douala and improvement of the Douala - Yaoundé transport corridor. A second Douala port project will be appraised in mid-1975 and presented to the Executive Directors in FY76. Future highway investments will mainly be for maintenance and feeder roads to provide links to local markets and facilitate exploitation of Cameroon's forests, a major area for future development.

19. In agriculture, we have been able to help the Government further diversify agricultural production by financing its oil palm and rubber plantations in the east and west, and rice irrigation and livestock in the north. The cocoa project, approved in September 1974, will modernize cocoa growing by smallholders and raise rural productivity in an area south and west of the capital. The rubber project, approved in June 1975 will help develop the southwest coastal region. Identification work for a rural development project in a populated but poor region in the north is underway. Thus, Bank Group lending to agriculture supports the Government's efforts to modernize and to correct economic imbalances through the development of a hitherto lagging sector. In other sectors, in addition to the first small- and medium-scale enterprises (SME) project presented in this report, we are appraising a third education project with special emphasis on rural education and training.

20. In all our projects, we will as in the past include training, technical assistance, and other provisions necessary for strengthening institutions and improving sector policies. In addition, through our economic work we will continue to advise the authorities, at their request, on development questions in general, and on matters such as economic management, problems of urban migration and manpower development.

21. Our lending to Cameroon has been closely coordinated with other donors; in nine of our fourteen projects, financing arrangements have been either joint or parallel. The CCCE and UNDP would join us in financing the proposed SME project.

22. Over the second half of the last decade disbursements of foreign aid amounted to about US\$ 40-45 million a year. At the beginning of this period 65 percent of aid funds consisted of grants, but the proportion of loans has been slowly increasing as grants declined. A major part of external assistance was provided by France and concentrated in infrastructure and productive sectors. The aid giving agencies of the EEC (European Development Fund and European Investment Bank) directed their lending mainly to

agriculture, with infrastructure in second place. Bank Group disbursements were small during this period. From 1972 to 1974 disbursements of foreign aid increased to about US\$ 60 million with one third as grants. The Bank Group's share of these inflows amounted to about 25 percent. Public debt outstanding and disbursed as of December 31, 1974 amounted to US\$ 280 million and is projected to reach US\$ 1,300 million in 1980. Public debt service as a proportion of export earnings amounted to 6.0 percent at end 1974 and is projected to reach 12 percent in 1980. At that time disbursements may be over US\$ 250 million with only 15 percent in grants. At present Bank debt outstanding and disbursed amounts to nearly 11 percent of all public debt and 10 percent of public debt service. IDA credits outstanding and disbursed amount to nearly 13 percent of public debt outstanding and 0.9 percent of public debt service. Bank Group lending is expected to account for nearly 12.5 percent of public debt service in 1980.

23. In October 1974, Cameroon became IFC's 100th member and, in a first operation approved on May 22, 1975, the Corporation will invest in the equity of Bata - a foreign owned shoe complex - and assist in the sale of its shares to local private investors.

### PART III - INDUSTRY AND SERVICES IN CAMEROON

24. The proposed credit will be concentrated mainly on the manufacturing sub-sector, but construction, transport and service enterprises will also be considered for financing. In the fiscal year 1973, these sub-sectors together accounted for about 25 percent of GDP.

#### The Sub-Sectors

25. Cameroon is the most industrialized member of the Customs and Economic Union of Central Africa (UDEAC). The manufacturing sub-sector alone in Cameroon contributes about 12 percent to GDP. Although statistical indicators are inadequate, the growth of value added in the manufacturing sector in real terms appears to have slowed down since 1971/72, from 12 percent in the previous five years to about 7 percent since then. Gross private investment has levelled off or perhaps even declined since 1969/70. (See para. 8 above).

26. Production is relatively diversified by Central African standards and consists of: aluminum using imported bauxite and low-cost energy (20 percent of total industrial sales); processing of local raw materials, mainly cotton and cocoa (30 percent); and substitution of imported final goods (50 percent).

27. The sub-sector is dominated by large foreign-owned and -managed enterprises (about 85 percent of all firms in the modern sector in 1970), most of which use modern processing methods. Industry is heavily concentrated in Douala and to a lesser extent, in Yaoundé, due mainly to the proximity of the port and the railways.



28. The construction sub-sector in Cameroon accounts for about 6 percent of GDP and appears to have had a zero rate of growth in real terms in recent years. The stagnation is largely attributable to weak demand for housing in the early 1970s as a result of slow growth of income. In addition to several large contractors, numerous entrepreneurs own small construction firms, but little information is available about these.

29. The transport and services sub-sectors contributed 8.5 percent of total GDP in 1972/73. The growth of value added in recent years has averaged 8.5 percent per annum. Given the multiplicity of economic centers and the substantial distances between them, transport and services are essential activities in Cameroon. A 1970 survey indicated that only 17 percent of these enterprises in the modern sector were Cameroonian-owned.

### Policies and Prospects

30. Because the incentive system established by the Government in 1960 mainly consisted of import tax exemptions on capital goods and raw materials, capital-intensive activities and large foreign enterprises were the main beneficiaries. Of the total amount of investment that qualified for special incentives, with Government approval, only about 15 percent financed small- and medium-scale enterprises and only a few of the industrial ventures approved were managed by Cameroonians.

31. The Administration's lack of experience in industrial promotion, and cumbersome administrative procedures, have discouraged some foreign promoters and contributed to the decline in gross private investment since 1969/70. Recently, the Administration has reaffirmed its attachment to a policy of "planned liberalism", by providing "industrial zones", public equity participations and long-term loans, but these mainly continue to benefit large, modern firms.

32. Based on the findings of the Bank's recent missions to Cameroon, value added in the manufacturing and construction sub-sectors are expected to grow at an annual rate of about 8 percent, in constant prices, during the next Plan period (FY76-FY81), provided that the projected level of gross investment is attained. Future growth will stem mainly from investments in processing units, including wood, cotton, oil, cocoa and aluminum and from expansion of import substitution activities. The transport and services sectors are expected to grow at the same rate as GDP, i.e. at about 4 percent to 5 percent per annum.

### Small- and Medium-Scale Enterprises and Institutions

33. Artisan and small-scale industrial, construction and service enterprises, which are largely Cameroonian-owned, could play a major part in the anticipated growth of the sector.

34. The following definitions are considered to be representative of small, medium and large enterprises in Cameroon.

<u>Size Scale</u>	<u>Assets</u> (CFAF million)	<u>Typical Employment</u> (Number)
Small	up to 40	up to 15
Medium	up to 150	up to 50
Large	over 150	over 50

35. At the lower end of the scale, artisans are defined as independent workers or small industrialists who manage their business and participate in its physical work. A 1966 census by a UNDP mission estimated their number at some 20,000. Production covers a wide variety of final consumption and intermediate goods. Wages are substantially above those in the rural sector from which most manpower is drawn; artisans tend to use more domestic inputs and more labor intensive methods than modern-sector firms. About half of the small- and medium-scale enterprises (SME) are located in Douala and about a quarter in Yaoundé. Despite the lack of effective investment incentives and technical assistance, small-scale and artisan enterprises produce an estimated one quarter of all industrial output and generate over one half of total employment in industry. The SME do not benefit to the same extent as large modern enterprises from tariff and other incentives.

36. None of the five commercial banks in Cameroon has devoted any significant amount of its resources to assist SME. Société Nationale d'Investissement (SNI) - a fully Government-owned company created to promote development in industry, agriculture and trade - concentrates on larger firms and on equity capital participations. Banque Camerounaise de Développement (BCD), a majority Government-owned development bank, finances industry, agriculture, trade, crafts and housing. Most industrial lending has been for large-scale enterprises, but BCD is the financial institution with the best record of assistance to smaller enterprises.

