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Cameroon
Financial Sector Report

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Western Africa Region

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ABBREVIATIONS AND ACRONYMS

Commercial Banks

BCC	-	Bank of Credit and Commerce
BIAO	-	Banque Internationale de l'Afrique Occidentale
BICIC	-	Banque Internationale pour le Commerce et l'Industrie du Cameroun
BPPC	-	Banque de Paris et des Pays-Bas du Cameroun
SCB	-	Société Camerounaise de Banque
SGBC	-	Société Générale de Banques au Cameroun

Financial Establishments

SCE	-	Société Camerounaise d'Equipement
SOCCA	-	Société Camerounaise de Crédit Automobile
SOCABAIL	-	Société Camerounaise de Crédit Bail
SOGELEASE	-	Société Générale de Leasing au Cameroun

Other Institutions of Financial Nature or Function

BCD	-	Banque Camerounaise de Développement
FGEN	-	Fonds de Gestion de l'Epargne Nationale
FOGAPE	-	Fonds d'Aide et de Garantie aux Petites et Moyennes Entreprises
FONADER	-	Fonds National de Développement Rural
SNI	-	Société Nationale d'Investissement
CFC	-	Crédit Foncier du Cameroun
CAA	-	Caisse Autonome d'Amortissement
CNPS	-	Caisse Nationale de Prévoyance Sociale
ONCPB	-	Office Nationale de Commercialisation de Produits de Base
SNH	-	Société Nationale des Hydrocarbures

Central Banks

BCEAO	-	Banque Centrale des Etats de l'Afrique Occidentale
BEAC	-	Banque des Etats de l'Afrique Centrale

AVERAGE EXCHANGE RATES

Fiscal Years
CFAF/US$

1980 - 209.2	1982 - 296.7	1984 - 409.5
1981 - 235.3	1983 - 354.7	1985 - 471.1

CAMEROON

FINANCIAL SECTOR REPORT

Table of Contents

This Report is based on the findings of a Bank financial sector mission to Cameroon in June-July, 1985 led by Philip Berlin. The green cover version was discussed during a subsequent mission of February - March 1986. Mission participants included Pedro Alba, James Houston, Cristian de Boissieu (consultant) and Hafez Ghanem (economists) as well as Jacques Toureille (financial specialist) and Jorge Calderon-Rossell (IFC, capital markets specialist). The Report benefited from the important work of Nancy Benjamin on financial social accounting matrices, and with respect to the latter enjoyed considerable support from Iradj Alikhani. Michel Drouin, Cameroon-based consultant, provided substantial background material for the mission and the ultimate Report. Roger Tchoungui of the Ministry of Finance, whose services were generously provided by the Government, played a central role in the overall effort.

EXECUTIVE SUMMARY

Prefatory Remarks

Cameroon is a basically well-managed economy with a population of nearly 10 million people enjoying a per capita income of some $800 per year. The country also enjoys a certain financial ease stemming from its oil resources which generate somewhat more than 15% of its GDP, at the same time contributing about 45% of total budgetary resources. Proven oil reserves are expected to be exhausted within the next ten years, if not sooner, and with the recent precipitous drop in prices, prospects for this sector are growing increasingly dim. Conscious of this, the Government has been concerned to establish more firmly the basis for on-going growth in the post-oil era. In both the immediate sense--the commercial banks are in poor straits, too poor to carry out much of a development mandate--and in the longer-run perspective as well, Cameroon's financial system is increasingly ill-equipped to meet the needs of a sophisticated economy, and it is in this context that the Government requested the World Bank to carry out a thorough-going survey of its financial system.

For the most part the Report is addressed to the Government itself. Description is provided more as a backdrop for the analysis and recommendations and less for general background. The reader seeking general information or data (such as monetary surveys, balance of payments or debt statistics) is unlikely to find them, except as they advance the argument.

Recommendations with respect to sector reform (including under the franc zone system) touch on all aspects of the system in a way which focusses on its inter-relatedness; thus they are fairly all-encompassing. Proposed reforms, however, are not developed to the full extent of the detail which such reforms would merit. Here, it was felt most appropriate for these proposals to be discussed with the Government at the general level, following which more specific recommendations, particularly with respect to timing, could be worked out. This said, the Report is rather ambitious in its present scope.

A. Overview: Performance and Issues

1. The performance of the Cameroonian financial system, dominated by the franc zone apparatus within which it must operate, has been mixed. With the important exception of the near-insolvency of the banking system, there are no gross or obvious problems which threaten Cameroon's financial or economic stability, its creditworthiness, or the ability of its financial system to perform adequately on a day to day basis. Unlike the situation in many other developing countries, Government finances do not pre-empt the banking sector, but rather work to support it via budget surpluses or the savings of the quasi-public institutions. The system has certain structural weaknesses due to what remains an excessive dependence upon the Central Bank, especially for medium-term loans, as a source of funds. However, it is essentially the substantial level of public deposits which has permitted the system to function relatively smoothly. The process does, however, mask the factors which ultimately compromise the

ability of the financial system to function as effectively as it should. A longer-run problem is that the system has not developed sufficiently effective intermediary structures to mobilize financial savings and eventually replace Government deposits which the depletion of oil revenues will ultimately require.

2. The Cameroonian financial system essentially functions in sub-optimal fashion with respect to its ability to provide a firm underpinning for growth. Not only does the system fail adequately to mobilize private financial savings, but it tends to constrain the development of financial intermediation as well. This, in turn, impedes future economic growth because savers are discouraged from participating in the domestic financial system and because such financial savings as are available are diverted from sectors of maximum productivity. With the rapid exhaustion of oil resources and revenues, this also implies that the non-oil private sector must be sufficiently strong, not only to replace the oil sector as a source of financial savings necessary for growth, but also to provide the wherewithal, through domestic taxation, to replace the oil sector as a source of Government revenues. If the financial system remains as weak as it presently is, there is some doubt as to whether these goals may be achievable.

Cameroon and the Franc Zone

3. The BEAC/franc zone system has been an important element in the development of the francophone African economies, 1/ particularly in maintaining the links of these economies with the rest of the world through the full convertibility of their currencies. Beyond maintaining the conditions for full convertibility, the system was originally developed to give support to the financially underdeveloped economies of the region, particularly with respect to the nearly non-existent commercial banking sector, for which the common Central Bank represents a major complement. Despite the growth of large commercial banks in the main urban centers, there are, however, strong indications that this aspect of the system as it currently operates is increasingly ill-adapted to Cameroon's economy, to the point where it is more and more working to impede the development of Cameroon's domestic financial intermediation system.

4. The system is, moreover, not as transparent as it should be for effective management. Instruments used under the regulatory framework of the franc zone system for the control of the money supply are basically overdetermined for that particular task, and mix quantity and quality considerations in such a way that neither is adequately dealt with. As a consequence, it is practically impossible to determine the impact of

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1/ Besides Cameroon, its members include Equatorial Guinea, Chad, the Central African Republic, the Congo and Gabon.

different policy changes either on the domestic money supply or on other target variables sought.

Commercial Banking

5. The commercial banking system is highly concentrated and fragile and exemplifies many of the weaknesses of the overall financial system. Four of a total of ten banks control roughly 85% of all lending, thus making free-market solutions, particularly with respect to interest-rate determination, impracticable, at least until concentration is diminished.

6. The commercial banks are for the most part technically insolvent, the sector being informally (but not in fact) recapitalized by Government deposits of undefined term. The insolvency of the sector is the result of a number of ill-considered loans which have led to non-performing assets which are some six times greater than bad debt reserves as presently constituted, and which represent as much as four times banks' current capitalization. This in turn has made the banks considerably more risk-averse with respect to their domestic lending. This has had the result of reducing the already limited access of smaller-scale Cameroonian investors to capital and has probably made them even more dependent upon the informal sector (the tontines), whose lending costs are extremely high and whose maturities are short. The existence of these institutions, whose activities represent a substantial share of total credit to the Cameroonian economy, points up the sharp segmentation of the financial sector: there is practically no contact, either between tontines and commercial banks or among tontines themselves. Thus in many ways the tontines, whose participation is usually limited to relatively few members, function much like individual savers in a barter economy financing their own investments. Because the level of intermediation, i.e., the ability of the financial system to transfer investable resources between savers and investors remains generally embryonic in Cameroon, high interest costs and substantial impediments to term-transformation will continue to represent a structural constraint to private investment until a broad-front attack is made on the interlocking weaknesses of the system.

B. Sources, Uses and Deployment of Savings

Public Savings

7. Cameroon's public sector generates a surplus of savings over those required to finance domestic investments at current levels, a phenomenon which is rare among developing countries--even the oil-exporting ones. However, should the recent sharp decline in oil prices and revenues

be permanent, this situation will not be maintained, and considerable adjustments with respect to fiscal policy will be required. 2/

8. While the Government's fiscal policies have been prudent, resulting in a favorable evolution of public savings, the management of the Government's portfolio is generally acknowledged to have been weak, and a portfolio cum debt-management strategy should be established to manage current surpluses and ultimately to enunciate government borrowing strategies. While the Treasury currently manages such resources, there is, by common consensus, little short or long-term strategy. A decree establishing a new Caisse Autonome d'Amortissement (CAA), among others to manage Government debt was recently promulgated. This new organization will also, according to its new mandate, manage other surplus resources of the Treasury, as well as carry out new borrowings on its account. While the precise mandate of the CAA has yet to be defined, it should begin to define a medium-term borrowing strategy consistent with the expected evolution of Government surpluses/deficits, taking into account existing interest-rate structures as well as expected oil revenue flows. For a number of reasons essentially bearing upon the quality of overall portfolio management, oil resources should be managed concurrently with those of the Treasury proper, whether they have been formally repatriated and "budgetized" or not.

Quasi-public Resources

9. In addition to Central Government savings, public resources available from the important quasi-public bodies such as the marketing board (ONCPB), the national provident fund (CNPS), and the national savings fund, are substantial. These are structurally surplus organizations presiding over a large volume of investable resources. These are separately managed, often employed for unprogrammed public investments, and--even though being important potential resources for term-lending--are mostly deposited in short-term time deposits with the commercial banks, in effect contributing heavily to negative term transformation. It will be argued that these resources should be used, in part to capitalize, and in part as a deposit base for, a new non-bank financial intermediary which would help reinforce the now very weak financial intermediation apparatus existing in Cameroon. They should also ultimately be used to support a secondary market for Government (or other) securities, as well as in the support for the eventual privatization of selected public enterprises. Unlike the case with the CAA resources, strict attention would be paid to ensuring that the new intermediary's investments were financially sound.

2/ Required Government adjustments to the sharper than expected oil price decline, as well as projections for public savings and consumption under different policy scenarios, are examined in a forthcoming Country Economic Memorandum, and are not addressed here.

Private Savings

10. Private savings must play an increasingly important role in financing domestic investments as oil resources dwindle although public savings will for the next five- to ten-year period play the major role in overall Cameroonian resource mobilization. In this context, however, it is important to understand that the concern will be largely with private financial savings, and not savings in the national accounts sense of consumption foregone. It is accepted in this report that savings in the latter sense are not easily amenable to policy instruments, and particularly interest rate levels, at least in the relevant range appropriate for an economy as open as Cameroon's. Thus it is important to attract savers to holding the proceeds of their savings in deposit accounts or in other financial instruments. This is so for a number of reasons, the most important being that the financial system itself should be in a position to allocate investable resources among the most remunerative investments.

C. Financial Intermediation

11. Observers agree that the level of financial sophistication of Cameroon's economy is far less than it should be for its per capita income. It is very likely that Cameroon's economic growth is being increasingly constrained by the inability of its financial institutions to mobilize and channel resources as required.

12. As a general rule, the capability of a financial system to mobilize (financial) savings is closely associated with its efficiency in distributing or intermediating these resources. The better a system is set up to supply investable resources with characteristics of specific attraction to borrowers with a range of different financing requirements, the more likely it will be able to offer deposit or other instruments to lenders which combine, for example, different "packages" of return, risk and maturity. These in turn should engender a greater supply response from lenders making the choice between physical assets, currency and financial instruments.

13. It is generally believed that as financial intermediation increases, the institutional distance between ultimate lender and borrower becomes greater, thereby requiring a greater volume of money or near-money relative to GDP to support the process. However, in many developing countries the opposite phenomenon, termed "financial repression," is frequently observed. This is essentially a flight from the financial intermediation system which is generally associated with an interest rate structure which is incommensurate with inflation, risks or availability of

banking services. 3/ Thus savers, frequently faced with negative real interest rates on their deposits, may turn away from the banking system, using their savings to acquire real assets (such as gold or livestock, or--in the open franc zone system--foreign assets), which may diminish the efficiency of the financial system in channeling resources to their most productive uses.

14. A commonly used measure of the degree of financial intermediation ("financial deepening") is M2/GDP, i.e., money plus quasi-money (time and savings deposits). As suggested above, the level of financial intermediation in an economy is important, not only because it suggests something about the ability of the financial system to offer instruments which may be of interest to savers in the constitution of their portfolios, but also because it provides some indication as to the efficiency of the system in channeling resources to the productive sector. The greater the range of financial instruments and institutions available, the more capable the system is likely to be in fulfilling these requirements, and the higher the relationship between the money stock and GDP. While there is no firmly established causality between the financial deepening ratio and the level of per capita GDP itself, research has shown that, up to a certain point, a consistent and positive correlation has tended to exist.

15. Cameroon's financial intermediation level is much below that suggested by its per capita income. This may, of course, indicate that the relationship is weak at best. In the case of Cameroon, however, the figure is equal to 19% of GDP, or less than two-thirds of the average level for developing countries of similar per capita income levels. 4/

16. Quantitative work suggests that domestic as well as international interest rates have a very important bearing upon financial intermediation levels. The results pertaining to interest rates are particularly important, for they indicate that the negative real interest rates prevailing in Cameroon for much of the period under study have negatively affected financial deepening and thus the efficiency of the system in mobilizing and allocating domestic savings. They also suggest that the differential between these rates and international rates--and more

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3/ cf. Shaw & McKinnon (1973), who argue that negative real interest rates, along with other government-induced distortions in the financial system inhibit the development of financial intermediation and reduce real growth rates.

4/ Most striking is the fact that Cameroon's financial intermediation level is lower than all countries in the West African franc zone save Niger; it is even somewhat lower than the ratio for the Central African Republic.

specifically Paris rates--have had the same impact. 5/ Thus to the extent that domestic rates are kept below Paris rates, savings will flow to the latter market and the domestic financial system will remain underdeveloped. Given the fact that under the franc zone system the economy of Cameroon is, and will remain highly open, this effect--which bears upon domestic prices, real exchange rates and domestic monetary policy generally--is unavoidable. It is probably exacerbated by the fact that large or expatriate firms will continue to have access to the more sophisticated financial services of the Paris market, thereby tending to stultify the development of such services, and financial intermediation generally, on the Cameroonian market.