37. Three agencies currently provide technical assistance to SME in Cameroon. Two agencies, Société d'Aide Technique et de Coopération (SATEC) and Association pour la Formation des Cadres de l'Industrie et de l'Administration (AFCA), provide active operational support to two different and distinct groups of entrepreneurs. AFCA caters essentially to artisans and entrepreneurs who own very small enterprises, for whom the agency provides management training courses and consulting services, and sponsors various promotion and cooperative activities. Participants in the courses have included plumbers, metal workers, electricians, mechanics, tailors, masons, retailers and owner/managers of small factories. SATEC specializes in helping entrepreneurs who own somewhat larger enterprises, but which would still fall into the small- and medium-scale category. SATEC assists such entrepreneurs to prepare and implement their projects. Its assistance has covered a wide range of economic activities from refrigeration to soap production and maize handling and from dry cleaning to metal fabrication. The activities of SATEC and AFCA do not overlap; both have been operating in Cameroon, with financial assistance from France, for many years. Their success, though limited, provides a

concrete basis for expanding technical assistance in this field. The third agency, CAPME which started operations in 1969 is the national organization responsible for policy formulation and coordination of all technical assistance to SME in Cameroon. CAPME has recently begun assisting SME in management and in repair and maintenance of industrial equipment. With the assistance of UNDP, Government intends to build up the agency and the proposed IDA project should help to strengthen its coordinating activities.

38. Although Cameroonian-owned enterprises account for only about a quarter of total industrial production, this results from a relatively low level of local participation in industrial investment rather than from low productivity. In the past Cameroonian entrepreneurs have tended to concentrate their investments in trade, real estate and construction, but now have begun to develop management experience, to accumulate capital resources and to indicate a desire to branch out into more complex ventures. Numerous artisans have acquired know-how and wish to enlarge the scale of their activities. Therefore, if provided with technical assistance, credit facilities and institutional support, acceptable sub-project sponsors would be available under the proposed IDA credit.

#### PART IV - THE PROJECT

##### Background and Purpose

39. Following a Government request made simultaneously to the Bank Group and CCCE for financial assistance for a Government program to promote small- and medium-scale Cameroonian enterprises, representatives of the Bank Group and of CCCE visited Cameroon in 1974 to appraise the project. The report "Appraisal of a Small- and Medium-Scale Enterprises Project", No. 718a-CM dated May 15, 1975, is being circulated separately to the Executive Directors. A Credit and Project Summary is in Annex III of this report. Negotiations for a credit were held in Washington in May 1975 with a Cameroonian delegation headed by his Excellency Mr. François-Xavier Tchoungui, Ambassador of the United Republic of Cameroon to Washington. The delegation included representatives of BCD and CAPME. CCCE, UNDP, SATEC and AFCA were also represented at negotiations.

40. The proposed pilot project for small- and medium-scale enterprises is the first of its kind to be financed by the Bank Group in Africa. The project is mainly designed to benefit relatively small enterprises where financial support, combined with technical assistance and training, will significantly enhance labor productivity and industrial skills, develop entrepreneurship and increase the present 15 percent level of local ownership among total enterprises in the modern sector.

41. Opportunities for successful investment are especially apparent in the manufacturing sub-sector. However, suitable projects in the construction sub-sector and in service activities, particularly transport and repair and maintenance, will also be eligible for financing.

42. Specifically the objectives of the credit are:
- (a) strengthening BCD, improving its policies, and providing funds for the establishment and expansion of privately-owned small- and medium-scale enterprises;
  - (b) promoting effective and simplified guarantee and incentive policies for SME;
  - (c) expanding technical assistance facilities for SME and fostering coordinated action under the guidance of CAPME;
  - (d) contributing to diversification of the location of industry;
  - (e) learning more for both the Bank Group and Government, about effective policies and procedures for SME promotion and support, and the benefits accruing therefrom.

#### Project Execution

43. BCD, a majority Government institution, would be the project's focal point for SME financing. CCCE, a minority shareholder, has previously provided long-term financing and technical assistance to BCD. BCD, which was established in 1960, is a financially sound institution, with the capability to execute the project effectively. In the fiscal year ending June 30, 1974, BCD approved loans and guarantees totalling CFAF 7.5 billions of which somewhat less than 20 percent was for industrial projects. The share of SME projects in these industrial credits amounted to 25 percent of total value and 70 percent of total number. Thus, BCD already has some experience with SME financing and would be responsible for appraising, granting and administering sub-loans. To strengthen its industrial appraisal capability, BCD would recruit two financial analysts/economists, an industrial engineer, and local counterparts to form an industrial lending unit. BCD has also adopted a revised policy statement covering general lending criteria and financial management and to streamline procedures for credit approval. During the project's two-year commitment period, BCD is expected to help finance about 80 sub-projects. BCD's sub-loans would fall into two groups: (i) loans to small enterprises where BCD's loan to the sub-borrower did not exceed CFAF 30 million - normally to firms with total assets after the project of less than CFAF 38 million (US\$ 170,000); and, (ii) loans to larger enterprises receiving more than CFAF 30 million from BCD.

#### Technical Assistance

44. Although BCD would not be restricted to financing only sub-projects prepared with technical assistance, many medium-scale sub-projects and most small-scale ones would require such assistance and would obtain it from the newly strengthened SATEC, AFCA and CAPME, under the guidance and coordination of CAPME. In addition, CAPME will formulate policy towards SME, and would provide essential information and data collection services, to facilitate close monitoring of SATEC and AFCA's work by IDA, CCCE and the Government. CAPME expects to receive five

expatriate experts and an appropriate number of counterparts through a separate UNDP project, currently under study.

45. SATEC's two-year program calls for the creation of about 65 new small- and medium-scale enterprises, which is about 80 percent of the total sub-projects proposed for financing in this project. SATEC's past success in promoting Cameroonian enterprises suggests that the agency should be able to achieve its target. The present staff in Cameroon needs to be expanded from nine professionals to sixteen (including the new office to be opened in the north at Garoua) and five of the additional seven would be Cameroonians.

46. AFCA which has been most successful in its past work with artisans, would expand its present activities to provide continuing support to its existing clients, and to conduct six general management courses annually. AFCA will try to organize and help manage new artisan credit cooperatives, will also reopen its center in Yaoundé and will increase its activities in the north through frequent visits there. The expansion in AFCA's activities related to this SME project, will require recruitment of one additional Cameroonian professional, bringing the total staff to four.

47. The UNDP is carrying out a study of CAPME's current procedures and organization. The Association will participate in discussions about implementation of the study's recommendations and about the appropriate means to continue and improve technical assistance to SME.

48. As part of the strategy of strengthening local technical assistance availability, contracts between CAPME and SATEC and CAPME and AFCA, defining their working relationships have been finalized and approved by the Association during negotiations. Their execution and delivery are conditions of effectiveness.

#### Project Costs and Financing Arrangements

49. Total project costs, including technical assistance, would amount to about US\$ 13.2 million, net of taxes, excluding US\$ 0.8 million which is the estimated cost of UNDP assistance to CAPME under a separate program, currently under study. Sub-project costs are estimated at about US\$ 11.2 million, net of taxes, with foreign exchange costs at about 55 percent of the total. IDA financing under the project is expected to amount to about 50 percent of the estimated foreign exchange component of all sub-projects; but in individual sub-projects IDA may finance a small proportion of local costs. The technical assistance component would amount to about US\$ 2.0 million comprising the Government contribution of US\$ 0.8 million and that of UNDP of US\$ 1.2 million but excluding UNDP's continuing support to CAPME. The UNDP funds would finance 100 percent of the foreign exchange costs of the AFCA, SATEC and BCD experts.

50. The Association would provide a credit of US\$ 3.0 million to Government for relending to BCD. The balance of sub-project costs of US\$ 8.2 million would be covered by a CCCE loan to BCD (US\$ 3.0 million), BCD medium term loans rediscountable with the Central Bank (US\$ 2.2 million) and sub-borrowers' contributions (US\$ 3.0 million). Sub-borrowers are expected to provide about 20 percent of investment costs for 'smaller' sub-projects, i.e. for which BCD's loans amount

to less than CFAF 30 million (about US\$ 133,000) and about 30 percent for larger ones. A breakdown of the financing plan is given in Annex III.

51. BCD would pay an annual interest rate of 5 percent to Government for the IDA funds and to CCCE for its loan. BCD's repayment terms to the Government for the IDA funds would include a three-year grace period and would be on a fifteen-year schedule, which could be revised from time to time to conform to the aggregate of sub-loan maturities. The effective cost of funds to sub-borrowers would be 11 percent which is slightly higher than the rate at which BCD has in the past lent to SME and is also above the rate of inflation of about 8 percent p.a. forecast for Cameroon until 1981. The above 11 percent consists of a spread of 2.75 percent for BCD with the remaining 8.25 percent as follows: 5 percent interest, 2 percent taxes to Government and a foreign exchange/guarantee fee of 1.25 percent. On small sub-loans the fee will be paid to the Fonds d'Aide et de Garantie des Crédits aux Petites et Moyennes Entreprises (FOGAPE), which will guarantee credits to SME. Government will bear the full foreign exchange risk but borrowers for large sub-loans, i.e. other than SME's as defined by Cameroonian law <sup>1/</sup>, will pay a foreign-exchange risk fee of 1.25 percent to Government. Repayment terms from BCD's sub-borrowers are expected to range from 7 to 15 years, including 2 to 3 years of grace.

52. Sub-projects receiving total financing from BCD of up to CFAF 30 million - of which normally one half would be IDA and the other half CCCE funds - would not require prior IDA approval up to aggregate approvals of IDA funds of US\$ 1.5 million (CFAF 337 million), but would be subject to sample ex-post review by the Association during frequent supervision missions. CCCE would review all sub-projects. BCD would be free to seek joint financing from IDA and CCCE or from only one of them for those sub-projects above the free limit of CFAF 30 million.

#### Guarantee Fund

53. A notable feature of the project is the establishment of FOGAPE to guarantee credits to SME. FOGAPE has been financed by Government with a CFAF 125 million budgetary allocation, and, in addition, is to receive funding from special taxes on the profits of commercial banks in Cameroon. Under Decree No. 75/238 which establishes FOGAPE, the Government has agreed that BCD's loans to SME would be guaranteed automatically by the fund, which

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<sup>1/</sup> Small- and medium-scale enterprises are defined by Cameroonian law as firms whose management is Cameroonian with 51 percent of capital held by nationals. They should also meet one of the following three conditions: (i) they pay the minimum tax ("forfait"); (ii) their short-term rediscount quota at the Central Bank is not above CFAF 25 million, or (iii) their equity is not above CFAF 50 million.

would cover up to 80 percent of any eventual loss. The maximum ratio of guarantees outstanding to the fund's resources is set by law at 7:1.

#### Investment Incentives

54. The incentives available under the SME regime such as tariff reductions on imported capital goods are considered by entrepreneurs to be of considerable advantage and in the past many have deferred beginning a project until the incentives are granted. Therefore, Government will simplify and accelerate procedures for granting investment incentives to recipients of small sub-loans under the project.

#### Procurement and Disbursements

55. Goods to be procured under the credit would involve small amounts, and their varied nature would make them unsuitable for bulk procurement through international competitive bidding. They would be procured through normal commercial channels; essentially all the capital goods would be imported and overseas suppliers are adequately represented in Cameroon. BCD would satisfy itself that goods and services procured are competitive in quality and price and meet the needs of its clients. Agreement has been reached with CCCE that procurement for sub-projects that are jointly financed, would not be restricted to the Franc zone, as is its normal practice.

56. IDA financing would cover about 40 percent of the total cost of smaller projects and about 20 percent of the total cost of larger projects where these are co-financed with CCCE. In the rare case of larger projects in which IDA funds would be the only source of foreign exchange, IDA financing would cover 40 percent of the total project costs. The credit will be disbursed during an estimated four-year period.

#### Benefits and Justification

57. In a country where there seems to be a sizeable reservoir of potential entrepreneurs, the project would initiate a process to remove all three main bottlenecks to their emergence: technical assistance, finance and administrative procedures. The project would expand and improve the work of existing technical assistance agencies (whose activities might otherwise be curtailed for lack of funds), increase their cost-effectiveness through a greater volume and concentration of operations, improve their coordination, and help them diversify regionally. The appraisal capacity of BCD will be strengthened and the impact of sub-projects improved through more systematic use of economic analysis. We also expect that applications for technical assistance and financing will greatly increase with the greater availability of financial assistance and the improvement in Government guarantees and incentives under the SME regime.

58. Further, this first experimental credit would associate the Bank Group with current efforts to learn more about, to reorganize and to find effective ways to help the SME sector. Opportunities will be created to study and discuss industrial policies with the Government, and to prepare future action based on an improved institutional framework, possibly involving commercial banks among the financing agencies.

59. The proposed project, though modest in its scope, would help promote new small entrepreneurs and a number of larger ventures, representing total investments of about US\$ 11 million and resulting in employment involving up-graded skills for about 1000 workers. It would foster development of a class of Cameroonian entrepreneurs, starting a cumulative process of the greatest importance for the private sector. The expected geographic distribution of sub-projects would contribute to regional development and industrial decentralization.

60. The variety and uncertainty about the number of sub-loans to SME, make it difficult to estimate the project's overall economic rate of return. Approved sub-projects are expected to have a financial return in excess of 15 percent. Considering the substantial urban unemployment and the under-exploitation of many local raw materials, economic returns on most sub-projects would be above the financial returns. Since much of the additional production would replace imported goods, the project would produce relatively significant foreign exchange savings.

#### PART V: LEGAL INSTRUMENTS AND AUTHORITY

61. The draft Development Credit Agreement between the United Republic of Cameroon and the Association, the draft Project Agreement between the Association and Banque Camerounaise de Développement (BCD), the Recommendation of the Committee provided for in Article V, Section 1 (d) of the Articles of Agreement and the text of a draft resolution approving the proposed credit are being distributed to the Executive Directors separately.

62. Features of the Development Credit and Project Agreements of special interest are referred to in paragraphs 43, 49, 50, 54, 55 and 56 of this Report.

63. Conditions of effectiveness include (Section 5.01 of Development Credit Agreement<sup>+</sup>):

- (i) conditions of disbursement under the Caisse Centrale loan agreement have been fulfilled;
- (ii) BCD has engaged the two financial analysts and one engineer;
- (iii) the Borrower shall have made arrangements satisfactory to the Association, for the provision of technical assistance services to SME as required by Section 3.03 of the Development Credit Agreement;
- (iv) a satisfactory independent audit of BCD accounts as of June 30, 1975, has been received.