The Informal Sector

17. Cameroon's informal sector plays a very important role in the overall financial system and appears to be impeding the development of a more formal sector. A country's financial intermediation system may be underdeveloped for a number of institutional reasons having relatively little to do with outward indicators (e.g., negative real interest rates) of financial repression. This appears to be the situation in Cameroon, where the informal system developed early in Cameroon's history as an important source of financial development outside of the colonial sector. However useful the informal system may be for individuals and affinity groups, a more formal system would ultimately provide greater benefits to the typical clients of the existing system.

18. For the period studied (1979-1984), flow of funds analysis showed that the informal sector played a substantial role in the provision of credit to the domestic economy. Unfortunately, it does this under circumstances which are not particularly conducive to financial development, or, ultimately, to economic growth.

19. While the tontines are very effective in marshalling resources and generating credit within social or clan affinity groups, so that failure to repay is practically unknown (with implicit guarantees being provided by the extended family), they do so at interest rates which are several multiples of those of the formal sector, and for maturities which are seldom, if ever, in excess of one year. Segmentation between formal and informal markets, as well as among informal markets is, however, practically complete, so that there is practically no chance for term transformation, lending rates which are consistent with risk, or for financial packaging which responds to specific requirements of borrowers.

5/ Specifically, for each percentage point change in domestic real interest rates there is a nearly identical change in the M2/GDP ratio. Similarly, a one point increase in Paris rates (domestic rates remaining unchanged) would bring about an almost identical fall in the M2/GDP ratio.

(There is also no chance for borrowers from the tontines to make effectively risky investments which may be in the public interest if not that of the individual private saver.)

D. The BEAC, Monetary Policy and Interest Rates

20. There is good reason to believe that the franc zone system has played a salutary role in the development of the francophone economies associated with it. However, there is also growing reason to believe that certain aspects of its regulatory framework may, particularly for the more advanced countries like Cameroon, increasingly inhibit not only private resource mobilization but also the financial development of the economy.

21. The BEAC (Banque des Etats de l'Afrique Centrale), since 1973, and its predecessor, the Banque Centrale des Etats de l'Afrique Equatoriale et du Cameroun (1959) were established under a philosophy reflecting the assumption that domestic savings were likely to be so limited in the extremely poor member countries that interest rates were relatively unimportant for resource mobilization. Since it was also accepted that low interest rates would stimulate investments, cheap money was seen as desirable, and the Central Bank, rather than being lender of last resort, became a co-financer of domestic investments. Moreover, because local banking systems were so rudimentary, the Central Bank, through its rediscount policy, played a role which in many ways substituted for the local banking system and the market which it was meant to service.

22. Under the regulations of the common system, the BEAC is responsible for setting a common monetary policy for its member countries. With a common currency, the CFA franc, being fully convertible into the French franc, the rules of operation for the BEAC zone countries are basically established to ensure that domestic demand is managed in such a way as to avoid a continuing drain on the operations account. This account, managed by the French treasury, is in effect an overdraft facility used to purchase all excess supplies of CFA francs on the foreign exchange market, and thus to ensure full convertibility.

23. An important aspect of the BEAC framework is that the purely quantitative notion of rediscount ceilings is severely complicated by a number of diverse quality elements. 6/ Rediscounts in the BEAC zone are

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6/ Although following the practice of the last few decades the terms "rediscount" or rediscountable are used throughout this Study, current practice is to talk of "mobilization." The difference is a technical one having to do with whether the loan documents being rediscounted are physically delivered or not. At present the loan documents are kept by the banks themselves, and credits are spoken of as being mobilized, rather than rediscounted. The practical effect, however, is identical.

articulated as to whether they are for privileged or non-privileged uses; whether loans are expected to be made to enterprises which may have exceeded individual borrowing limits; whether working capital levels are appropriate, whether the expected loan is short, medium or long-term in maturity, and whether firms have received prior authorizations (autorisations prealables) for medium-term borrowings. Accordingly, different rediscount rates and bank margins may be applied, different amounts rediscounted, or rediscounts not provided, all depending upon a complex interplay of elements. Thus the relationship between the more important quantitative targets and instruments is partly obscured.

24. The system is, moreover, substantially complicated by the multiplicity of administratively set interest rates, of which there are 21 for borrowing, and 49 for deposits. Interest rate structure and levels are jointly determined by the BEAC--which sets base (discount) rates--and the individual Ministers of Finance, who set individual margins (covering banks' costs) which are added to the BEAC-determined base rates, so that ultimate borrowing and lending rates may differ between countries of the zone. With permissible margins being lower for privileged sector loans than for ordinary re-discountable loans, commercial banks are as a practical matter discouraged from making loans to sectors (such as small- and medium-scale enterprises) for whom lending costs and risks are inherently higher.

25. Fundamental changes in the overall system are required. First, it has been noted that nominal interest rates much below international (Paris) rates have constrained not only resource mobilization but also the financial deepening of the system overall. 7/ Thus to the extent possible within the BEAC system--i.e., via the margins which are under the purview of the Ministers of Finance--Cameroon's borrowing and lending rates should be aligned with international rates. Second, a sharp compression in the number of borrowing and lending rates is also required with a simultaneous upward adjustment in certain banking margins to remove the disincentive effect of low margins.

26. Simultaneously, the overall system should be simplified, among others, in order to increase its transparency. In particular, rediscount determinations by the Central Bank should bear uniquely upon determining the overall money supply. To this end, the category of non-rediscountable loans would be abolished so that in principle all loans would be rediscountable. Thus quality-based considerations would be removed from

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7/ It must be noted that nominal rates are important in the present context. While negative real rates have probably contributed to financial repression, if nominal rates are much out of line with Paris rates (whatever the domestic rate of inflation), this will induce capital flows which may either inhibit financial intermediation or be destabilizing.

the rediscount process itself. 8/ Moreover, the alignment of domestic interest rates on international rates, apart from being indicated from a resource mobilization/financial deepening viewpoint, would also have the virtue of insulating the system from the impact of interest-rate induced capital flows, thereby simplifying demand management through rediscount controls and permitting a better assessment of the impact of the new system on the domestic money supply. In this context, it must be understood that real control over the domestic money supply is difficult in an open system, and that policy instruments should be strictly reduced to a level commensurate with achievable policy targets in order to permit a ideally transparent relationship between policy measures and domestic money and credit.

27. Ideally, interest rates should be left to find their own level consistent with Central Bank monetary policy; these would in practice probably closely approximate international levels. However, with the highly oligopolized commercial banking sector, some regulation of domestic interest rates based upon international rates seems advisable until a greater degree of competition is introduced into the sector.

E. Money and Capital Markets

Commercial Banking

28. A fundamental fact about the Cameroonian commercial banking sector is its state of near-insolvency. Partly in recognition of this fact the Treasury has maintained large deposits with the banking system; together with the deposits of the quasi-public organizations these have averaged roughly 30% of total deposits. 9/ While the basic state of the commercial banking sector's balance sheets with respect to its non-performing assets remains murky, there is little doubt that if bad debts were written off as normally required by international standards the sector's capital base would be fully eradicated: total capitalization of these banks (excluding the already bankrupt Cameroon Bank) according to their own balance sheets was about CFAF 30 billion; the volume of reputed bad debts is CFAF 120 billion.

8/ Quality control would be assured through other measures, namely those based on permissible ratios for particular types of lending. However, banks would have greater responsibility (with increased Ministry of Finance supervision) of determining the quality of their portfolios themselves.

9/ This does not, however, include the deposits of the public enterprise sector, which would bring the total closer to 50% of aggregate bank deposits.

29. In any event, public sector deposits have not necessarily rectified matters with respect to banks' overall balance sheets, and the banks have clearly become more risk-averse with their weakened capital base. The deposits are recognized as having contributed to banks' liquidity, however and the banks in fact perceive themselves as being excessively liquid. Indeed, loan to deposit ratios have fallen sharply and banks' foreign asset holdings have shot up since 1980, probably as virtually risk-free loans to parent banks have become increasingly preferred to riskier domestic loans. Thus while such assets were CFAF 1.4 billion in January, 1980, by May, 1985 they amounted to CFAF 190.1 billion despite a relative narrowing of interest-rate differentials vis-a-vis the Paris interbank rate. 10/

30. Another source of weakness of the commercial banks is the exposure they face through making term-loans sometimes considerably in excess of term resources, thus among others making them reticent to make term loans of increasing risk to them. An important part of the overall problem is their obligation to use term funds to purchase five-year bonds in support of the activities of SNI, the national investment corporation. Because the latter has stopped its new lending activities itself, these resources are re-deposited with the commercial banks at considerably higher rates and at much shorter maturities, thereby not only taxing the banks through a form of seigniorage at a time of weakness but also potentially contributing to their disinclination to make term loans.

31. Few of the commercial banks have the expertise to appraise, service or monitor loans to SMEs. They are legally obliged to devote 10% of their portfolio to SME's but this obligation is honored in the breach, largely because it is virtually impossible for commercial banks to lend to this risky sector at margins fixed at 2.5-3.5%. Guarantees for SME loans have not helped much for legal and institutional reasons.

32. Also, the structure of taxation of bank operations is highly dysfunctional. Not only are banks taxed to support the activities of SNI and FOGAPE (the loan guarantee agency recently converted into a development bank largely because of the failure of the BCD), but they are also obliged to add taxes to margins which themselves are often inadequate to cover the costs of servicing their loans. This tends to contribute significantly to financial repression. If these taxes were removed while permitting banks to increase the relevant margins roughly equivalently--particularly those for the SMEs--lending which is now unprofitable could be made attractive,

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10/ Government and quasi-Government deposits ordinarily earn an interest rate of 10%. It seems to be tacitly understood that these deposits may be placed in virtually risk-free foreign deposits (with a spread of perhaps 2-3%), essentially as a measure toward reconstituting bank profits. In any event, although having the regulatory apparatus to do so, the BEAC has not put an end to this practice.

and resources would be channeled more nearly in line with their ultimate productivity. Similarly, taxes on most deposit instruments unnecessarily reduce the rates of return to such deposits and discourage financial resource mobilization. While Cameroonian interest rates must in any circumstance be roughly in line with nominal international (Paris) rates, the removal of such taxes would permit rates more nearly positive in real terms. 11/ Estimates are that the removal of taxes on financial instruments or loans would result in less than a one percent reduction of total tax revenues.

33. Neither the Cameroonian Development Bank (BCD) nor the loan guarantee organization, FOGAPE, is able to reach the SME market effectively. BCD's portfolio is more heavily weighted to term-lending than that of the commercial banks; a greater portion of their lending is also slanted toward the SME's. However, BCD's lending has been almost completely stagnant for the last two years and it is increasingly orienting its portfolio toward the virtually risk-free agriculture export sector, lending which has few benefits to the producers and which probably substitutes for foreign financing. About 60% of FOGAPE's guarantees benefited the wholly Government-owned BCD and FOGAPE has since been transformed into a development banking institution itself, leaving BCD a poorly-managed virtual shell. But FOGAPE, too, suffers from many of the deficiencies of BCD, most notably a lack of qualified manpower.

34. Grass-roots institutions do exist in Cameroon, but linkages between them and apex institutions which could strengthen their effectiveness are lacking. While the informal financial market, largely consisting of tontines, has its weaknesses, particularly in that it contributes little to the financial unity of the country, the tontines play an important role in providing the social and institutional framework for guaranteeing the lending of the resources which they collect. While it will be difficult--although not necessarily impossible--for the formal financial system to construct direct links to the tontines themselves, there are a number of features which could well be emulated. Thus in many developing countries (including 19th century Europe) one finds chains of popular credit institutions which have some of the attributes of the tontines in their closeness to the ultimate borrowers, whether these are professional associations (whose members are most likely to be able to evaluate loan proposals for related enterprises) or other types of credit

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11/ Under the current BEAC system, real rates for the most part will have to be adjusted via changes in the inflation rate rather than the nominal rate (assuming the absence of taxation of financial instruments) since nominal interest rates above international rates could well result in real appreciation of the exchange rate by inducing net capital inflows which in turn would raise the internal price level. This effect has been documented for Cameroon (see Annex, Ch. 2)

unions based on affinity groups, much as the tontines. Popular credit institutions in Cameroon are usually independent and rarely have financial or tutelary associations with apex institutions. Not only are they thus dependent upon their own deposits, but frequently they have little access to the kind of assistance or information required if they are to participate in the modern economy. In view of this, BCD/FOGAPE could probably most usefully function principally as suppliers of funds and technical assistance to the grass-roots institutions; their resources would, in turn come from a new non-bank financial intermediary (and not necessarily BEAC) to be discussed below.

The Capital Market

35. The Cameroonian capital market can scarcely be said to exist, but this is neither for lack of term funds, nor of demand, but purely for the lack of the necessary institutional framework. To some extent this is due to the ready possibility of medium-term rediscounts from the BEAC, since this has to some extent made the development of term-lending facilities unnecessary. Ultimately, however, a country's financial system must develop as a separate entity to provide a range of intermediation services far beyond those provided through Central Bank rediscounting.

36. ONCPB, CNPS, the insurance companies, the savings fund and other capital market institutions dispose of large volumes of assets which can be considered as term resources in the sense that a substantial proportion of these resources could ultimately be lent at medium and long-term, particularly if aided in this by an overarching non-bank intermediary. However, for the most part these institutions now practice negative term transformation, in that these term resources are deposited in short-term time deposits with the commercial banks, where they must ordinarily be on-lent as short-term credits if the banks are to avoid excessively endangering their overly weak (or non-existent?) capital base. It appears desirable that the resources available from these institutions should be used, in part to capitalize, and in part as deposit base for, a new non-bank financial intermediary which would help reinforce the now very weak financial intermediation apparatus existing in Cameroon. Unlike the case with the CAA resources, strict attention would be paid to ensuring that the new intermediary's investments were financially viable: much of the weakness of the existing system is due to the commingling of subsidies with the financial system.

37. Thus in accepting deposits (together with some capital contribution) from the structurally surplus quasi-public institutions, the new intermediary institution could ensure the appropriate term transformation of resources. 12/ The new institution's operations would be

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12/ If producer prices are raised substantially, as the World Bank has

(Footnote Continued)

totally free of financially unprofitable ventures or subsidies in order to avoid undermining the re-established financial system.

38. A major way in which the new institution would ensure term transformation would be through the purchase of long-term debt instruments from the commercial banks (once solvent), which, acting as universal banking institutions could use these resources, among others, to make long-term loans, which are not rediscounted by the BEAC. The new institution could play an important role as well as a secondary market, either (as a separate operation from that described above) in supporting the newly-established participatory loans ("prêts participatifs") designed to recapitalize the banks, or as an instrumentality of state divestiture of assets in public enterprises which could be privatized, whereby such assets could be purchased, for ultimate resale, from SNI, the state holding company. Ultimately, as the Cameroonian capital market developed, the new institution 13/ would play a major role in the gradual establishment of a capital market--"bourse des valeurs".

(Footnote Continued)
argued, ONCPB (the export crop marketing board) assets may face slower growth, if not decline. For this reason a substantial part of these assets should be held with the new intermediary institution at short-term. Should the ONCPB be phased out, the new institution might borrow at term from the CAA/Treasury to the extent required.

13/ The new institution might be baptized "Fonds de Gestion de l'Epargne Nationale."