64. I am satisfied that the proposed development credit would comply with the Articles of Agreement of the Association.



PART VI - RECOMMENDATION

65. I recommend that the Executive Directors approve the proposed credit.

Robert S. McNamara  
President

Attachments.  
June 16, 1975

COUNTRY DATA - CAMEROON

AREA	POPULATION	DENSITY
1975/80 km <sup>2</sup>	6.1 million (mid-1972)	ft/a Per km <sup>2</sup> of arable land

SOCIAL INDICATORS

	Cameroon		Reference Countries		
	1960	1970	1970	1970	1970
<b>GDP PER CAPITA US\$ (ATLAS BASIS) /1</b>	..	200 /b	110 /e	110 /e	110 /e
<b>DEMOGRAPHIC</b>					
Crude birth rate (per thousand)	..	43 /c,d	36 /e,i	45 /c,d	40 /c,d
Crude death rate (per thousand)	..	23 /c,d	16 /e,i	12 /c,d	13 /c,d
Infant mortality rate (per thousand live births)	..	..	120-150 /c,e	90	..
Life expectancy at birth (years)	..	41 /c	50	50	41 /c,d
Gross reproduction rate /2	..	2.7 /c	2.9	3.3	3.1 /c,d
Population growth rate /3	2.4	2.0 /e	2.3 /e	3.0 /e	3.1 /e
Population growth rate - urban	..	5 /f,g	4 /h	4 /h	9 /e,g
<b>Age structure (percent)</b>					
0-14	36 /k	41 /c	40 /g	43 /e	42 /g
15-64	58 /k,l	56 /d	57 /d	53 /d	55 /d
65 and over	6 /k,m	3 /g	3 /g	4 /h	3 /d
Age dependency ratio /4	0.7 /k,o	0.6 /d	0.6 /g	0.9 /e	0.6 /d
Economic dependency ratio /4	1.0 /bp	1.0 /bp	1.7 /p	1.5	1.6
Urban population as percent of total	15 /n,q	20 /p	20 /b,h	32 /i	28 /i
Family planning: No. of acceptors cumulative (thous.)	..	..	..	1.0y	..
No. of users (% of married women)	..	..	..	..	..
<b>EMPLOYMENT</b>					
Total labor force (thousands)	1,800 /n,aq	2,200 /aq	221,000 /p,r	13,200 /p	2,600
Percentage employed in agriculture	88 /d	..	71 /d,p	56 /p	78
Percentage unemployed	..	..	..	7 /p	9
<b>INCOME DISTRIBUTION</b>					
Percent of national income received by highest 5%	..	..	25 /s,t	25 /p,t	30 /v
Percent of national income received by highest 20%	..	..	53 /s,t	54 /p,t	57 /v
Percent of national income received by lowest 20%	..	..	5 /s,t	4 /p,t	4 /v
Percent of national income received by lowest 40%	..	..	13 /s,t	12 /p,t	10 /v
<b>DISTRIBUTION OF LAND OWNERSHIP</b>					
% owned by top 10% of owners	..	..	..	..	..
% owned by smallest 10% of owners	..	..	..	..	..
<b>HEALTH AND NUTRITION</b>					
Population per physician	..	25,960	4,800	9,100 /w	17,115
Population per nursing person	4,800 /n,x	2,470	5,110	5,390 /w	2,480 /w
Population per hospital bed	390 /n,w,y	480 /z	1,620 /y,aa	850 /y,aa	680 /z
Per capita calorie supply as % of requirements /5	96 /am	96	89	85	106
Per capita protein supply, total (grams per day) /6	59 /am	59	43	45	66
Of which, animal and pulse	..	23 /ak	16 /ab	22 /aa	18 /ak
Death rate 1-4 years /7	..	..	..	7 /aa	..
<b>EDUCATION</b>					
Adjusted /8 primary school enrollment ratio	66	108 /ac	79 /ac	112 /u	77
Adjusted /8 secondary school enrollment ratio	2	9	28 /ac	45 /z	11
Years of schooling provided, first and second level	13/ad-14/ae	13/ad-14/ae	12	10	13
Vocational enrollment as % of sec. school enrollment	23	22	6 /af	10 /u,al	7
Adult literacy rate %	..	..	36 /d,p,ag	72 /ah,ai	20 /ad,ad
<b>HOUSING</b>					
Average No. of persons per room (urban)	..	..	2.8 /p,t	..	..
Percent of occupied units without piped water	..	..	..	66 /u,ah,ac	..
Access to electricity (as % of total population)	..	..	..	23 /u,ac	..
Percent of rural population connected to electricity	..	..	..	6 /v,ao	..
<b>CONSUMPTION</b>					
Radio receivers per 1000 population	3	37 /b,d	23 /b	46 /b	18 /p
Passenger cars per 1000 population	3	6	1 /b	8 /b	17 /b
Electric power consumption (kwh p.c.)	198 /am	200	108 /b	255 /b	143 /b
Newsprint consumption p.c. kg per year	..	0.02	0.4 /b	1.7 /b,aj	0.2 /b

Notes: Figures refer either to the latest periods or to the latest years. Latest periods refer in principle to the years 1956-60 or 1966-70; the latest years in principle to 1960 and 1970.

/1 The Per Capita GNP estimate is at market prices for years other than 1960, calculated by the same conversion technique as the 1972 World Bank Atlas.

/2 Average number of daughters per woman of reproductive age.

/3 Population growth rates are for the decades ending in 1960 and 1970.

/4 Ratio of population under 15 and 65 and over to population of ages 15-64 for age dependency ratio and to labor force of ages 15-64 for economic dependency ratio.

/5 FAO reference standards represent physiological requirements for normal activity and health, taking

account of environmental temperature, body weights, and distribution by age and sex of national populations.

/6 Protein standards (requirements) for all countries as established by USDA Economic Research Service provide for a minimum allowance of 60 grams of total protein per day, and 20 grams of allowance of 60 grams of total protein per day, and 20 grams of animal and pulse protein, of which 10 grams should be animal protein. These standards are somewhat lower than those of 75 grams of total protein and 23 grams of animal protein as an average for the world, proposed by FAO in the Third World Food Survey.

/7 Some studies have suggested that crude death rates of children ages 1 through 4 may be used as a first approximation index of malnutrition.

/8 Percentage enrolled of corresponding population of school age as defined for each country.

/a Definition of arable unknown; /b 1972; /c 1965-70; /d Estimate; /e 1960-72; /f 1959-70; /g Urban centers over 5,000 population; /h For the definition of urban see UN Demographic Yearbook 1972, p. 154; /i For the definition of urban see Demographic Yearbook 1971, p. 156; /j Over 4,000 population; /k 1964; /l 15-59 years; /m 60 years and over; /n 1962; /o Ratio of pop. under 15 and 60 and over to pop. 15-59; /p 1971; /q 1973; /r AID estimate of labor force in age group 15-59. IRRD report gives a figure of 180.4 mll. based on 1971 pop. census. The difference is due to changes in the definition of a worker. In the 1971 census persons were classified only on the basis of their main activities; this led to the exclusion of several categories such as housewives; /s 1967-68; /t Households; /u 1967; /v Income recipient; /w Government only; /x Includes midwives, assistant nurses and assistant midwives; /y Including rural or local hospitals and medical centers; /z 1968; /aa 1969; /ab 1969-70; /ac Estimate which includes overage students; /ad East Cameroon; /ae West Cameroon; /af 1965; /ag Population of 10 years and over based on one percent sample data of 1971; /ah 15 years and over; /ai Definition unknown; /aj Imports only; /ak 1961-66; /al Public education only; /am 1961; /an Inside or outside; /ao As percent of households; /ap Based on ILO estimates; /aq African labor force.

\* The Ivory Coast has been selected as an objective country for Cameroon since natural resources, foreign trade, public finances, national accounts and statistical systems of the two countries are similar; moreover, their development policies are comparable.