SUMMARY RECOMMENDATIONS

(a) Bank Recapitalization. The most important first step for the Government is to move toward the recapitalization of the country's commercial banks, in which the Government owns a minimum share of 30%. It should proceed on the basis of independent audits by internationally recognized auditing firms. While the Government has made some important first steps in re-capitalization, overall financial reform is not possible without a settlement of this issue. In negotiating the re-capitalization of the banks with their parent organizations the Government should make clear its intentions with respect to future reforms, e.g., with respect to taxation of financial instruments, as an inducement to the parent institutions.

(b) Public Finances. The Government should act to consolidate SNH resources with other oil and non-oil resources; if it wished to limit public clamor for the expenditure of oil resources it might consider doing this through the establishment of a "petroleum resources stabilization fund," according to which financial resources would be annually released from the fund/SNH to the budget according to a legally established formula based upon present and projected petroleum prices, international interest rates and changes in proven reserves. Moreover, resources from this source, as well as from foreign borrowing, should be consolidated with normal budget resources with respect to the Plan.

(c) An Analytical Budget. In order to make the best use of public savings, a rolling plan consolidating budgetary revenue and, ultimately, domestic and foreign savings should be drawn up. This could be done on a purely analytical basis, thereby avoiding the necessity for a formel reconstruction of the current budgeting system. The consolidated rolling plan would represent the envelope within which recurrent and capital expenditures would be cast, with capital expenditures essentially representing the residual once current expenditures--themselves linked with previous years' capital expenditures--were budgeted for. Part of budget resources would be the payments from the petroleum resources stabilization fund.

(d) Taxation. Still with respect to its public finances, the Government should consider tax reductions as a means of (a) transferring public savings to private investors, particularly with respect to agricultural prices, and (b) improving the operation of the financial markets in mobilizing and allocation resources, specifically through the reductions of the taxes on borrowing (TDC and ICAT) or on lending, (TPCRM). The abolition of these taxes would cost the budget less than one percent of total revenues.

(e) Establishment of the CAA. In setting up the CAA the Government should immediately proceed to establish the extent of its mandate, and determine its strategies and priorities, particularly with respect to establishing a borrowing strategy which would manage the exploitation of the dwindling petroleum assets (either in the ground or as converted into financial assets) along with other foreign and domestic assets and liabilities. Because the new institution would be oriented towards activities such as assisting in the recapitalization of the banks its assets would largely be those of the central government, and of the quasi-public bodies such as the ONCPB. As is the case in the Ivory Coast, this aspect of the CAA's activities should be kept separate from those involving Government debt management.

(f) Changes in the BEAC System. 14/ In order to mitigate the constraints of the BEAC system on its financial resource mobilization and deepening, Cameroon should (i) align its interest rate structure on world rates; (ii) make major changes in the rules under which it works within the system, to wit: abolish the distinction between rediscountable and non-rediscountable assets and make all loans rediscountable in principle, and move to global restraints on credit through an "encadrement de credit" system; and (iii) implement the current de jure reserve requirement, enacted in 1977 but not yet applied, in a way which is consistent with the system of encadrement de credit.

(g) The Establishment of a "Fonds de Gestion de l'Epargne Nationale. The new Fonds would be a multi-purpose non-bank financial intermediary which might be run by an official board of directors including Ministers of Finance and Plan and National Governor of the BEAC which would set its priorities and strategies. 15/

14/ The proposed changes have been designed to be consistent with the overall operating rules of the BEAC and within the authority of the individual members (e.g., Cameroon) to carry out. However, the proposed changes would probably have zone-wide implications. In this context, proposals put forward internally for an interbank money market now before the BEAC Board of Directors can only be considered for the zone as a whole.

15/ In any event, the Fonds should enjoy a considerable degree of autonomy from the Government. Thus there may be some argument for the exercise of its control through a supervisory body (Commission de Surveillance, rather than a Board of Directors) which might be broadly representative of the economic interests of the country, thus possibly

(Footnote Continued)

Increasingly, the Fonds could substitute for the BEAC in its operations. It would use the financial resources of quasi-public surplus agencies, such as the ONCPB and the CNPS, as well as those from some private institutions (e.g., insurance companies) and transform these into term resources through long-term lending to the commercial banks. It would also function as a secondary market, particularly for SNI-centered operations (such as providing the resources for purchasing financial assets associated with the privatization of a part of the SNI portfolio). It might also support, through its resources, the development of a network of grass-roots lending operations. In any event, the full range of Fonds interventions in the Cameroonian financial sector needs to be articulated with considerable care. Should the new institution come under the aegis of the CAA, its capital market functions should be kept organically separate from other functions - such as debt management and Treasury portfolio management, which may be assigned to it.

(h) The SNI. Consistent with the public enterprise rehabilitation program, the SNI would most appropriately become a manager of enterprises selected to remain in the Government's portfolio; others would gradually be privatized (or liquidated) through the support of the Fonds. The bons d'equipement supporting SNI current operations would be retired at maturity; any new financial resources would be borrowed at market rates, possibly from the Fonds.

(i) BCD/FOGAPE/FONADER and the SME-Rural Credit Network. BCD and FOGAPE should ultimately be merged, with their manpower resources being used to develop and support a new and/or expanded network of grass-roots institutions providing SME credits; FONADER might play the same role with respect to rural credit (although some of the institutions in question would doubtlessly provide credits to both SME's and agricultural producers). There would be two levels of intermediation: (i) the Fonds, which would rediscount the loans of BCD/FOGAPE/FONADER 16/; and (ii) the latter, which, along with self-generated savings, would be a source of funds to the grass-roots institutions.

(Footnote Continued)
including elected representatives, higher level civil servants and representatives of the private sector.

16/ Here an as yet unresolved question arises as to whether the Fonds loans would be rediscountable with the BEAC. Ultimately they probably should not be if Cameroon's financial system is to develop as it ought.

CHAPTER I

PUBLIC RESOURCE MOBILIZATION AND ASSET MANAGEMENT

A. Introduction

1.1 The ability of Cameroon's government to mobilize the ample resources available for public--and indirectly, private--investments through its budget has been closely linked to its status as an oil exporter. However, unlike many developing countries, whether oil-exporting or not, Cameroon was able to finance virtually all of its public investments with relatively little recourse to foreign borrowing even before the oil revenue boom at the beginning of the eighties. As a result, its current debt-service ratio is below 10%. While the growth in oil revenues was accompanied by a substantial upsurge in the public investment program in 1981, the Government has nonetheless managed to run an overall budget surplus for most years since the onset of oil exports in 1979. This basically sound position, coupled with conservative budget management policies, would have brought Cameroon relatively comfortably through the next ten years had the sudden drop in oil prices not intervened. A corollary of the new situation is that the Government, and its new Caisse Autonome d'Amortissement, will have to manage carefully its dwindling public savings, introducing new fiscal policies to offset the expected sharp declines in oil revenues, and developing a new borrowing strategy consonant with the new revenue situation. This matter will be addressed at length in a forthcoming CEM and will not be further treated here.

B. The Mechanics of Public Resource Mobilization

1.2 Cameroon's public finances are dominated by the extrabudgetary account ("Compte hors budget": CHB) through which roughly 15-20% of total budget revenues have been recently channeled, and which is directly managed by the Presidency. While the existence of the CHB preceded the onset of revenue flows from the oil sector, it is nonetheless the channel by which the bulk of oil revenues enter into the expenditure stream. The CHB itself is, in effect, a transit account outside the regular budget into which oil revenues are paid as they are believed to be required to finance certain types of expenditure, mainly investments, which account for nearly 80% of total uses of these revenues. Particularly since these expenditures bear no necessary relationship to the Plan, they have a certain ad hoc quality despite the fact that they finance about 50% of public capital expenditures. The major source of CHB revenues--there are some minor exceptions--is the earnings of the National Hydrocarbon Corporation (Société Nationale des Hydrocarbures: SNH), the Government's shareholding arm in the three petroleum companies now active in Cameroon, and with which it has production-sharing agreements. It is these earnings which are paid into the CHB accounts as required, i.e., in conformity with the desires of the Presidency.

1.3 Accumulated (unrepatriated) earnings of SNH are strictly confidential and for the most part appear to be held as foreign assets; as such,

they do not enter into Cameroon's banking system or its formally reported foreign exchange reserves. The amounts of the resources in question have been kept secret in order to dampen the ardor of domestic spending constituencies; since the revenues involved are assumed to be temporary, the Government feared that making public the amounts in question would give rise to expectations which would raise expenditures to levels unsustainable in the post-oil era. Assuming no transfers from SNH to the CHB in 1980 and 1981 (for which no data are available) total accumulations of unrepatriated oil revenues were probably somewhat less than CFAF 150 billion, or roughly $350 million.

C. Planning and the Extra-budgetary Accounts

1.4 To a considerable extent, the ad hoc quality of CHB management clearly impedes the effective management of aggregate surpluses, whether directly budgetized, transferred to the budget via the CHB, or maintained by the SNH as unrepatriated overseas balances. Not only is it nearly impossible under the CHB regime to make a reasonable estimate of total resources available to distribute between recurrent and investment expenditures (since the total volume of resources expected to be available can only be guessed at by the relevant decision makers), but the planning process itself is essentially weakened.

1.5 The non-programmability of CHB resources is, if anything, aggravated by the fact that externally-financed investments are themselves not programmed together with the (non-CHB) domestically-financed public investment budget. Thus there are in effect three investment budgets: (i) domestically-financed (36% of the total in 1984); (ii) CHB-financed (42% of the total, and managed by the Presidency); and (iii) externally-financed (22%) which are separately programmed and developed, essentially by the Ministry of Finance. This means that carefully drawn up plans based upon available factors of production and integrating the intersectoral relationships embodied in models now applied by the Ministry of Planning can be undermined by ad hoc decisions taken outside the nexus of the Plan itself.

1.6 Moreover, as is the case in many other developing countries, Cameroon's institutional structure is poorly adapted to strike an appropriate balance between capital expenditures financed out of public (or foreign) savings and the recurrent expenditures required, among others, to maintain the capital infrastructures financed by these resources. Thus--and again it is a commonplace among developing countries (and not only those)--that the use of public resources may not be as efficient as might be the case because there is no built-in incentive, such as the need to maximize profits on borrowed resources, which will ensure the appropriate maintenance of productive capital stock. This suggests that the country striving to mobilize domestic resources should make a special effort (a) to ensure that public expenditures are well-planned; and (b) to ascertain that the mix between current and capital expenditures is sufficient to maintain the country's capital stock. Current procedures based upon the use of the CHB, particularly given the lack of any rolling

plan incorporating the recurrent expenditure implications of public investments, militate against the effective execution of both points. This is compounded by separate programming procedures for externally-financed investments.

D. Government Savings Performance

1.7 In sum, while the CHB process appears to introduce dysfunctional elements onto the overall budget process, the Government's general performance in the area of public resource mobilization has been relatively good. Moreover, while there was a considerable upsurge in public investments early in the period to absorb these resources, the Government still managed to run overall surpluses, and at the same time applied considerable moderation, following the initial upsurge, in its public investments policy. Although recurrent expenditures have shown a tendency to outstrip GDP growth, central government expenditures were 21% of GDP in 1984, which compares very favorably with the 30.4% average for oil-exporting developing countries as well as with the 25.5% average for middle-income developing countries. While there is room for individual economies--the area of public enterprises comes to mind--it is in fact difficult to isolate obvious areas where the Government should be reducing expenditures, particularly in the area of public investments.

E. Caisse Autonome d'Amortissement

1.8 The Caisse Autonome d'Amortissement (CAA) is a newly created institution in Cameroon which has its counterparts in many other francophone African countries. It was established by decree on August 28, 1985, with the objective, among others, of expanding the functions of the Public Debt Directorate in the Ministry of Finance. This latter has been responsible for maintaining public debt accounts pertaining to disbursements and debt service payments, for public domestic and foreign debt. Record-keeping has been poor, although some progress has been made recently. The conversion of the Directorate into a CAA will give the new organization greater independence in overall debt management, particularly as the CAA will, as an independent public establishment, have its own budget. The latter may be financed by its own public borrowings, direct budgetary allocations from the Treasury, and by other levies and taxes, as yet undefined. From these resources it is to ensure debt service payments as required. It will also be responsible for articulating a borrowing strategy by the Government, as well as carrying out other pertinent studies (particularly with respect to borrowing guarantees by the Government) and may even itself be involved in the financing of priority development projects. Perhaps most importantly in this context--the relevant decree is not entirely explicit--it may be involved in the management of Treasury assets. In effect, this would involve a duplication of effort with respect to what is essentially a Treasury function (although at present not very well carried out)--the management of government finances. However, it is not entirely inappropriate that the CAA be called upon to carry out certain asset management functions. In particular, this would permit the fusion of the functions of managing both debt and financial assets, and so permit the

articulation of an overall borrowing strategy in light of the probable Government surpluses. Moreover, its status as an autonomous public entity (rather than a Department of the Ministry of Finance) will permit it greater flexibility in using greatly needed outside assistance in carrying out this particular task.

F. Public Liquidity: Quasi-governmental Bodies

1.9 With the Central government having been in a continuing state of (excess) liquidity, borrowings from the domestic market (as opposed to foreign borrowings financing domestic investments) 1/ have been limited. Thus the Government's impact on the domestic financial market has been via its surpluses, rather than via deficit financing found in most other modern states. While this has to a certain extent impeded the development of a financial system based upon an array of public debt instruments, it has also meant that many of the problems witnessed in other countries of the franc zone have been avoided in Cameroon. In these countries, more frequently member countries of the West African franc zone (UMOA), restrictions on domestic borrowing by governments have brought unsustainable external debt burdens and a basic corruption of financial systems. This has occurred as governments incur large payments arrears (which ultimately must be financed by the domestic banking system), are forced to plunder postal savings and checking systems, and to shift essentially governmental functions--in particular, subsidy payments--to quasi-governmental bodies and public enterprises. The latter, not facing the same borrowing restrictions as the central government, then proceed to overwhelm the domestic banking sector under circumstances where the interest-rate rationing function is irrelevant, since interest charges are simply compounded without payment. The result is a virtual preemption by the state of private financial circuits.

1.10 No such problems have been witnessed in Cameroon. Not only have public surpluses supported the liquidity of the domestic financial system, but the major quasi-governmental bodies are themselves in considerable surplus, the proceeds of which may be deposited with the Treasury or with domestic financial institutions. Although there is a number of such bodies

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1/ While disbursements from net new foreign financing have been larger than amortization payments (interest-payments are already included in the budget projections), these have, in the aggregate, been rather small. Moreover, our current estimates suggest that the increases in CFAF-denominated debt service payments arising from these new borrowings will be offset by the decline in the dollar, the fact that some loans are being prepaid, and the apparent associated stretching out of grace periods. Thus the Government's surplus figures would not change much if the foreign sector were explicitly taken into account. Given the relatively minor magnitude of the amounts in question this was not felt to be cost-effective.

which in one way or another collect taxes, earmarked or otherwise, the most important among them are the commodities marketing board (Office National de la Commercialisation de Produits de Base: ONCPB) and the social insurance fund (Caisse Nationale de Prévoyance Sociale: CNPS). 2/ SNH might be considered to be in the same category, but we have considered it as an essential part of the Central government whose resources should be managed by the Treasury, or eventually the CAA. The municipalities, themselves generally in surplus in the aggregate, are in the same category.

1.11 The ONCPB is perhaps the most important of the above. Established in 1978, it has two principal functions; price stabilization and marketing of export crops. Although under the control of the Ministry of Commerce and Industry, ONCPB has legal and financial autonomy. Its operating revenues come from two sources, levies on sales made by authorized private traders and the proceeds of sales made directly by ONCPB's agents. 3/ These are, in essence, export taxes, the burden of which is borne by the producers. Net revenues after operating expenses are split evenly between two reserve funds (which are distinguished for accounting reasons only; the actual funds are merged for purposes of asset management).

1.12 The first of these ONCPB funds is the price stabilization fund; the second is the "free" reserve fund, which is used to finance investments and subsidies in the agricultural/rural development sector. This mandate is conceived broadly; apart from equity investments in the ailing public enterprise sector not very directly associated with agriculture totalling CFAF 14.7 billion, the fund is also used to finance certain public investments not inscribed in the Plan. Even with such expenditures, considerable liquidity has been built up, so that ONCPB had, as of June 30, 1985, a total of CFAF 98.5 billion of accumulated liquid assets. Despite its legal obligation to place the total of its liquid resources with the Treasury, as of that date, ONCPB maintained CFAF 60 billion of its liquid assets as term deposits with commercial banks, apparently because it earns no interest on its Treasury accounts.

2/ To some extent this selection of institutions is quite arbitrary. Although the CNPS is more of a non-bank financial institution it is included here because its accounts are normally consolidated with the Central government accounts. It could as easily have been included in the discussion on capital markets, where it plays (or should play) an important role. In this it does not much differ from the national housing scheme (Crédit Foncier du Cameroon), the main source of whose funds is also earmarked taxes. However, its accounts would not normally be consolidated with the Central government accounts.

3/ The different systems result from a merger of anglophone (using direct agents) and francophone (private traders) systems.

1.13 There are a number of elements to be noted here. The first is that ONCPB is making a substantial contribution to public sector liquidity. This, of course, essentially flows to the domestic banking system which itself is excessively liquid, thereby giving rise, among other things, to capital outflows. Second, the price stabilization fund does not exist as such; apparently since the establishment of ONCPB there have been no draw downs required on reserves since domestic prices are left far below world parity levels. The Government is on record as wishing to transfer public savings as investible resources to the deserving private sector, i.e., SMEs and the rural agricultural sector. One way in which this transfer might most easily be achieved is through some reduction in current agricultural taxation; i.e., through the raising of producer prices. Third, any meaningful price stabilization fund should be "sterilized" via deposits with the Central Bank, and not with the commercial banking system.

1.14 Once ONCPB resources have financed outlays associated with agricultural development, the residuals should be used to contribute to the overall development of the financial sector, including the term-transformation of resources (which the current commercial bank deposit structure does not permit) and, ultimately financial institutions which serve priority sectors. This might best be carried out through a new non-bank financial intermediary institution (discussed further below) which would also receive resources from other collectors of savings, most notably the CNPS, but including other institutions, such as the National Savings Bank, the postal checking system, and the Housing Bank as well. (Details of this institution are provided in Chapter V). Thus ONCPB's residual assets would no longer flow to the Treasury, but would be assigned to the new institution.

1.15 Unlike the ONCPB, the CNPS is an institution which collects long-term resources whose inflows and outflows are easily predictable, making it a valuable resource in the transfer of investible surpluses to the domestic financial system, particularly with respect to longer-term funds which might eventually support the development of a capital market, now virtually nonexistent in Cameroon. 4/ At present these resources are "wasted" via a CFAF 38.5 billion term loan to the Government for on-lending to the public enterprise sector (there is no obligation for CNPS to place its resources with the Treasury) and CFAF 70.6 billion in sight and time-deposits with the commercial banking sector. The amounts in question represent the virtual totality of CNPS's investible resources, and in effect contribute virtually nothing to the development of a real capital market.

4/ While it is true that CNPS provided equity funding of roughly CFAF 4.5 billion to the public enterprise sector (mainly CELLUCAM, CAMSUCO), CFAF 3.8 billion has had to be written off.

G. Conclusions and Recommendations

1.16 The Cameroonian government has performed well in generating public savings and in keeping public investments sufficiently in bounds to generate an increasing overall surplus. Should some satisfactory resolution to the public enterprise problem be brought about, these surpluses should eventually be such as to permit the absorption of the decline in oil revenues at the end of the period without major difficulties.

1.17 In line with its stated interest, the Government should begin to develop mechanisms for the orderly and efficient transfer of investible public surpluses to the private sector. As suggested, some of this might best be carried out through well-targeted tax reductions, particularly with respect to financial instruments (see Chapter II for further discussion of this question) and agriculture producer prices. Apart from any such fiscal measures, however, the Treasury (or the new CAA) needs to define a consistent financial asset management strategy which includes SNH resources (as well as those from external financing) particularly since a problem of the Government's budget management system involves the non-programmed usage of SNH-financed extra-budgetary accounts. Indeed, all three separate investment budgets should be amalgamated, at least on an analytical basis (as opposed to changing the legal accounting framework), to permit the establishment of a forward rolling plan including recurrent as well as capital expenditures. Simultaneously, the Government needs to consider centralizing the management of non-Treasury resources from the ONCPB, the CNPS and other collectors of savings into a new non-bank financial intermediary, which would utilize these funds for the development of the financial sector, and particularly for the term-transformation of resources, as well as other functions which will be described at greater length in Chapter V.

CHAPTER II

PRIVATE RESOURCE MOBILIZATION AND FINANCIAL INTERMEDIATION

A. Introduction

2.1 We have seen that the Cameroonian system is reasonably effective in the mobilization of public resources through the budget; where it is less effective is in the management of such resources. As indicated in Chapter I, a large part of public savings is devoted to public investments, and with the programming of these investments being poorly integrated as between various sub-budgets, there is considerable likelihood that the profile of these investments will be far from ideal. 1/ Furthermore, the management of that share of public savings which is not devoted to public capital expenditures leaves much to be desired. First, beyond their being utilized to shore up a nearly bankrupt banking system there appears to be little consistent portfolio strategy for the utilization of public financial surpluses. Second, with these surpluses being divided between Treasury and SNH, there is little possibility of having an integrated portfolio strategy; Treasury officials charged with portfolio management are left in the dark about SNH resources and their deployment. Finally, the surpluses of the quasi-government agencies, principally ONCPB and CNPS, play virtually no role in the development of the Cameroonian financial system: they exercise little or no function in encouraging financial deepening in the unusually "shallow" system. Thus they contribute little or nothing to financial intermediation.

2.2 This chapter provides an overview of the concept of financial intermediation and its empirical manifestations in Cameroon both as compared with other developing countries and in terms of Cameroon's own financial institutions. All indicators suggest an unusually low level of sophistication in Cameroon's financial intermediation system, particularly compared with its relatively high per capita income. A technical annex sets forth the results of quantitative analysis indicating that Cameroon's interest rate structure, both absolutely (in real terms) and in comparison with international rates, has a statistically significant bearing upon the level of financial intermediation in that country. International interest rate levels (i.e., those of the Paris financial market) are especially important given the high degree of openness which characterizes the Cameroonian economy.

1/ In all fairness, however, any such conclusion should be supported by a careful public investment review: as a practical matter, the Cameroonian public investment budget does not appear to be encumbered by obvious "white elephants."

2.3 Cameroon, as a member of the southern tier franc zone (the BEAC, discussed at greater length in Chapter IV) is subject to a number of the same influences as its fellow member countries of the zone, and it is possible that a number of the same conclusions found below would also apply to the other members of BEAC. This Report, however, necessarily confines itself to Cameroon alone; in any event, there is no way of knowing whether the externally-imposed institutions of the BEAC will react in identical ways with the internal institutions and economic configurations of each individual member country. Indeed, the likelihood is that they will not.

B. Financial Intermediation

2.4 The relationship between private financial resource mobilization and financial intermediation is a critical one. If the level of financial intermediation (or degree of "financial deepening") is low, this will tend to inhibit the mobilization of private resources. Moreover, for a given level of private financial resource mobilization, if the intermediation system is inadequate, this will imply that the transformation of the financial resources in question will be only imperfectly translated into economic growth. Other things being equal, the lower the level of financial intermediation, the greater the impediment to economic growth: limited financial savings will rarely be channeled to their most productive uses.

2.5 It is important at this point to define some of the above concepts. By financial resource mobilization we mean basically financial savings as distinguished from "real" savings, or the abstention from consumption in the national accounts sense. The distinction is made: (a) because real savings are generally inelastic to the relevant policy variables (such as interest rate variations); and (b) because if private savings cannot be captured by the financial system they cannot easily be mobilized for investments. The mobilization of financial resources, on the other hand, is much more susceptible to changes in policy instruments. As suggested, financial intermediation is a notion complementary to financial resource mobilization which sheds light on the efficiency of the financial system. Often encapsulated by the summary measure M2/GDP, 2/ the level of financial intermediation reflects: (a) the range of financial instruments available to savers wishing to diversify their portfolios with respect to rates of return, risk and maturity structure; and (b) the related set of

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2/ M2 is defined as currency in banks, demand deposits and time and savings deposits. This ratio is designed throughout the discussion to exclude Government (Treasury) deposits, mainly since such deposits will bear no relationship to interest rates or other relevant variables (such as income or number of banks) and their inclusion would tend to distort the relationships being studied. While there are some unresolved theoretical uncertainties concerning Treasury balances in oil-rich countries, Cameroon's M2/GDP ratio was at low levels even before the oil boom in the late 1970s.

financial packages available to investors who seek investible resources with different mixes of equity and debt, different maturities in the debt structure and different rates of interest associated with varying degrees of risk.

2.6 All too often in developing countries, including in Francophone West Africa, the financial system offers the saver little more than bank deposits for the most part paying negative real interest rates; simultaneously, few borrowers have more than limited access to equity financing or term loans. Moreover, access to the system is frequently limited by credit rationing associated with too low interest rates. In such a system the level of financial intermediation ratio is likely to be low, and the system "financially repressed." Savers will often opt to hold "real" assets, e.g., real estate, livestock, gold, etc., in preference to financial assets, 3/ and prospective investors will frequently find investible resources from the formal financial system scarce at any interest rate. On the other hand, higher intermediation levels will be found where the system comprises a number of institutions which would ultimately work to pool risks which would not be acceptable to the average depositor, transform maturities and offer different portfolio characteristics which would be attractive both to potential borrowers and potential lenders. The more "layering" of financial institutions this implies, the greater the amount of financial resources (M2) required to sustain this layering, relative to GDP.

C. The Adequacy of the Cameroonian Financial System

2.7 Available evidence suggests that in the case of Cameroon financial deepening in the economy is less than what it should be, particularly for the level of its per capita GDP. Thus the M2/GDP ratio is, as Table 2.1 shows, substantially below ratios for African countries of similar or lower per capita incomes, and even more so for other LDC's. Thus the Cameroonian level of 0.19 was a full one-third below the average for selected African countries of roughly similar per capita levels (or, like Kenya, economic makeup), and even lower as compared with the other LDCs shown. The comparison with other members of the franc zone (UMOA) is particularly instructive: M2/GDP for that zone as a whole was 25.1% in 1983; in that year, Cameroon's ratio was lower than that of all UMOA countries save one, which suggests that the UMOA system may be relatively

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3/ Real assets in this sense of the word will include holdings of net foreign assets (which are not technically available to domestic investors through the intermediation system) and, to a certain extent, asset holdings in the tontines. This is discussed at greater length below.

less conducive to weaknesses in financial intermediation than the BEAC system. 4/

Table 2.1 : COMPARATIVE MEASURES OF FINANCIAL DEVELOPMENT, 1983

Country	GNP/capita (US$)	M2/GDP	LB/GDP	QM/GDP
Cameroon	820	0.19	0.15	0.09
Other Africa				
Kenya	340	0.27	0.22	0.10
Nigeria	770	0.37 /a	0.26 /a	0.15 /a
Côte d'Ivoire	710	0.26	0.17	0.08
Senegal	440	0.31 /b	0.21 /b	0.08 /b
Average African Sample	565	0.30	0.22	0.10
Other LDCs				
Morocco	760	0.44 /a	0.29 /a	0.10 /a
Thailand	820	0.48	0.42	0.39
Indonesia	560	0.20	0.16	0.10
Philippines	760	0.25	0.20	0.17
Average Others	725	0.34	0.27	0.19
Overall Average	645	0.32	0.24	0.14

/a 1982 data.
/b 1981 data.

Source: World Development Report, IFS, and Bank staff estimates. LB and QM refer to bank liabilities and quasi-money, respectively.

2.8 A similar picture is seen with respect to bank liabilities relative to GDP. This figure is instructive because, being exclusive of currency balances, it is more clearly associated with the use of the banking system, through which intermediation must ultimately be carried out. Here, with the Cameroon ratio being .15 (as compared with other Africa at .22) this indicator of financial deepening is again more than one-third below that of its African neighbors.

2.9 Since Cameroon's economic performance has basically been of very high quality, particularly with respect to its growth performance, which

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4/ This suggests that a comparative study of the BEAC and UMOA systems may well be desirable with respect to the impact of the two different franc zone systems on the financial characteristics of their member countries, particularly since the UMOA system is in many ways more advanced than the BEAC system. Such a study, however, is beyond the scope of this Report.

was good even in the pre-oil period, it is not particularly easy to suggest that it should be doing better in this respect, especially since some of the poorer performers (i.e., Senegal or Nigeria) have financial intermediation levels considerably in excess of that of Cameroon. Or since a better performer, Indonesia, shows indicators closer to those of Cameroon. However this may be, there is considerable empirical evidence which suggests that relatively low level of sophistication of the Cameroonian system may well work as a constraint to growth in the years to come. 5/ Before we consider the institutional failures of the Cameroonian financial system which underlie or point up the low level of financial deepening it is useful to examine some of those elements which are thought to bring about the institutional weaknesses in question.

Table 2.2 : Cameroon: Real Interest Rates, 1975-82

	Ex-post Real Deposit Rate /a	Ex-ante Real Deposit Rate /b	Ex-post Real Lending Rate /c
1975	-7.2	-2.4	-2.4
1976	-3.5	-2.8	0.8
1977	-7.2	-3.3	-3.4
1978	-5.2	-4.3	-1.4
1979	0.1	-5.0	3.9
1980	-2.1	-5.2	2.9
1981	-4.5	-5.5	-0.4
1982	-7.9	-6.3	-3.4

/a The nominal deposit rate used here is the average on different types of deposits, and calculations of the real rate are based upon current inflation rates.
/b Ex-ante rates are expected inflation rates estimated from a model where agents form their expectations on the basis of the current CPI and inflation in the two preceding periods.
/c The nominal lending rate underlying these calculations is defined as the rate on medium-term ordinary non-rediscountable loans. Current inflation rates are used for the calculations.
Source: IFS, MOF, and BEAC.