ECONOMIC DEVELOPMENT DATA  
(Amounts in millions of U.S. dollars)

	Actual			Projected			1964-	1968 -	1972 -	1976 -	1968	1972	1976
	1964	1968	1972	1974	1976	1980	1968	1972	1976	1980	1968	1972	1976
<b>NATIONAL ACCOUNTS</b>													
	3-Year Average at 1967-1969 Prices & Exchange Rates						Average Annual Growth Rates				As Percent of GDY		
Gross Domestic Product	695.7	73.1	1,117.1	1,200.9	1,294.4	1,514.1	6.0	8.2	3.8	4.0	100.0	104.7	107.3
Gains from Terms of Trade (+)	..	-0.1	-42.1	- 8.7	-50.6	-102.4	..	..	..	..	..	-4.6	-7.3
Gross Domestic Income	695.7	731.0	1,075.0	1,192.2	1,243.8	1,411.7	..	5.0	4.1	3.2	100.0	100.0	100.0
Import (incl. NFS)	155.1	47.6	310.9	219.5	342.5	409.0	11.4	5.8	2.5	4.6	22.3	29.1	28.9
Exports " (import capacity)	-150.1	-229.0	-292.4	-307.2	-315.4	-353.1	10.2	5.6	4.3	2.8	-26.7	-27.4	-22.0
Resource Gap	-4.0	17.6	18.5	12.3	27.1	55.9	..	..	..	..	1.5	1.7	-3.9
Consumption Expenditures	587.8	754.6	921.4	1,040.1	1,076.0	1,202.6	6.5	5.1	4.0	2.8	25.9	26.2	28.1
Investment " (incl. stocks)	103.9	136.5	166.1	162.4	194.9	264.9	7.0	5.0	4.0	8.0	15.6	15.5	18.8
Domestic Savings	107.9	123.9	147.6	150.1	167.8	209.0	3.5	4.5	3.3	5.6	14.1	13.8	14.9
National Savings	..	103.1	110.8	107.0	123.8	154.0	..	1.2	2.8	5.6	11.7	10.4	10.9

	Annual Data at Current Prices						As Percent of Total						
	1964	1968	1972	1974	1976	1980	1964	1968	1972	1974	1976	1980	
<b>MERCHANDISE TRADE</b>													
<b>Imports</b>													
Capital goods	22.4	43.7	76.4	98.6	152.9	306.1	18.1	14.9	19.0	19.0	23.3	25.6	35.8
Intermediate goods (excl. fuels)	55.3	86.9	134.9	162.8	211.7	330.1	15.8	12.0	11.9	11.7	45.8	45.2	38.6
Fuels and related materials	7.2	8.6	15.5	30.0	36.3	60.7	4.5	15.9	23.7	13.7	4.6	5.2	7.1
of which: Petroleum	..	..	..	..	..	..	..	..	..	..	..	..	..
Consumption goods	46.5	49.3	71.6	75.7	107.3	158.2	1.5	9.8	10.6	10.2	26.3	24.0	16.5
Total Merch. Imports (cif)	131.4	187.5	298.4	377.1	508.2	855.1	9.3	12.3	14.2	13.9	100.0	100.0	100.0
<b>Exports</b>													
Primary products (excl. fuels)	84.3	110.1	119.0	195.7	223.9	338.5	6.9	2.0	17.1	10.9	56.1	52.7	47.5
Fuels and related materials	..	..	..	..	..	..	..	..	..	..	..	..	..
of which: Petroleum	..	..	..	..	..	..	..	..	..	..	..	..	..
Manufactured goods	60.2	79.1	106.4	175.0	236.9	374.2	7.0	7.7	22.1	12.1	41.9	47.3	52.5
Total Merch. Exports (fob)	144.5	189.2	225.4	370.7	460.8	712.7	7.0	4.5	19.6	11.5	100.0	100.0	100.0
Tourism and Border Trade	..	..	..	..	..	..	..	..	..	..	..	..	..
Merchandise Trade Indices	Average 1967-69 = 100												
Export Price Index	..	94.5	87.7	134.9	155.6	192.3	..	-1.2	15.4	5.5	..	..	..
Import Price Index	..	101.6	123.6	151.7	187.2	265.0	..	5.0	14.7	9.0	..	..	..
Terms of Trade Index	..	93.0	71.0	88.9	83.1	72.5	..	..	..	..	..	..	..
Exports Volume Index	..	106.3	136.5	145.8	157.0	196.3	..	6.4	3.6	5.7	..	..	..

	Annual Data at 1967-69 Prices and Exchange Rates						Average Annual Growth Rates				As Percent of Total		
	1964	1968	1972	1974	1976	1980	1964	1968	1972	1974	1976	1980	
<b>VALUE ADDED BY SECTOR</b>													
Government	81.4	97.7	137.0	146.7	158.6	189.2	4.9	8.4	3.7	4.5	11.2	12.2	12.5
Agriculture	222.6	302.6	357.2	378.8	401.3	451.0	8.2	3.5	3.0	3.0	34.7	31.2	23.8
Industry and Mining	73.0	102.9	138.2	150.3	166.8	207.3	9.2	7.2	4.8	5.6	11.8	12.3	13.7
Service	318.7	368.9	490.9	526.8	567.0	666.0	4.0	7.0	3.6	4.1	42.3	43.7	44.3
Total	695.7	872.1	1,123.3	1,202.6	1,293.7	1,513.5	6.0	6.1	3.6	4.0	100.0	100.0	100.0

	Annual Data at 1967-69 Prices and Exchange Rates						Average Annual Growth Rates				As Percent of GDP		
	1964	1968	1972	1974	1976	1980	1964	1968	1972	1974	1976	1980	
<b>PUBLIC FINANCE</b>													
(Central Government and Federated States) <sup>1/</sup>													
Current Receipts	115.1	190.0	190.9	189.3	223.4	271.7	6.9	6.2	4.0	5.0	17.1	16.9	17.9
Current Expenditures	-98.1	-138.7	-160.5	-162.8	-187.8	-224.0	9.0	3.7	4.0	4.5	15.9	14.2	14.8
Budgetary Savings	17.0	11.3	30.4	26.5	35.6	47.7	-10.7	28.1	3.4	7.6	1.2	2.7	3.1
Other Public Sector	..	13.5	19.1	19.0	22.4	30.0	..	9.0	4.0	7.5	1.5	1.7	1.9
Public Sector Investment	..	94.2	122.5	134.8	150.1	196.6	..	6.9	5.2	7.0	10.8	11.0	13.0

	Actual					ESTIMATED					US \$ million		
	1968	1972	1974	1976	1980	1974	1976	1980	1974	1976	At end 1972/73 P and ER	Third Plan	% of Total
<b>CURRENT EXPENDITURE DETAILS</b>													
As % Total Current Expend.													
Education	9.6	11.2	11.4	13.8	15.3	11.4	13.8	15.3	11.4	13.8	15.3	11.4	13.8
Other Social Services	18.2	20.1	24.1	23.2	29.0	24.1	23.2	29.0	24.1	23.2	29.0	24.1	23.2
Agriculture	3.8	3.9	4.1	4.7	4.9	4.1	4.7	4.9	4.1	4.7	4.9	4.1	4.7
Other Economic Services	31.7	31.5	32.5	29.2	29.0	32.5	29.2	29.0	32.5	29.2	29.0	32.5	29.2
Administration and Defense	31.5	28.5	25.2	26.4	19.2	25.2	26.4	19.2	25.2	26.4	19.2	25.2	26.4
Other	5.2	4.8	2.7	2.7	2.6	2.7	2.7	2.6	2.7	2.7	2.6	2.7	2.6
Total Current Expenditures at Current Prices	135.1	134.7	244.2	355.0	600.0	244.2	355.0	600.0	244.2	355.0	600.0	244.2	355.0
<b>DETAIL ON PUBLIC SECTOR INVESTMENT PROGRAM</b>													
Social Sectors	37.0												
Agriculture	34.5												
Industry and Mining	1.0												
Power	6.8												
Transport and communications	96.0												
Other	74.5												
Total Expenditures	249.8												