2.10 Analysis of financial intermediation puts considerable emphasis on the behavior of real interest rates. These have (see Table 2.2) been for the most part negative in Cameroon. Concern has been expressed in many quarters that such interest rates discourage real savings in the national accounts sense of consumption foregone; obviously this would simultaneously tend to discourage the use of the financial system, and thereby negatively affect financial deepening, as well. However, the empirical evidence of such a relationship is weak, and for Cameroon no statistical support for it was found; analysis showed real savings to be primarily a function of income, as suggested by Keynes. This being said, a more real concern is

5/ Cf. Shaw and McKinnon (1973).

that low or negative real rates, while not necessarily discouraging real savings for the relevant range of rates, may tend to encourage a shift in savings from financial instruments to real assets. In the latter case, the associated "flight from the financial system" will inhibit the access of deficit units (net investors) to surplus units (net savers) and so undermine the efficiency of the resource allocation system.

2.11 A critical element in the equation, for an open economy such as Cameroon, is foreign interest rates. With a fixed exchange rate system ruling out exchange risks, and with capital movements relatively free--both characteristics of the franc zone system--capital flows are likely to be responsive to even relatively minor disparaties in interest rates. To the degree that this is the case (and assuming that domestic rates are lower than foreign rates, almost inevitably the case in Cameroon) foreign assets will be much like real assets in that they will be basically inaccessible to domestic borrowers. This will be shown by a low level of financial intermediation.

2.12 Financial deepening--or lack thereof--is also generally thought to be associated with institutional factors, foremost among which is the accessibility of branch banks or other types of savings outlets; obviously the presence or absence of these will have much to do with the holding of bank or savings deposits.

2.13 Empirical evidence (see annex to this Chapter) shows that there is indeed a strong correlation between financial deepening (as measured both by M2 and bank liabilities relative to GDP) and the above phenomena. Particularly important were real interest rates, both domestic and international (Paris), where both nominal rates were deflated by the Cameroonian inflation rate; for a Cameroonian saver operating under a fixed exchange rate system the French inflation rate is basically irrelevant. Summarizing the results, we find that a one percentage point increase in the real interest rate in Cameroon would lead to a 0.9 point increase in the M2/GDP ratio. Conversely, and other things being equal, a one percentage point increase in real foreign rates would lead to an identical decrease in the M2/GDP ratio in Cameroon. These findings are of considerable importance since they suggest that not only do real rates in general have much to do with financial savings and the strength of the financial system, but the differential between these rates may be of equal importance. Assuming that the differential is in Paris's favor, this will tend to inhibit the deepening of the financial system and its ability to intermediate between domestic savers and investors. Should, however, the differential between Paris and Cameroon be in Cameroon's favor, quantitative evidence (see Chapter annex) shows that, by encouraging capital inflows, this would tend to lead to real exchange rate appreciation.

2.14 The latter finding is instructive since it has some unexpected policy implications. That is, to the extent that the establishment of positive real rates in Cameroon brought nominal rates in Cameroon above nominal Paris rates, this would tend to encourage capital inflows and domestic inflation (and real exchange rate appreciation). This suggests

that, short of reducing taxes on financial instruments (discussed below), a policy adjusting interest rates (rather than, say, inflation itself) to keep them at real positive levels, may be both costly and self-defeating.

2.15 The importance of the rate differential between Paris and Cameroon with respect to financial deepening--given the openness of the Cameroonian economy toward that of France--strongly suggests the need to align Cameroonian rates on Paris rates. Apart from the fact that this would tend to improve financial deepening, it also has important implications for monetary policy, and will be discussed further in that context.

2.16 Although having little to do with interest rates, our quantitative work shows that the availability of bank branches has a real impact on financial deepening (see chapter annex). Table 2.3 indicates that Cameroon is relatively underdeveloped, as compared with other African countries of or near its income class, with respect to the number of bank branches per 10,000 persons. Although the sample is limited because of a lack of data, what was available shows that with a per capita income averaging 43% more than the comparator countries, the number of bank branches per 10,000 was 17% lower than the average.

Table 2.3 : Number of Bank Branches per 10,000 of the Population

(1977 data)

Country	GNP/capita	Permanent Bank Branches/10,000 persons
Cameroon	340	0.149
Ghana	380	0.209
Kenya	270	0.209
Tanzania	190	0.188
Somalia	110	0.087
Average	238	0.172

Source: Ministry of Finance, World Development Report and Kwarteng (1982).

D. The Institutional Perspective on Limits to Financial Deepening

2.17 It is useful to consider the somewhat theoretical relationship between financial deepening and "real interest rates" from a more institutional perspective in order to understand better how financial deepening has been impeded in Cameroon. Following that, we will examine how efficient the system itself is; that is, the degree to which the system--deep or shallow--delivers financial services effectively.

1. Bank Margins

2.18 The theoretical perspective on financial intermediation in Cameroon is pointed up by specific institutional elements. While low or negative real interest rates may discourage the accumulation of financial instruments, margin limitations on bank lending may bring about the same problems. Thus if a bank using deposits to finance its non-rediscountable banking operations 6/ calculates the cost of funds at the maximum rate on six-month deposits of 12 percent, it earns margins of between -2.5 percent (for medium term privileged loans) and +1.75 percent (medium-term non-privileged loans). Apart from the fact that this will tend to discourage loans to the so-called privileged sectors (e.g., small- and medium-scale enterprise) it will also discourage commercial banks from seeking deposits except at rates very likely to be negative in real terms, so that there is a direct disincentive for banks to mobilize savings. This will be reinforced by the ability of banks--under the logic of the franc zone system to use rediscount facilities, in which case they will earn margins of 2.25 and 3.25 percent on the two types of loans, respectively. While this may work to orient lending to rediscountable uses or borrowers, at the same time it will restrict the capability of the system as a whole to mobilize resources. In any event, a margin of 2.25 percent will rarely be sufficient to cover all but the most risk-free of privileged lending (e.g., for agricultural export credits, which may well have the effect of displacing foreign lending for the same purpose), and it seems clear that this margin policy, in the guise of assisting socially-favored sectors, has quite the opposite effect.

2. The Paris/International Market

2.19 It has been suggested that one reason for the relatively low degree of financial deepening in Cameroon is the existence of the easily accessible Paris money and capital market. 7/ Accordingly, domestic institutions have not developed because given easy access to Paris, this has been unnecessary. There is some empirical evidence for this from the

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6/ The concept of rediscountability will be discussed more extensively in Chapter IV, but essentially rediscountable credit includes most short- and medium-term loans except consumer loans and long-term loans. However, qualitative criteria relating to financial soundness of the operation as well as potential profitability, and quantitative criteria (via determinations as to the rediscountability of the asset) are also applied, and their outcome cannot easily be known in advance.

7/ It must, however, be noted that the Côte d'Ivoire and Senegal benefit from the same conditions of access to this market, yet their financial deepening position is more advanced than that of Cameroon, a country of higher per capita GDP.

1979 census on investments in manufacturing. This shows that for firms in the modern sector having total annual sales of more than CFAF 5 million (see appendix Table 16), somewhat over 60% of total equity capital had its origins with foreign investors, almost entirely private. With government capital financing 17% of the remainder, this left only 23% to be supplied by private domestic investors. This does not include debt, but since there is practically no formal long-term debt in the Cameroonian economy at present, (although doubtlessly considerable short-term debt is in fact rolled over), any such debt must come from abroad, most probably via parent companies.

2.20 Thus in considerable measure capital financing must come from overseas or the Government (whose own policies supporting domestic enterprise have been little short of disastrous and which in any event has since 1983 supplied little new investment capital). Those other institutions capable of jointly playing the role of capital market (e.g., CNPS) have, for the most part practiced negative term transformation and deposited assets essentially associated with long-term liabilities in commercial banks, where interest rate differentials have tended to draw these resources back to overseas markets. Indeed, the open financial system of the BEAC zone works in such a way as to encourage banks themselves to use foreign financial and capital markets for intermediation and term-transformation, thereby reducing or discouraging local intermediation. Thus over the six-year period between 1979 and 1985 average gross foreign assets of the commercial banks, at CFAF 45.0 billion, were roughly equal to the banks' medium and long-term borrowings (i.e., debt) of CFAF 42.3 billion over the period. (However, with increasing bank liquidity this relationship has shifted to roughly three-to-one in favor of gross foreign assets.)

3. The Tontines

2.21 The tontines, essentially social or clan affinity groups (averaging perhaps 15-20 members) which play the role of informal credit cooperatives, are responsible for a substantial degree of credit creation in the Cameroonian economy. 8/ Interest rates tend to be quite high and

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8/ Tontines are the standard form of credit creation in the West and Central African economies and occur also in parts of Southeast Asia. The simplest form of operation is that by which the members make monthly payments into a revolving fund, the totality of which is withdrawn by one of the members by prior agreement each month, each according to his turn. No formal interest payments are involved. Other arrangements involve bidding for the (generally monthly) "pot," where the winner leaves in the pot the amount of the winning bid, which becomes a part of the new pot. The borrower may then no longer bid on future pots and in effect pays back the loan by continuing to

(Footnote Continued)

maturities practically always under one year. While these institutions play an extremely important role in the Cameroonian economy, they are not directly connected with either the formal banking sector or with one another; thus they are highly segmented. Not operating through the formal banking sector they do not directly influence money supply (so that their impact is on velocity rather than money itself). Even though their role is in many ways a useful one because the formal sector does not ordinarily supply the financial requirements of tontine members, it has tended to represent an impediment to the financial deepening of the Cameroonian economy. However, the importance of these institutions may also be regarded as symptomatic of the relative underdevelopment of the formal system, and will most likely diminish in importance as the sophistication of the financial system grows.

4. Lack of a Non-Bank Financial Intermediary

2.22 Particularly given the lack of project evaluation capabilities, general banking, accounting and auditing skills, etc., in Cameroon (including the effective retreat of the Cameroon Development Bank from the capital market scene), there is no effectively functioning apparatus for term-transformation or risk diversification in Cameroon. As seen above, most of the important potential capital market institutions in Cameroon practice effective negative term-transformation, particularly in the absence of a non-bank intermediary which could accept deposit liabilities of all terms from institutions such as ONCPB and transform them, in tandem with banking institutions, into long-term debt, diversifying risk through this operation. Similarly, there is no secondary market in Cameroon to guarantee the liquidity of primary securities and this also tends to limit the development of the market for such financial instruments. The lack of an institution performing these functions--common in other countries of Cameroon's per capita income level--probably contributes considerably to the measured shallowness of Cameroon's financial system. The introduction of an institution of this nature (discussed in detail in Chapter V) would very likely have a significant effect on strengthening Cameroon's financial system.

(Footnote Continued)

contribute every month until each member has borrowed at least once. Since the amounts left in as discounts are combined to form new pots, so that the number of months of a cycle will be fewer than the number of participants; the last borrower may receive the pot in considerably fewer than the months in the cycle. Those who make their contributions in the first half of the cycle will be net borrowers, those contributing in the last half will be savers, whose interest payements for their savings are reflected in the shorter number of months for which they are required to make payments.

5. Société Nationale d'Investissement (SNI)

2.23 The SNI was established in 1962 as a state holding company to take equity shares in Cameroonian enterprises thought to have difficulties in access to capital despite their expected profitability (or because of their social interest to the state). With the bulk of these enterprises in SNI's portfolio being technically bankrupt, SNI is technically bankrupt as well, having a negative net worth of CFAF 13.7 billion. However, because it continues to receive the proceeds of "bons d'équipement" (issued at 4.5% with five years maturity) 9/ to which commercial banks are obliged to subscribe 10% of their total assets, it is financially quite liquid: because the SNI has made no new investments since 1983, these assets are "recycled" back to the commercial banks at a 10% deposit rate. Obviously reducing overall rates of return to investments, and given narrow margins, this means that banks can pay all the less on average deposits, thereby inhibiting financial savings mobilization. In addition to this, the negative term transformation involved with the re-deposit of these resources and the weakening of the commercial banks' maturity structure which this engenders, overall financial intermediation suffers. We will have considerably more to say on this subject below.

6. Taxes on Financial Instruments

2.24 Apart from the disguised tax which is represented by the bons d'équipement, financial intermediation in Cameroon is subjected to--and ultimately impeded by--two types of taxes: taxes on lending rates and taxes on interest income. These taxes represent income to the Treasury, but amount to less than 1% of its total tax revenues. Given the potential damage to the intermediation system, these taxes can scarcely be justified.

2.25 Two taxes are imposed on borrowers: (a) the tax on the distribution of credit (TDC); and (b) the turnover tax (impôt sur le chiffre d'affaires: ICAI). The former is set at one percentage point, and is added to the lending rate, and the latter, also added to the lending rate, is equal to 10.998% of that rate. These taxes increase the cost of funds to investors, and represent an equivalent reduction in margins earned by the banks (discouraging lending), or tending to reduce average deposit rates paid (discouraging financial savings). Either way this works out badly for the financial system. Thus for a medium-term, ordinary, non-rediscountable loan for which the bank receives 13.5% the borrower will pay 15.25%; yet the bank's margin will only be 1.75%, which is surely insufficient to cover the cost of processing, particularly: (a) since excessive term-transformation may put the bank at risk; (b) non-rediscountable loans are probably somewhat riskier than rediscountable loans; and (c) because 1.75% is considerably lower than the average margin required by Cameroonian commercial banks. A removal of this tax (or its

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9/ This was recently raised to 7.0%, however.

replacement by an increased tax on bank profits) would permit banks to earn acceptable margins (or increase average deposit rates) and thereby expand lending where unfilled demand existed.

2.26 Savers are also heavily taxed, and all income from savings and time deposits at commercial banks is subject to two taxes: (a) the "proportional tax" on revenues earned on financial capital (la taxe proportionelle sur le revenu des capitaux mobiliers: TPRCM) of 16.5%, which is retained at source; and (b) the normal progressive income tax. Thus if a saver earning 12% on a six-month deposit is in the 33% bracket, he only receives a 6.7% after-tax rate of return; this is currently negative in real terms and an inducement to return to the tontine, reversing financial deepening. The elimination of the TPCRM would permit a rise of about 2 percentage points in the after-tax return to the saver in question, which could obviously stimulate financial savings and some strengthening of the financial system, all at minimal cost to the Treasury.

E. The Efficiency of the Financial Intermediation System

2.27 We have seen that there are a number of institutional elements which tend to limit financial deepening even given a low interest-rate structure which both on a priori and empirical grounds are found to inhibit the development of the financial system. In addition, there are also important weaknesses with respect to the efficiency of the system in delivering financial services as it currently exists.

2.28 Foremost among these weaknesses is the insolvency, near-insolvency, or outright bankruptcy of the Cameroonian commercial banking system, caused, among others factors, by a substantial number of ill-advised loans. 10/ Total amounts of non-performing assets are said to amount to about CFAF 120 billion, or about seven times loss-reserves. There are doubtlessly considerably more loans which are of dubious value. In any event, it is clear that Cameroonian banks are badly undercapitalized and that this has a strongly negative impact on the efficiency and behavior of the sector.