	SELECTED INDICATORS					FINANCING	
	1964	1968	1972	1976	1980	1968	1972
(Calculated from 3-year averaged data)							
Average ICOR	2.52	2.41	4.30	4.00	..	..	..
Import Elasticity	2.27	1.13	0.60	1.15	..	..	..
Marginal Domestic Savings Rate	0.09	-0.04	0.23	0.19	..	..	..
Marginal National Savings Rate	..	-0.17	0.20	0.18	..	..	..
Public Sector Savings	..					101.8	40.7
Program aid counterpart	..					..	..
Foreign Project Aid	..					148.0	59.3
Total Financing	..					249.8	100.0

	Total Labor Force in the modern sector					Modern Value Added Per Worker (1967-69 Prices & Exc. Rates)				
	In Thousands		% of Total		Growth Rate	In U.S. Dollars		Percent of Average		Growth Rate
	1968	1972	1968	1972	1968-72	1968	1972	1968	1972	1968-72
Government	39.4	54.6	29.2	33.0	8.5	2,690	2,480	112.0	95.4	-2.0
Agriculture	41.7	44.1	31.0	26.6	1.4	590	760	24.6	29.2	6.5
Industry	32.9	36.5	24.4	22.0	2.6	2,570	3,500	107.1	134.6	8.0
Service	20.8	30.5	15.4	18.4	10.0	5,190	4,380	216.2	168.5	-4.3
Total	134.8	165.7	100.0	100.0	5.3	2,400	2,600	100.0	100.0	2.0

.. not applicable - nil or negligible 1/ One central government as from May 1973.  
 .. not available -- less than half the smallest unit shown



THE STATUS OF BANK GROUP OPERATIONS IN CAMEROONSTATEMENT OF BANK LOANS AND IDA CREDITS 1/  
(as of April 30, 1975)

Loan or Credit No.	Year	Borrower	Purpose	Amount (less cancellations and refunding)		
				Bank	IDA	Undisbursed
100	1967	Cameroon	Oil Palm, Rubber		11.0	-
490	1967	CAMDEV	Oil Palm, Rubber	7.0		3.2
593	1969	SOCAPALM	Oil Palm	7.9		0.7
604	1969	SNEC	Water Supply	5.0		-
161	1969	Cameroon	Education		10.5	0.5
180	1970	Cameroon	Roads I		7.0	-
663	1970	Cameroon	Roads I	12.0		1.1
687	1970	REGIFERCAM	Railways	5.2		-
229	1971	Cameroon	Ports		1.5	-
302	1972	Cameroon	Rice		3.7	0.3
320	1972	Cameroon	Education		9.0	8.6
886	1973	SOCAPALM	Oil Palm	1.7		1.7
429	1973	Cameroon	Roads II		24.0	19.8
935	1973	Cameroon	Roads II	24.0		24.0
983	1974	Cameroon	Livestock	11.6		11.5
1038	1974	REGIFERCAM	Railways	16.0		10.3
1039	1974	Cameroon	Cocoa	<u>6.5</u>		<u>6.3</u>
Total				96.9	66.7	88.0
of which has been repaid				<u>0.5</u>	-	
Total now outstanding				96.4	66.7	88.0
Amount sold				0.2		
of which has been repaid					<u>0.2</u>	
Total now held by Bank and IDA a/				<u>96.2</u>	66.7	
Total undisbursed				<u>58.8</u>	<u>29.2</u>	<u>88.0</u>

a/ Prior to exchange adjustments.

1/ Does not include the rubber project approved by the Executive Directors on June 3, 1975.

PROJECTS IN EXECUTION 1/

Cr. No. 100, Ln. No. 490 CAMDEV Project; US\$ 11 million Credit of March 28, 1967; Closing Date: June 30, 1972 and US\$ 7 million Loan to CAMDEV of same date; Closing Date: June 30, 1977 (Original Closing Date: December 31, 1974).

The original planting and replanting program of 11,500 ha of various tree crops was reduced by 1,000 ha of tea; the revised program is substantially complete and has been satisfactorily carried out. The management structure was recently improved. Increases in commodity prices, coupled with effective Government-supported economy measures, have led to a sound liquid position, in place of previous deficits. The financial prospects are good. A period of consolidation is now required to improve production efficiency and cost control. For this purpose, new investment is needed in more estate roads and additional equipment for the oil and rubber mills. Therefore, the closing date of the loan was recently extended to 6-30-77.

Ln. No. 593 and Sp Ln. No. 886 Oil Palm Project; US\$ 7.9 million Loan to Sopame of April 15, 1969; Closing Date: December 31, 1976 and US\$ 1.7 million Supplemental Loan of April 9, 1973; Closing Date: June 30, 1979.

The project is progressing satisfactorily. The establishment of 8,500 ha of oil palms will be completed in 1975 with the planting of the final 900 ha. One of the two mills has been completed; the second is expected to be commissioned in May 1975. In order to improve labor conditions, it is proposed to expand and improve the estate housing program. Because substantial production only starts in 1975 some short-term borrowing may be needed to avoid delaying this program. Financial prospects are good, however. Yields are in line with appraisal projections and palm oil prices are higher.

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1/ These notes are designed to inform the Executive Directors regarding the progress of projects in execution, and in particular to report any problems which are being encountered, and the action taken to remedy them. They should be read in this sense, and with the understanding that they do not purport to present a balanced evaluation of strengths and weaknesses in project execution.

In. No. 604 Water Supply Project; US\$ 5 million Loan to SNEC of June 2, 1969; Closing Date: December 31, 1974 (Original Closing Date: May 31, 1972).

This project was completed ahead of schedule with substantial savings which have been approved for investment in further water distribution works; however, disbursements lagged due to the strong working capital position of the Borrower and the closing date was postponed three times in order to allow remaining funds to be disbursed. SNEC and Government (Guarantor) have accepted the Bank's proposal for closure of the loan as of December 31, 1974 and the Bank has cancelled the unused balance of US\$ 70,000.

Cr. No. 161 First Education Project; US\$ 10.5 million Credit of September 23, 1969; Closing Date: December 31, 1975 (Original Closing Date: June 30, 1974).

Construction of the project schools is about 12 months late due to delays in selecting the consultants, reaching agreement on schedules of accommodation, revising the bidding documents, starting construction works for which overpriced initial bids on 16 schools had to be cancelled, and awarding contracts. Project management has improved and progress is now generally satisfactory. There are however some additional delays in equipment procurement. The estimated final total project cost is within appraisal estimates in CFA Francs, but about US\$ 1.2 million equivalent was lost due to the fluctuations in the US dollar. The technical assistance program is 30 months behind schedule due to a slow selection process and the closing date will need to be extended from December 31, 1975 to June 30, 1977.

Cr. No. 180, In. No. 663 First Highway Project; US\$ 7 million Credit of March 27, 1970; Closing Date: December 31, 1974 and US\$ 12 million Loan of same date; Closing Date: December 31, 1975; (Original Closing Date: December 31, 1973; first postponement: December 31, 1974).

The Tiko-Victoria road was completed satisfactorily in April 1973. The first section of the N'Gaoundere-Garoua road was completed in March 1974. The other two sections will not be finished before June 1975, i.e. one year behind schedule, since the contractor only recently finished repairing damages that occurred during the last rainy season, and has completed construction of 110 km out of the total of 178 km. Cost overruns are estimated at US\$ 5.1 million, of which 40 % is due to currency realignment, 45 % to inflation, and 15 % to quantity increase.