2.29 First, this undercapitalization has meant that only two of the ten commercial banks in Cameroon are profitable, and these only marginally so. This, in turn, has led to the Government's reducing all sight deposit rates to zero in order to increase bank profitability (thereby, of course, increasing financial repression). Second, it has meant that banks have

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10/ It is often suggested that these loans, in large part made to merchants in North Cameroon, were politically motivated. It is, however, unlikely that there was any outright political coercion forcing bankers to make these loans; at most, many may have hoped to gain political favor by making them. It is universally agreed that these loans are unrecoverable.

become much more risk-averse as potential losses have become far more costly, compared with wealth (banks' remaining net capital resources), than before. This appears to have encouraged banks to make loans only to the most risk-free borrowers--e.g., expatriate firms--or to transfer funds overseas, where banks' deposits have grown from CFAF 4.6 billion in March 1980 to CFAF 190 billion in March, 1985, probably with the tacit agreement of the BEAC and even the Government. Thus despite government efforts, for example, to encourage lending to the SME sectors, bank undercapitalization works strongly against such loans (as do clearly inadequate margins permitted the commercial banks for lending to this sector).

2.30 The Government has sought to compensate for this problem by maintaining substantial deposits with the commercial banks. Together with parastatal deposits, these now amount to about 50% of total deposits and have thus supplied a considerable amount of liquidity to the sector. So much so, in fact, that some of this is recycled to overseas balances. Moreover, since government deposits, essentially time deposits, are remunerated at 10%, this means that there are relatively few loans where margins are sufficient to make lending out of these deposits interesting, especially in view of the fact that overseas placements are virtually risk free, particularly as compared with domestic loans. However stable these balances may be, they do not substitute for capital, so that banks remain, if anything, excessively conservative in their domestic lending policies.

2.31 The problems in the banking sector are compounded by the fact that the Cameroonian banking structure is highly concentrated, with four of the ten banks controlling 85% of total assets. With an oligopolistic market structure, this means that the commercial banking sector must remain subject to government regulation, at least until (a) the other banks gain a greater degree of market power; and (b) the sector as a whole is adequately recapitalized. Perhaps most importantly, this suggests that changes in the management of interest rates, while requiring some liberalization and alignment on international rates, cannot immediately lead to full dependence upon the market for rate determination.

F. Conclusions and Recommendations

2.32 Evidence is conclusive that Cameroon's interest-rate structure leads to financial repression: not only is this effect noted with respect to real interest rate levels taken in isolation (and thus encouraging the accumulation of real, as opposed to financial assets), but also in comparison with the Paris market. With the average divergence in rates being so great (nearly five percentage points over the 1975-84 period), this has led to financial savings flowing to Paris. While from a balance of payments viewpoint the flows have been manageable, the differentials in

question have also constrained the development of the Cameroonian financial system. 11/

2.33 For this reason alone, Cameroonian rates should be aligned with rates on the Paris market, probably on a quarterly basis. 12/ Thus interest-rates must be a good deal more flexible than before, and while the flexibility here being urged would be required to limit speculation, it is also desirable as a means of avoiding the macro-economic destabilization which wide swings in the difference between domestic and Paris rates will very likely lead to. Although rate alignment will be an important element in improving domestic resource mobilization and financial deepening, as we will see in Chapter IV, it will also be an important adjunct to policy changes leading to an improvement in the management of monetary policy. Thus it will be a pivotal feature of any financial sector program.

2.34 A number of institutional features inhibiting the development of the financial intermediation system were noted. One of these, the tontine system, is for the most part outside the scope of policy changes, and this will probably remain a permanent feature of the financial landscape. However (and this will be developed in further detail in Chapter V), some attempt to integrate aspects of this system with the formal financial sector appear to be justified. This would be a step toward overcoming the market segmentation noted and, to the extent feasible, would represent a definite step in strengthening the Cameroonian financial system, particularly with respect to its ability in delivering investible resources to sectors which the Government wishes to favor. Moreover, an overriding concern would seem to be the development of a new, non-bank financial intermediary, now conspicuously lacking in Cameroon, which might perform term-transformation (or reverse the tendency toward negative term-transformation) and perform a greater degree of risk diversification and secondary market support for new or existing financial instruments.

2.35 One of the most promising possibilities for improving financial deepening is the adjustment of taxes on financial instruments: these tend to discourage both financial savings and limit the efficacy of the system in delivering available resources to where the return is greatest. They reduce the rates of return to financial savings, encourage shifts to the Paris market, reduce the incentives to banks to solicit deposits, represent

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11/ To the extent that all Cameroonian investors had access to the Paris market for loans (or "packages" of loans involving a range of portfolio instruments) this would involve no welfare loss. Evidence suggests, however, that access by Cameroonian investors is not equal to that of expatriate-run enterprises.

12/ It should be noted that this can be achieved within the framework of the BEAC system by adjusting margins over BEAC-set base rates, a prerogrative of the Ministers of Finance.

a wedge between borrowing and lending rates (and thus distort the "true" costs of capital). Moreover, to the extent that the difficulties inherent in the Cameroonian financial system result from inadequate margins (perversely, mainly for socially desirable lending), these also inhibit bank lending, at least domestically. Particularly in view of the fact that their return to the Treasury is minimal, these taxes should be sharply reduced or better, eliminated altogether.

ANNEX TO CHAPTER II

An Empirical Analysis of Financial Deepening in Cameroon

1. This annex describes and explains the empirical analysis of private financial savings in Cameroon as summarized in Chapter II. It is shown through an econometric analysis of the determinants of private financial savings that increases in permanent income, in the domestic real interest rate or in the accessibility of commercial banks (and improvements in the quality of services they offer) have a positive effect of financial deepening. On the other hand, an increase in the differential between domestic and foreign interest rates leads to a decrease in financial deepening.

2. The analytical model, based upon work of Tobin (1982), McKinnon (1973) and Shaw (1973), from which the estimated equations are derived is as follows:

(1) $L=L(Y,d,f,r,x)$,
(2) $C=C(y,d,f,r,x)$,
(3) $F=F(Y,d,f,r,x,)$,
(4) $V=V(Y,d,f,r,x)$,
(5) $T=L+C+F+V$,
(6) $x=x(g,n)$,

where L, C, F, V, and T are the demands for the liabilities of domestic banks, currency, foreign assets, real assets and total assets respectively. All of these variables are expressed as ratios to GDP. The variables Y, d, f, r, x, g, and n are permanent income, the real interest rate on domestic deposits, the real return on foreign assets, the return on real assets, a variable measuring the quality of services offered by domestic commercial banks, the ratio of government to private deposits at commercial banks and the number of commercial banks respectively. The system as defined implies that the change in total assets (T) is equal to private savings in the national accounts sense, i.e., non-consumption.

3. Following Tobin, the demand for any asset is a function of income, the real rate of return on that asset and the rates of return on other alternative assets. An increase in income or in the real rate of return of an asset is expected to increase the demand for that asset, while an increase in the rates of return of its substitutes decreases the demand. It is also assumed here that improvements in the quality of services offered to bank customers will lead to an increase in the demand for domestic financial assets. Equation (6) postulates that the quality of services offered by commercial banks is a function of the number of banks operating in Cameroon and of the relative importance of government deposits in their portfolio. The rise in competition which can be associated with an increase in the number of banks can be expected to lead to better services. The effect of government deposits on the quality of services is ambiguous. By increasing

bank's liquidity and hence their ability to make loans, government deposits exert a positive effect. On the other hand, if at the fixed margins banks find further lending unprofitable, this increase in liquidity would reduce their incentive to mobilize private deposits and thus have a negative impact on financial development.

4. The impact of changes in these variables on total private savings, however, is not as clear. For example, a rise in the return on domestic financial assets will lead to an increase in L but also to a fall in C, V, and F. Thus, the effect of such changes on T will be ambiguous. The same is true for increases in f and r which will lead to a rise in F and V respectively but also to a fall in the demand for other assets. On the other hand, an increase in income will lead to a rise in the demand for all types of assets; hence total private saving will also increase.

5. The estimated equations explaining financial deepening in Cameroon, obtained by substituting (6) into (1) and (2), are, after correcting for serial correlation:

$$(7)\quad l = \underset{(-9.7)}{-7.8} + \underset{(6.4)}{1.1}*y + \underset{(4.7)}{.03}*d - \underset{(-4.5)}{.04}*f + \underset{(1.5)}{.08}*r - \underset{(-.03)}{.05}*g + \underset{(3.1)}{.04}*n$$

R-squared = .98 D.W. = 2.5 rho = -.49

$$(8)\quad m = \underset{(-4.9)}{-4.1} + \underset{(2.5)}{.47}*y + \underset{(3.2)}{.02}*d - \underset{(-2.7)}{.03}*f + \underset{(1.3)}{.07}*r + \underset{(.94)}{.17}*g + \underset{(2.3)}{.03}*n$$

R-squared = .96 D.W. = 2.4 rho = -.31

where l, m, and y are the natural logarithms of domestic bank liabilities, the ratio of M2 to GDP and a measure of permanent income (a distributed lag of real per capita GDP) respectively. The real return on domestic financial assets is defined as the interest rate on six-month deposits minus ex post inflation; similarly, the real return on foreign assets is defined as the yield on French government bonds deflated by ex post inflation in Cameroon. Measures of the return on real assets, i.e., time series of the rate of return on marginal private sector projects or interest rates charged in the curb markets, are not available. Therefore, as a proxy for this variable the inverse of the incremental capital output ratio is used. The variables g and n are defined as the ratio of government to private deposits in commercial banks and the number of these banks operating in Cameroon respectively. The equations were estimated using data from 1965 to 1982 (18 observations).

6. Some conclusions can be drawn from these equations.

(a) Income variations affect financial development because the coefficient on permanent income is positive and statistically significant in both equations. It is also interesting to note that the income elasticity of the ratio of bank deposits to GDP is higher than that of the ratio of M2 to GDP. This is to be

expected because M2 includes currency which should decline relative to demand and time deposits as income grows. 13/

(b) Both measures of financial development are sensitive to changes in the real deposit rate--the coefficient on d is positive and statistically significant in both equations. The elasticity of the two measures of financial deepening with respect to real deposit rates are such that a one point rise in the real interest rate would increase the ratio of bank deposits to GDP by one point and the ratio of M2 to GDP by 0.9 points, all other variables remaining constant. It should be understood that these estimates are subject to the errors typical of econometric analysis and should be taken with caution.

(c) Moreover, the elasticity of the two measures of financial deepening with respect to foreign interest rates are such that a one point increase in foreign interest rates would decrease the ratio of bank deposits to GDP by one point and the ratio of M2 to GDP by 0.9 points, all other variables remaining constant. Again, as explained above, these figures should be taken with caution.

(d) Government deposits with the banking system do not seem to have a measurable and consistent impact on financial deepening, at least as measured by these two equations. On the other hand, the coefficient on the number of banks is positive and statistically significant in both equations. This seems to indicate that the quality of services provided by banks is an important determinant of financial development. However, since the number of banks in Cameroon is positively correlated with the creation of BEAC in 1973, it is not clear whether the apparent improvement in bank services is a result of increased competition as originally postulated or simply a result of the new institutional structure that was more conducive to financial development. In either case, the evidence indicates that the structure of the banking system is an important determinant of financial development.

7. The equations above indicate that the demand for domestic financial assets is negatively correlated with the return on French assets. This indicates that despite some exchange controls, private capital movements between Cameroon and France do exist and seem to respond to profit incentives. Public authorities, therefore, should be cautious in implementing changes in their financial (interest rate) policies as such changes would

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13/ Obviously deposits will in any event continue to grow, and especially as branch banking develops (an area where Cameroon is relatively weak, cf. para. 2.16) in a situation where real interest rates are only modestly negative.

affect the level of net foreign inflows which may be destabilizing in the short-run.

8. In order to further clarify the effects of interest rate policy on short-run stability, the relationship between those policies and the real exchange rate was analyzed. The real exchange rate in this context is defined as the purchasing parity real exchange rate vis-à-vis France, which, since the nominal rate is fixed, simply becomes the ratio of the French to the Cameroonian CPI. The real exchange rate is postulated to be a function of flows of net foreign assets, the difference between the domestic and foreign rates of growth of real GDP and the terms of trade (Edwards, 1985). Net foreign assets are in turn assumed to be a function of the interest rate differential between France and Cameroon.

9. This reduced form equation, after correcting for serial correlation was found to be:

$$\begin{array}{lccccc} e = & 0.08 & + & 0.08\ i & - & 0.00\ gd & - & 0.04\ t \\ & (0.19) & & (2.5) & & (-1.1) & & (-0.46) \end{array}$$

r-squared = 0.73 D.W. = 1.4 rho = 0.83

where e, i and t are respectively, the natural logarithms of the real exchange rate, the interest rate differential (foreign minus domestic rate) and the barter terms of trade, and gd is the difference between real growth rates (domestic minus foreign). Since the coefficient on i is positive and statistically significant, a fall in domestic relative to international interest rates leads to a decrease in net capital outflows and hence to a real depreciation. This result provides further evidence to support our previous conclusion that the demand for domestic assets is sensitive to changes in international interest rates.

CHAPTER III

FLOWS OF FUNDS AND THE CAMEROONIAN FINANCIAL SYSTEM

A. Introduction

3.1 This chapter provides an overview of the process by which investable resources are allocated through the Cameroonian financial system to ultimate users. The technique used, flow of funds analysis, permits an identification of the ultimate sources and uses of funds, and allows an overview of the major intermediation channels through which the financial system allocates funds from surplus sectors and institutions to deficit ones. Thus the flow of funds analysis provides an accounting of all major financial transactions in the Cameroonian economy showing the sources and uses of funds among firms, households, the banking system, the public sector and external flows. This analysis can serve as a quantitative framework for the description and analysis of the diverse financial markets and for the interrelationships between monetary and fiscal policies described in greater detail elsewhere in this Report.

3.2 The flow of funds is portrayed by means of a series of financial social accounting matrices (FSAMs) (described in Appendix 1) which detail the distribution of real and financial resources among the different production activities, agents and institutions in the Cameroonian economy during a given year. This approach not only provides an accounting framework for financial transactions, as does the more traditional flow of funds accounts, but it also extends this framework to the real side of the economy. The approach therefore allows us to capture more exactly the interrelationships between the real and monetary sides of the economy. This is particularly important for Cameroon where public sector funds are not only a very large share of total real resources, but are also an important source of liquidity to the banking system. Another advantage of the FSAM is that it necessarily assures consistency between real and monetary data as with, for example, monetary surveys and national accounts. This allows a departure from dependence upon published data and permits the estimation of unknown flows as a residual.

3.3 It should be understood that this flow of funds is based on data which in many cases are incomplete and/or inconsistent. Although the FSAM methodology to some extent allows us to correct these deficiencies, a number of judgmental factors necessarily enter into the analytical process (see Appendix 1). In particular, the matrices which are central to the analysis can show us how funds are channelled from surplus to deficit sectors of the Cameroonian economy and provide a quantitative framework of the diverse financial markets as they manifest themselves in that economy. The FSAM methodology in question is based upon a series of interrelated accounts for each of the productive sectors, economic agents and institutions which follow the principle of double entry bookkeeping ensuring that for each account expenditures will equal revenues. The advantages of this approach are that consistency between national accounts data and financial

data is assured. Moreover, from an analytical point of view the FSAM approach allows the calculation of unknown flows as a residual, showing the implications across accounts of different assumptions with respect to the various magnitudes in question. In addition, the FSAMs permit a clear overview of the interrelationships between the real and monetary sides of economy.

B. The Savings-Investment Process in Cameroon.

1. Savings, Investment and Institutional Financing Needs

3.4 The advent of major oil revenues by 1981 1/ changed the character of the Cameroonian economy both in terms of investment and financial flows. Investment has grown from approximately CFAF 85 billion to CFAF 760 billion between 1973 and 1984, or from 20% to 25% of GDP. Prior to 1979, Cameroon had moderate deficits on current account; gross national savings (GNS) grew apace with gross domestic investment. Between 1979 to 1981, GNS did not grow as rapidly as investment, and as a result the current account deficit increased substantially. The advent of oil revenues in 1981 reversed this trend; GNS increased at a faster rate so that by 1984 Cameroon was a net provider of savings to the rest of the world.

Table 3.1 : Total Savings and Its Distribution

(billion CFAF and percent)

Fiscal Year	GNS	House-holds	Firms	Govern-ment	Foreign Savings
1980	240.8	46.8	113.1	80.9	81.3
	100.0%	19.4%	47.0%	33.6%	
1981	390.7	72.7	193.5	124.5	108.6
	100.0%	18.6%	49.5%	31.9%	
1982	461.7	90.1	181.3	190.3	71.7
	100.0%	19.5%	39.3%	41.2%	
1983	612.0	119.6	215.4	277.0	39.6
	100.0%	19.5%	35.2%	45.3%	
1984	859.5	190.0	334.0	335.5	-96.2
	100.0%	22.1%	38.9%	39.0%	

Note: The firm sector includes public enterprises.
Source: The FSAMs for Cameroon.

1/ All years refer to fiscal years, i.e., from July to June.

3.5 There has been a marked change in the sources of savings during these years; Table 3.1 shows the decline in the importance of net foreign savings (i.e., from abroad) and private savings (households + firms) and the relative increase in government savings which took place over the period. As explained above, the savings from the rest of the world (RoW) have not only declined in relative terms over this time period but its absolute value has decreased as well, so that by 1984 Cameroon became a net provider of savings to the RoW. Particularly notable is the fact that the advent of oil had the effect of increasing the relative contribution of the Government to GNS by 10 percentage points, from 32% to 42%. The proportion of GNS provided by the private sector dropped commensurately from 68% to 58%, with all of this relative decline originating in retained earnings of firms.

3.6 There are some marked differences in saving patterns between Cameroon and Côte d'Ivoire, a Sub-Saharan African country with a comparable level of GDP per capita. First, Cameroon's overall savings effort has been stronger than that of Côte d'Ivoire as measured by GNS as a proportion of GDP. This was already the case in the pre-oil era because the enterprise sector seems to have been able to generate a higher proportion of savings in Cameroon as compared with Côte d'Ivoire; this difference has, however, diminished during the oil era (Table 3.2). After the onset of oil revenues, all three institutional sectors in Cameroon were contributing more to savings as a percent of GDP than in Côte d'Ivoire. Finally, because of the apparent strength of its domestic enterprise sector, government in Cameroon contributes relatively less to GNS than is the case in Côte d'Ivoire, although differences have narrowed since oil production began. The Government's share in Côte d'Ivoire is probably artificially high because it reflects the commodity boom taking place during the years in which the comparisons were made.

Table 3.2 : GNS and Its Distribution in Cameroon and Côte d'Ivoire

(percent)

	Cameroon 1980-81	Cameroon 1982-84	Cote d'Ivoire 1974-76
GNS (% of GDP)	19.8	24.6	15.0
of which:			
Households (% of GDP)	3.8	5.0	3.4
Firms (% of GDP)	9.6	9.3	3.6
Government (% of GDP)	6.5	10.3	8.1
		DISTRIBUTION OF GNS	
Households (% of GDP)	19.0	20.4	22.4
Firms (% of GDP)	48.3	37.8	23.7
Government (% of GDP)	32.7	41.8	53.9

Notes: GNS as a percent of GDP for Côte d'Ivoire refers to 1980. The contribution of each institutional sector has been calculated using the distribution in 1974-76.

Sources: The FSAMs for Cameroon.
World Bank: Finance in the Development of Côte d'Ivoire (1981).

3.7 An alternative way of identifying the growing savings effort in Cameroon is to track the evolution of the average propensities to save of the institutional sectors. While there has been some growth in the average propensity to save of households, it is that of the Government which has most increased most sharply, from 28.2% in 1980 to 39.7% in 1984. This reflects the fact that current expenditures of the Government have risen at a slower rate than total revenues, perhaps unsurprising in view of the very rapid growth in oil revenues over the time period, particularly given the conservative policies typically followed by Cameroonian authorities with respect to expenditure growth.

3.8 There has been no significant change in the basic pattern of the sectoral distribution of gross investment; government has remained the origin of 1/4 of total gross investment, firms approximately of the other 3/4, with households being responsible for a negligible amount. 2/ There has been some instability in this pattern; thus government's share between 1980-84 has varied from 20% to 28%, with compensating changes taking place in the share of the enterprise sector.

2/ Investments performed by households when acting in their capacity as entrepreneurs, e.g., a farmer building a tool shed, have been assigned to the firm sector. By assumption, only those investments performed by individuals not directly related to a productive sector, e.g.,

(Footnote Continued)

3.9 The distribution of investment and savings across institutional sectors determines the net financing needs (savings - investment) of each of these sectors, that is which sectors are in surplus and which in deficit. Table 3.3 derives these surpluses and deficits and shows households growing in importance as a net provider of funds, government net surpluses increasing very rapidly as oil revenues themselves expanded rapidly over the period compensating for the growth in public investment (gross fixed capital formation) and net financing from foreign sources declining quickly. 3/ Some of these surplus funds are being transferred overseas but the rest are being channeled through the domestic financial system to firms whose net financing needs have increased substantially.

Table 3.3 : Savings, Investment and Net Financing by Institutional Sector

(billion CFAF)

	Households			Firms			Government			RoW
Fiscal Year	Savings	Investment	Net Financing	Savings	Investment	Net Financing	Savings	Investment	Net Financing	Net Financing
1980	46.8	2.5	44.3	113.1	237.8	-124.7	80.9	81.8	-0.9	81.3
1981	72.7	5.0	67.7	193.5	392.2	-198.7	124.5	101.9	22.6	108.6
1982	90.1	10.0	80.1	181.3	392.2	-210.0	190.3	131.3	59.0	71.7
1983	119.6	13.0	106.6	215.4	502.6	-287.2	277.0	136.0	141.0	39.6
1984	190.0	20.0	170.0	334.0	533.5	-199.5	335.5	209.7	125.8	-96.2

Note: The firm sector includes public enterprises.
RoW = Rest of World
Source: The FSAMs for Cameroon.

(Footnote Continued)
housing improvement, are assigned to the household sector. These are considered to be very small.

3/ Public investment in this flow of funds analysis will differ from that reported in the tables and analysis of Chapter I on public resource mobilization. This is because investment here includes only fixed gross capital formation and does not include expenditures related to new capital expenditures normally reported in public budgets under investment, particularly with respect to start-up costs of investment projects.

2. Sources and Uses of Funds: Households

3.10 The pattern of household finance in Cameroon is suggestive (a) because of its large net surplus position which implies that households are an important source of financing for the (deficit) enterprise sector; and most importantly, (b) because of the existence of the informal sector, which is a major component of the household sector's portfolio, and which represents a substitute to the formal financial system. Table 3.4 shows the main sources and uses of total investable funds of households from 1980 to 1984.

3.11 The most important source of funds for households is their savings, which have been the origin of approximately 96% of their total available funds on average. Loans from the commercial banking system are only a minor component, averaging only about 4% of their total funds.

3.12 In terms of uses of household funds the most important are bank deposits and the informal sector. The other two uses which account for about 15% of the total are real investment (e.g., subsistence housing) and currency holdings. What is particularly noticeable during this time period is the success which the informal sector had in capturing funds from the household sector; it accounted for 66% of household savings in 1982/83. The figures show that during the 1980s the banking system was not a very attractive proposition to households in terms of portfolio choice in comparison to the informal sector, although in 1984 the banking system recovered the relative position it had in 1980. It seems likely that the negative real deposit interest rates, the lack of formal financial institutions in the rural areas, and the higher rates paid by the informal sector were major contributing factors. This suggests that tontines collect a non-negligible proportion of household savings. In any event, perhaps as much a one-fifth of informal sector savings are expended on essentially subsistence housing.

3.13 The informal sector has both negative and positive aspects. On the positive side, the informal sector has provided Cameroon with a form of financial intermediation, albeit rudimentary, that has been an important complement to the limited funds which the commercial banking sector provides to the agricultural and SME sectors; it has also been important in providing an outlet for savings which are not attracted by the banking sector. On the other hand, the tontine system is not integrated either among individual tontines or with the formal financial sector, limiting the degree of financial deepening in the economy; 4/ in fact, the institutional and social strength of this sector may have impeded the

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4/ Basically, then, savings which are "deposited" with the tontines are much like real (non-financial) savings in that they are not available to the economy as a whole for intermediation to the most productive

(Footnote Continued)

development of the formal sector. All this suggests the need for the banking system to be reformed so as to be able to attract those funds, e.g., raising interest rates on deposits and more importantly offering services to small savers similar to those provided by the tontines including easier access to savings instruments and investable funds.

Table 3.4 : Uses and Sources of Funds for Households

(in billions of CFAF and percent)
(fiscal years)

	USES OF FUNDS				
	1980	1981	1982	1983	1984
Informal Sector	22.0 44.6%	29.9 41.1%	51.6 53.0%	82.3 65.8%	70.7 36.8%
Commercial Bank Deposits	19.9 40.4%	26.1 35.9%	27.8 28.5%	24.9 19.9%	93.1 48.4%
Direct Investments	2.5 5.1%	5.0 6.9%	10.0 10.3%	13.0 10.4%	20.0 10.4%
Currency	4.9 9.9%	11.7 16.1%	8.0 8.3%	4.9 3.9%	8.5 4.4%
Total Funds	49.3 100.0%	72.7 100.0%	97.4 100.0%	125.2 100.0%	192.3 100.0%
	SOURCES OF FUNDS				
	1980	1981	1982	1983	1984
Real Savings	46.8 94.9%	72.7 100.0%	90.1 92.5%	119.6 95.6%	190.0 98.8%
Bank Loans	2.5 5.1%	0.0 0.0%	7.3 7.5%	5.6 4.5%	2.3 1.2%
Total Funds	49.3 100.0%	72.7 100.0%	97.4 100.0%	125.2 100.0%	192.3 100.0%

Notes: (1) Direct investments by households are investments not directly related to a productive sector, housing imporvements, for example. They are equal to cell N2 of the FSAMs (see Appendix 1).
(2) The informal sector is defined to be total real savings of households minus their direct investments, that is (H13-N2) (see Appendix 1).
Source: The FSAMs for Cameroon.

(Footnote Continued)
sector. But they are nonetheless more "productive" than purely real savings.

3. Sources and Uses of Funds: Government

3.14 The pattern of government finance in Cameroon has been determined by several factors. The first is that of public savings, which have been growing very rapidly both in absolute and relative terms because of oil revenues. The second has been the commensurate decline of foreign loans both relatively and absolutely as a source of funds. In this respect a major element in the pattern of public finances has been the changes in public deposits in the banking system which despite the relative stability of Treasury deposits have on the whole been quite unstable.

3.15 The expansion of oil revenues has had a major impact on government finances and indirectly on the whole financial system. Oil has permitted government to expand its savings by 42.7% p.a. in nominal terms from 1980 to 1984, and the share of public savings in total investable funds doubled over this time period from 44% to 88% (Table 3.5). This has allowed government to reduce its dependence on foreign borrowing as a source of finance for capital expenditures. As a result, the contribution of foreign savings to total investable funds has fallen from 53.3% to 7.9% over the period.

3.16 This increase in resources available to the Government has been used not only to finance the expanding public investment program but also to increase official holdings of foreign assets. Thus public investment has increased by 26.5% p.a. over the period (Annex Table 5) while government's purchases of foreign assets have increased by 69.3% p.a. Taking into account the flows throughout the entire period, government has also used the increases in its resources to expand its holdings of deposits at both the Central Bank and especially in commercial banks.

3.17 These rapid changes in the composition of the Government's portfolio reflect the major difficulties encountered by the public sector in channelling an investable resource without overly complicating the management of liquid assets. The issue faced by Government is how to channel the resources collected from the successful domestic resource mobilization effort into the most productive uses.

3.18 The most straightforward solution--that of increasing public investments--can only be a partial one. Indeed, given the limited capacity of the Cameroonian economy to absorb the large amounts of funds available, the present levels of public investment are probably close to the absorptive capacity of the economy. The Government, in any case, should elaborate a post-oil strategy and identify what sectors should be considered priority sectors for public investment. Only after such an exercise can levels and sectoral distribution of public investment be determined as well as areas in which the absorptive capacity needs to be increased.

Table 3.5 : Sources and Uses of Funds of the Central Government, CNPS and SNH

(billions CFAF and percent)

USES OF FUNDS

Fiscal Year	Direct Investment	Loans to Firms	Changes in Deposits at BEAC	Changes in Deposits at Commercial Banks	Buying of Equity	Changes in Overseas Holdings	TOTAL FUNDS
1980	81.8	39.3	3.0	19.4	13.8	26.9	184.2
	44.4%	21.3%	1.6%	10.5%	7.5%	14.6%	100.0%
1981	101.9	25.6	-20.7	52.9	10.0	48.4	218.1
	46.7%	11.7%	-9.5%	24.3%	4.6%	22.2%	100.0%
1982	131.3	26.3	-2.1	27.5	7.4	62.2	252.6
	50.0%	10.4%	-0.8%	10.9%	2.9%	24.6%	100.0%
1983	136.0	16.8	122.8	41.7	3.3	-0.7	319.9
	42.5%	5.3%	38.4%	13.0%	1.0%	-0.2%	100.0%
1984	209.7	48.8	-46.8	-54.6	3.0	221.1	381.2
	55.0%	12.8%	-12.3%	-14.3%	0.8%	58.0%	100.0%

SOURCES OF FUNDS

Fiscal Year	Savings	Loans from Banking System	Foreign Loans	TOTAL FUNDS
1980	80.9	5.1	98.2	184.2
	43.9%	2.8%	53.3%	100.0%
1981	124.5	7.2	86.5	218.2
	57.1%	3.3%	39.6%	100.0%
1982	190.3	18.1	44.3	252.7
	75.3%	7.2%	17.5%	100.0%
1983	277.0	12.9	30.1	320.0
	86.6%	4.0%	9.4%	100.0%
1984	335.5	15.7	30.1	381.3
	88.0%	4.1%	7.9%	100.0%

Notes: Total sources and uses of funds may not be equal because of rounding errors.
CNPS : Caisse Nationale de Prévoyance Sociale
SNH : Société Nationale des Hydrocarbures

Source: The FSAMs for Cameroon

3.19 The Government has in effect also sought to channel funds to the private sector by increasing its deposits in commercial banks. There are, however, several problems with this use of public resources. At best,

however, this has done little more than compensate for the substantial increases in nonperforming assets of these banks since 1979 and this has done little to offset the near insolvency of many of them. In fact, this weak equity position may have led banks to use these extra funds to increase their holdings of liquid short-term assets overseas which in the FSAMs can be seen to have been significant over most of the time period. Finally, another problem with this use of public resources is that the placing of large amounts in commercial banks which may have to be drawn down in particular years (for example, 1984, as can be seen in the 1984 FSAM) implies the need for sophisticated liquidity management.