Ln. No. 687 Railway Project; US\$ 5.2 million Loan to REGIFERCAM of June 9, 1970; Closing Date: June 30, 1975; (Original Closing Date: June 30, 1974).

The Loan 687-QM is now fully disbursed. Project execution has been satisfactory for track renewal work and delivery of motive power and rolling stock. Unforeseen technical difficulties, such as extremely bad subsoil conditions, made lengthy studies necessary before selecting the site and the optimum design of a new railway bridge at Japoma, near Douala. Funds of Loan No. 687 proved to be insufficient to cover the full construction costs of a new bridge. Supplementary financing has been provided under the Second Railway Project (Ln. No. 1038).

Cr. No. 229 Douala Port Project; US\$ 1.5 million Credit of January 14, 1971; Closing Date: December 31, 1974 (Original Closing Date: June 30, 1973).

The Douala Port Project commenced in July 1972 and physical work under the Credit was satisfactorily completed in November 1974. Credit covenants and undertakings given during Credit negotiations have been reasonably fulfilled, but financial targets have not been achieved in recent years. Remedial measures are now being urged by the Association.

Cr. No. 302 SEMRY Rice Project; US\$ 3.7 million Credit of April 26, 1972; Closing Date: June 30, 1976.

The project started in mid 1972 and is progressing satisfactorily. Implementation is largely on schedule. However, the devaluation of the US dollar and additional works have increased costs by about 36 percent. The Government, CCCE and FAC are financing the cost overrun.

Cr. No. 320 Second Education Project; US\$ 9 million Credit of June 28, 1972; Closing Date: June 30, 1979.

Due to delays in selecting the consulting architects, the date of effectiveness specified in the Credit Agreement, October 2, 1972, had to be postponed to February 27, 1973. Due to difficulties in selecting the sites for the construction of two project institutions, and the need to revise the sketch and preliminary drawings, the design period will be extended by about nine months, but no extension of the closing date of June 30, 1979, is expected. The project is generally well managed, but will face severe cost overruns due to the accelerated price increases which have occurred since 1973. Detailed proposals for refinancing will be worked out by the mission that appraised the Third Education Project in February/March 1975.



Cr. No. 429, Ln. No. 935 Second Highway Project; US\$ 24 million Credit of September 26, 1973; Closing Date: December 31, 1978 and US\$ 24 million Loan of same date; Closing Date: December 31, 1978.

Because of inflation and the price escalation clause, bids for the construction of the three roads were 35 % higher than the appraisal estimates and costs are continuing to climb. The Government has awarded construction contracts for all roads at the original bid price. On the basis of new estimates of inflation rates, the total cost of the project is now estimated at US\$ 112 million with a foreign cost component of US\$ 76 million. The Bank Group is considering proposing an increase in its contribution to the financing of this project.

Ln. No. 983 Livestock Project; US\$ 11.6 million Loan of May 14, 1974; Closing Date: June 30, 1980.

Initial implementation is satisfactory except for some delays in release of funds by the Government. Staffing of the agencies concerned is progressing well. In February 1975, Consultants were to be invited to submit proposals for the design of slaughter plants. Disbursements are slow but are expected to accelerate and conform to appraisal estimates in 1976.

Ln. No. 1038 Second Railway Project; US\$ 16.0 million Loan to REGIFERCAM of September 18, 1974; Closing Date: December 31, 1977.

Procurement of main project items is well underway; track material is on site for installation and rolling stock should be available by end 1975. Proposals for the management consulting services and for the Douala-Yaoundé transport corridor study have been invited. Because of currency realignments since appraisal of the project, completion depends on supplementary funds, which the railway has requested be provided by the Government or from additional borrowing. Due to the present world slump in the timber market and a recent substantial increase in staff costs, REGIFERCAM will have difficulty in attaining the financial covenants included in the Loan Agreement.

Ln. No. 1039 Cocoa Project; US\$ 6.5 million Loan of September 18, 1974; Closing Date: June 30, 1981.

The loan became effective on February 26, 1975. There has been good progress in the establishment of the project's management structure as well as in the preparation of field development, which is due to commence in May 1975, and in the training program. The procurement of material to start the feeder road program has been delayed because of slow progress in establishing the organization to carry it out, but this problem has now been solved with the signature of a satisfactory contract between the project authority and the Public Roads Department.

CAMEROON: SMALL- AND MEDIUM-SCALE

ENTERPRISE PROJECT

Credit and Project Summary

Borrower: United Republic of Cameroon

Beneficiary: Banque Camerounaise de Développement (BCD)

Amount: US\$ 3.0 million (equivalent)

Terms on IDA Credit: Standard

Co-financing: CCCE would participate in the financing of the investment component of the project with a loan to BCD of US\$ 3.0 million equivalent. UNDP would finance the foreign exchange costs of the technical assistance.

Relending Terms: Government will relend IDA funds to BCD at 5 percent per annum; the repayment period will include a three-year grace period and will be on a 15 year schedule, which could be revised from time to time to conform to the aggregate of sub-loan repayments to BCD. The cost of CCCE funds to BCD will be 5.0 percent and the repayment period will be 15 years, with three of grace. The effective cost of funds to sub-borrowers would be 11 percent p.a. The cost to borrowers will include 2 percent for taxes, a spread of 2.75 percent to BCD which is comparable to its present range of spreads on term industrial loans, and 1.25 percent to benefit FOGAPE where loans are covered by the guarantee fund or to compensate Government for assumption of the foreign exchange risk on other loans. Terms are expected to be from 7 to 15 years including 2 to 3 years of grace.

Project Description: The proposed project consists of US\$ 3.0 million to be lent to Government for relending to BCD to finance the establishment and expansion of privately owned small- and medium-scale manufacturing, artisan, service, transport, repair, and construction firms. The investment component is to be jointly financed with CCCE and technical assistance will be mainly financed by UNDP. The credit is expected to bolster BCD's role as an effective development institution and improve technical assistance facilities for SME. The credit will also provide a means for the Bank Group and Government to learn more about effective policies and procedures for SME promotion and financing and about the benefits accruing therefrom.

Estimated Costs

<u>Item</u>	<u>US\$ million</u>		
	<u>Local</u>	<u>Foreign Exchange</u>	<u>Total</u>
<u>Subproject Investments</u>			
a) Smaller sub-projects	1.8	2.1	3.9
b) Larger sub-projects	3.3	4.0	7.3
Sub-total	5.1	6.1	11.2
<u>Technical Assistance</u>			
a) SATEC	0.7	0.7	1.4
b) AFCA	0.1	0.2	0.3
c) BCD	-	0.3	0.3
Sub-total	0.8	1.2	2.0 <u>1/</u>
Total	5.9	7.3	13.2 <u>1/</u>

Estimated Disbursements (US\$ million)

<u>Fiscal Year</u>	<u>Annual Disbursements</u>	<u>Cumulative Disbursements</u>
1976/77	0.5	0.5
1977/78	0.7	1.2
1978/79	0.9	2.1
1979/80	0.9	3.0

1/ Not including UNDP's continuing assistance to CAPME (of about US\$ 0.8 million for the period) which will also benefit the project.

Financial Plan:

	Funds available to BCD from:						Total <sup>1/</sup>
	<u>IDA</u>	<u>CCCE</u>	<u>BEAC</u> <sup>3/</sup>	<u>UNDP</u>	<u>Entrepreneurs</u>	<u>Govt.</u>	
	<u>US\$ million</u>						
Sub-project investment							
a) Small sub-projects	1.6	1.6	-	-	0.8	-	3.9
b) Large sub-projects	<u>1.4</u>	<u>1.4</u>	<u>2.2</u>	-	<u>2.2</u>	-	<u>7.3</u>
Sub-total	3.0	3.0	2.2	-	3.0	-	11.2
Technical Assistance							
a) SATEC	-	-	-	0.7	-	0.7	1.4
b) AFCA	-	-	-	0.2	-	0.1	0.3
c) BCD	-	-	-	<u>0.3</u>	-	-	<u>0.3</u>
Sub-total	<u>-</u>	<u>-</u>	<u>-</u>	<u>1.2</u>	<u>-</u>	<u>0.8</u>	<u>2.0</u> <sup>2/</sup>
TOTAL <sup>1/</sup>	3.0	3.0	2.2	1.2	3.0	0.8	13.2 <sup>2/</sup>

Procurement Arrangements:

Goods to be procured under the loan would involve small amounts, and their varied nature would make them unsuitable for bulk procurement through international competitive bidding. They would be procured through normal commercial channels; essentially all the capital goods would be imported and overseas suppliers are adequately represented in Cameroon. BCD would satisfy itself that goods and services procured are competitive in quality and price and meet the needs of its clients. Agreement was reached with CCCE that its own procurement conditions would not be any more restrictive than those of the Association for those sub-projects that are jointly financed.

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- <sup>1/</sup> Detail does not always add to totals because of rounding.  
<sup>2/</sup> Not including UNDP's continuing assistance to CAPME (of about US\$ 0.8 million for the period) which will also benefit the project.  
<sup>3/</sup> BCD's medium-term lending will be rediscounted with the Banque des Etats de l'Afrique Centrale (BEAC).

Technical Assistance:

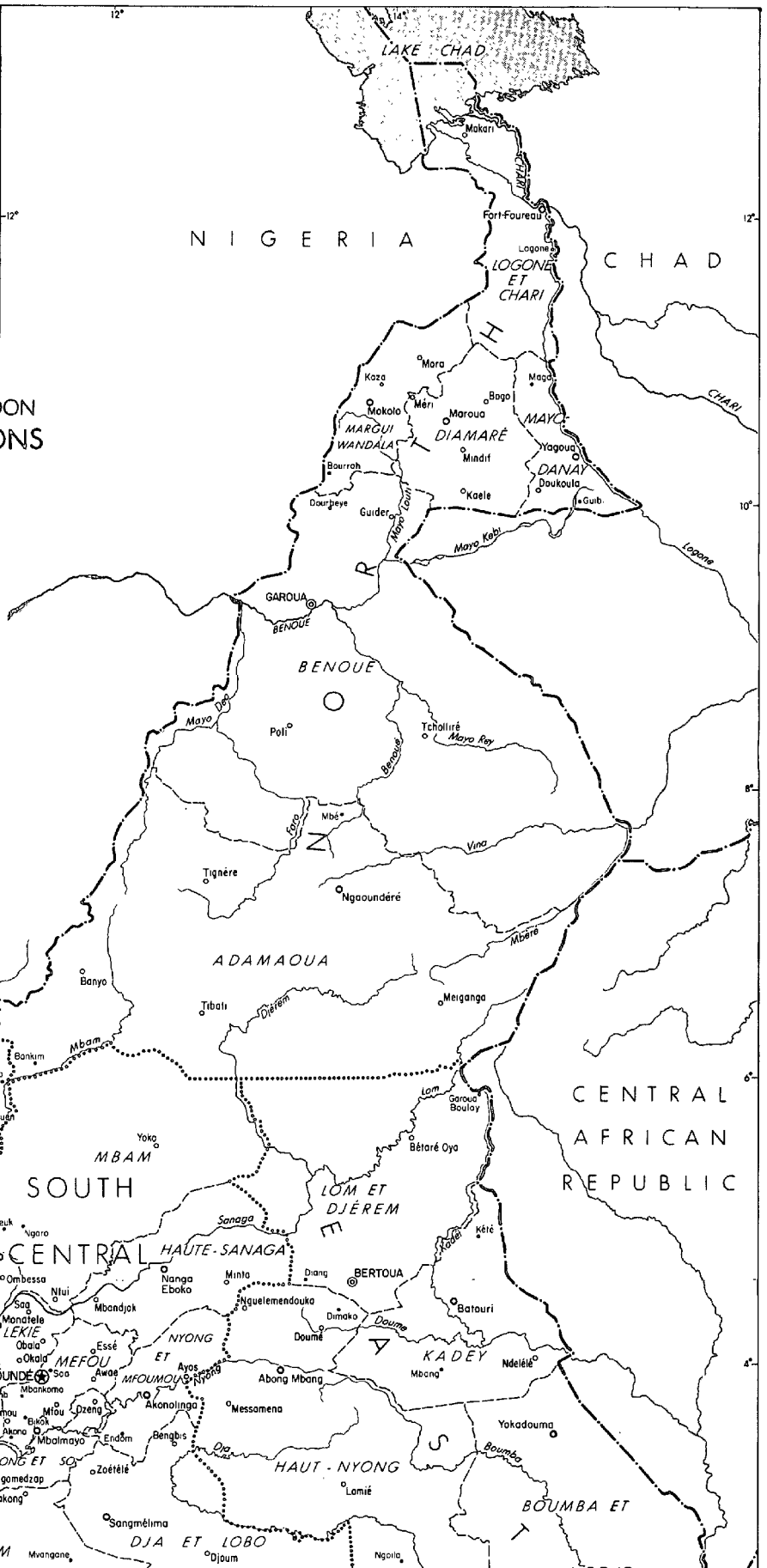
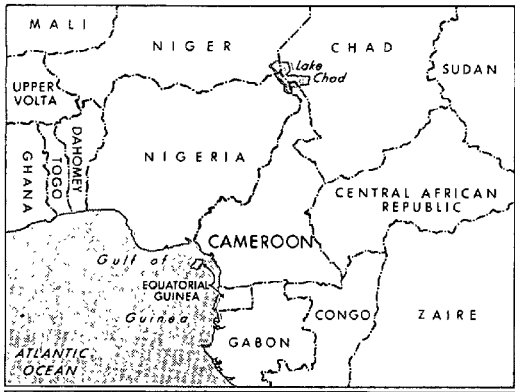
The UNDP would finance 22 man years of technical assistance for the project, over a two-year period, for a total of US\$ 1.2 million. This includes three experts for BCD, six for SATEC, and two for AFCA. In addition, Government will provide the equivalent of US\$ 0.8 million for technical assistance to SATEC and AFCA for the project. CAPME will act as coordinator of SATEC and AFCA's work and will receive funds for technical assistance, amounting to approximately US\$ 0.8 million, from another UNDP project.

Rate of Return:

Sub-projects are expected to have a financial rate of return in excess of 15 percent and the economic rate of return of most sub-projects is expected to be above their financial return.

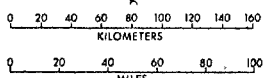
Appraisal Report:

Appraisal of a Small- and Medium-Scale Enterprise Project, Cameroon, No. 718a-CM, dated May 15, 1975.



### UNITED REPUBLIC OF CAMEROON ADMINISTRATIVE DIVISIONS

- ..... Province boundaries
- Division boundaries
- International boundaries
- YAOUNDE ⊕ National capital
- BERTOUA ⊙ Province capitals
- Batouri ⊙ Division capitals
- Tibati ⊙ Subdivision capitals
- Dimako ⊙ District capitals
- ~~~~~ Rivers



The boundaries shown on this map do not imply endorsement or acceptance by the World Bank and its affiliates.