3.20 This particular problem arises from the growing Government liquidity originating in the expanding oil revenues. The Government has in effect attempted to reduce the impact on domestic liquidity by either expanding holdings of unofficial foreign balances (via the SNH) or by increasing its deposits in the Central Bank. Both procedures have the advantage of sterilizing the financial impact the domestic financial and monetary system of oil export revenues, although only the second results in increased holdings of official reserves. The problems arising from present practices are (a) the difficulties in appropriately managing foreign reserves with two different responsible institutions (BEAC and SNH) with little or no cooperation (in fact, as is well known, the magnitude of the unofficial reserves is a well kept secret); and (b) the difficulties which BEAC will encounter in monetary management and planning with widely varying net government deposits in commercial banks.

4. Sources and Uses of Funds: Firms

3.21 Cameroonian firms (including the public enterprise sector) have a multitude of sources of funds, but unfortunately also a multitude of problems, for their operations on capital account. In addition, because they borrow more than their direct investment financing needs, they have additional funds which they place in monetary assets. Table 3.6 shows the sources and uses of funds of firms in Cameroon over the period covered by the FSAMs.

3.22 The characteristics of these sources of funds can be summarized by four basic points. First, the most important source is retained earnings of the firms themselves; on average from 1980 to 1984 earnings retentions have accounted for 45% of the total funds available to firms. This source of funds has consistently increased by large amounts in absolute terms except in 1982, where because of the low real GDP growth rate achieved in that year (2.5%) they declined. Second, the informal sector has been another very important source of funds for firms; on average it has represented 11% of total funds. Funds from this sector have also increased in absolute terms every year except for 1984 when the supply of funds of the informal sector declined because of the increased proportion of household savings being invested in bank deposits as explained above. Third, the rest of the world has been rising in importance as a financial intermediary providing funds to Cameroonian firms. Together foreign direct investment and borrowing from abroad provided CFAF 110

billion of investable resources during 1984, or 17.8% of total funds, up from only 7.8% during 1980. Finally, while the banking system is the major formal domestic institution providing funds to Cameroonian firms, it has represented only about 22% of total funds on average from 1980 to 1983. In 1984, the banking system provided only 7% of the total funds available to firms, approximately CFAF 42 billion. This 67% decline in bank credit was mainly due to the negative impact of the reduction in government deposits on the supply of credit and the net improvement in the commercial banks' position with respect to the rest of the world.

3.23 The basic picture emerging from these figures is that of a very fragmented financial system which is not performing its intermediation function very well. Two of the domestic sources of funds, retained earnings and the informal sector, involve little or no intermediation because they are either funds originating in the same sector of destination or funds provided from tontines that have practically no contact with other tontines or the formal financial institutions. However, funds originating from the Government are essentially channelled to the parapublic enterprises which would not benefit from resources in a well functioning financial intermediation system. These three sources together approximate between 65-70% of total funds, leaving only those originating from abroad and the domestic banking system (30%). Capital inflows from abroad are, in addition, likely to benefit mainly only those firms having close overseas ties. It is doubtful that SMEs or smallholders in the agricultural sector receive any significant portion of either of the sources of funds in question. In 1984 these two sources represented only around 25% of total investable funds flowing to the Cameroonian enterprise sector.

3.24 The patterns in the use of these investable funds have not varied significantly during this time period, with investment being the principal use. As could be expected, investment in absolute terms has followed a procyclical path; the decline in growth in 1981/82 for example is clearly reflected in the zero growth of investment in that year.

Table 3.6 : Uses and Sources of Funds for Firms

(billions CFAF and percent)

SOURCES OF FUNDS

Fiscal Year	Equity			Debt		Retained Earnings	Government Loans	TOTAL FUNDS
	Informal	Other Domestic	FDI	Domestic	Foreign			
1980	22.0	22.1	14.2	54.8	7.2	113.1	39.3	272.7
	8.1%	8.1%	5.2%	20.1%	2.6%	41.5%	14.4%	100.0%
1981	29.9	18.4	35.2	109.1	8.7	193.5	25.6	420.4
	7.1%	4.4%	8.4%	26.0%	2.1%	46.0%	6.1%	100.0%
1982	51.6	22.6	26.3	102.2	10.0	181.3	26.3	420.3
	12.3%	5.4%	6.3%	24.3%	2.4%	43.1%	6.3%	100.0%
1983	82.3	14.3	54.0	127.7	16.4	215.4	16.8	526.9
	15.6%	2.7%	10.2%	24.2%	3.1%	40.9%	3.2%	100.0%
1984	70.7	13.3	35.0	42.3	75.6	334.0	48.8	619.7
	11.4%	2.1%	5.6%	6.8%	12.2%	53.9%	7.9%	100.0%

USES OF FUNDS

Fiscal Year	Direct Investment	Bank Deposits	Money	TOTAL FUNDS
1980	237.8	29.8	5.0	272.6
	87.2%	10.9%	1.8%	100.0%
1981	392.2	23.1	5.0	420.3
	93.3%	5.5%	1.2%	100.0%
1982	392.2	24.6	3.4	420.2
	93.3%	5.9%	0.8%	100.0%
1983	502.6	22.1	2.1	526.8
	95.4%	4.2%	0.4%	100.0%
1984	533.5	82.6	3.5	619.7
	86.1%	13.3%	0.6%	100.0%

Notes: (1) Total sources and uses of funds may not be equal because of rounding errors.
(2) FDI is foreign direct investment.
Source: The FSAMs for Cameroon

3.25 The FSAMs permit the breakdown of the flow of funds for firms into six separate subsectors of destination. There are three basic conclusions that can be drawn from this disaggregated analysis. First, agriculture, which is comprised of two subsectors, food and export crops, derives a very large proportion of its total investable funds from retained earnings and the equity account (mainly the informal sector as little foreign direct investment has taken place in the food sector or in the smallholder export crop sector). Debt has not been a major source of funds for these two sectors, except for the export crop sector in 1983 (however, the funds provided by the debt account during this year were probably not directed to smallholder agriculture but to the more recently introduced plantation cash crops, as for example, rubber and sugar). Second, the importance of retained earnings for the two nonagricultural private sectors has diminished from 1980 to 1983, especially in the case of private services. For the latter, debt has increased its relative importance from approximately 30% to 40% and equity, probably originating roughly equally from both the informal sector and foreign direct investment, rose from approximately 18% to 30%. For private industry, both retained earnings and debt have declined in relative importance as sources of investable funds from 1980 to 1983, while equity has provided an increasing share, in this case originating mostly from foreign direct investment. Third, the parapublic industrial sector has had a very poor performance over this time period. Total investable funds have declined by 44% from 1980 to 1983 because of the drop in funds provided by the debt and equity accounts; in 1983 this sector relied on retained earnings for more than 60% of its total funds.

3.26 This disaggregated analysis can be expanded by examining the proportion from each source being allocated to each productive sector. It was found that the informal sector is relatively insensitive to changes in the prevalent conditions in the economy, that only a small amount of funds flow to the two agricultural sectors from the banking sector and that there is a growing amount of total funds from both the equity and debt accounts being placed in private services. If foreign direct investment of CFAF 54 billion in 1983 is subtracted from the equity funds flowing to private industries and services, the proportions being allocated to these two sectors (28%) and to the two agricultural sectors (28%) have not changed significantly between 1980 and 1983. The banking system, on the other hand, has responded by increasing the proportion of funds allocated to private services from 37% to 53%.

3.27 The picture drawn by this disaggregated analysis is again of a financial system not performing its intermediation function well. The two agricultural sectors are isolated from the rest of the economy in the sense that their sources of investable funds are either internal (retained earnings) or almost so (the informal financial system). The informal financial system--for the most part the tontines--allocates its funds across sectors independently of economic conditions, implying little inter-sector intermediation. The Rest of the World through both foreign direct investment and debt, and the domestic banking sector have been more dynamic although the sectoral disaggregation is not detailed enough to provide a

clear picture of which types of firms are receiving these funds. In other words, it is doubtful whether domestic SMEs are receiving their fair share.

3.28 The deficiencies of the financial system with respect to intermediation can also be identified by comparing the relative importance of the sources of total investable funds with those of other Sub-Saharan countries. In Côte d'Ivoire, approximately 22% of these funds are from retained earnings while 45% are loans from the formal domestic financial system, compared to approximately 45% and 20% in Cameroon respectively. While retained earnings may be especially low in Côte d'Ivoire over the period of the flow of funds analysis as explained in the flow of funds analysis report for Côte d'Ivoire, there is little doubt that the Ivorian financial system has a more "efficient" intermediation system in the sense that Côte d'Ivoire firms are more dependent on their relative profitability for their financing. In any case, a priori one would expect a large percentage of firms in developing countries to be relatively new and thus heavily dependent on either long-term debt or equity capital for their financing needs. The results described above imply that new Cameroonian firms have less access to the capital markets than desirable even though the high level of retained earnings in Cameroon suggests that these firms are profitable.

3.29 There are also differences in the uses of total investable funds between the two countries that indicate a relatively weak intermediation system in Cameroon. Ivorian firms use approximately 72% of their total funds for direct real investment, compared to a 91% figure in Cameroon. The implication of these figures is that Ivorian firms find the financial assets offered by the financial system more attractive than their Cameroonian counterparts. It follows that entrepreneurs in Cameroon are more limited in their portfolio choices and are to a certain extent "forced" to invest in real assets even if the return on this investment is low.

3.30 There emerge some clear policy implications from all this discussion. The efficiency of intermediation in the Cameroonian financial system is in need of substantial improvement. Even though the flow of funds analysis does not provide sufficient detail for specific recommendations, the general direction and aim of such measures is clear. First, more funds should be directed into the formal financial system, mainly the banking sector, with increased availability to both households and firms. This will permit a decrease in the informal sector's importance as a source of funds, which is, as explained before, segmented both internally and from the banking system. This must however, take place after a fundamental recapitalization of the commercial banking sector; as we have seen, with the commercial banks in their current state of insolvency or near insolvency, government deposits have not basically contributed to the intermediation process. Finally, there is a need for other sources than just the informal sector to provide domestic equity capital to the private sector. Funds available from tontines in addition to the already mentioned problems, are mostly short-term, while equity capital should provide long-term financing. Changes in the existing interest rate structure and the

new financial institutions proposed for the management of a segment of public savings will contribute to these objectives by both increasing financial deepening and providing more term transformation.

C. Summary and Conclusions: The Impact of Oil on the Financial System

3.31 The advent of oil revenues as a major factor in the Cameroonian economy in 1981 fundamentally changed the pattern of real resource mobilization in Cameroon. Oil has greatly improved the domestic resource mobilization performance of Cameroon. Gross national savings increased very rapidly from 17.4% to 27.9% of GDP between 1980 and 1984. The main origin of this savings effort was the Government, whose current expenditures were not permitted to grow as rapidly as its revenues. The impact of oil on private savings was indirect: to the extent that increased government investment expenditures had an impact on the GDP growth rate, the private sector benefited from oil. 5/ Although it might be expected that in a developing country the "supply side" effects on the GDP growth rate of rising government investment would be larger than the demand pull effect of increased government expenditures, to the extent that the latter had any effect, the private sector also benefited. In any case, private savings increased rapidly during these years.

3.32 The changes in the savings pattern and the relative stability of the contribution of households, firms and government to total gross investment (negligible, 75% and 25% respectively) have changed the net financing position (savings - investment) of each of these institutional sectors. Government has been transformed from being in basic balance to being a major provider of funds, financing needs of firms have increased substantially and the household sector is still in surplus and becoming more important. The strong export performance of the oil sector has transformed the rest of the world to be a net demander of funds.

3.33 Oil revenue has permitted increasing the public expenditure program--which has already taken a substantial upward leap; other uses for these funds have been to channel them toward the parapublic sector and to place them in commercial bank deposits at home or overseas. However, both of these alternatives present deficiencies already discussed in more detail.

3.34 Beyond this, oil has not brought fundamental changes to the basic patterns of the Cameroonian financial system either for households or enterprises or in the relative sizes of the intermediation channels. Households still place their surplus funds in deposits at commercial banks

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5/ The sectoral distribution of these benefits depends on many factors, including the effects of the real appreciation of the exchange rate on the relative profitability of tradeables vs. non-tradeables.

and with the informal sector, which is a major competitor both as an alternative asset in household portfolios and also as a source of financing to firms. The large volume of funds flowing through the tontines is a special characteristic of the Cameroonian financial system, and has both positive and negative assets as discussed above (para. 3.13).

3.35 There have been no fundamental changes in how the enterprise sector finances operations on the capital account; retained earnings have remained the major source of investable funds (45% on average), the informal sector has provided 11% on average, credit from the domestic banking system another 20% and the rest from overseas investors and lenders (which have been recently becoming more important) and direct loans or equity funds, provided by the Government to the parapublic firms. On a disaggregated basis, agriculture seems to have been cut off from the formal financial system and there is evidence that the informal sector performs little intersectoral intermediation.

CHAPTER IV

CENTRAL BANKING IN CAMEROON

4.1 The underlying position of this chapter may be summed up by the observation that the rules of the franc zone of the Banque des Etats de l'Afrique Centrale (BEAC), to which Cameroon belongs, while generally well-designed for the least developed economies of the zone states, represent an increasing constraint to the development of the Cameroonian financial system. Since the inception of the franc zone system the Central Bank has taken over many of the roles which in more developed countries would be carried out by the second-tier financial system itself. While the system as now practiced has in many ways well served the member states, Cameroon's economy now requires a framework of greater sophistication which cannot be provided under the present rules of the BEAC, at least as now implemented in Cameroon. Thus the role of the Central Bank in Cameroon should increasingly be that of ensuring the growth of the money supply in support of growth and external equilibrium, rather than that of a "partner in development," whose cost in financial repression is greater than its contribution to growth. This Chapter reviews the various institutions of the BEAC and analyzes their functions with respect to the management of a number of different policy variables and proposes a reform program for Central Bank operations--consistent with existing BEAC rules--more in line with Cameroon's needs as an increasingly sophisticated economy.

A. Money and Credit

1. Introduction

4.2 It is not possible to judge the efficiency of Cameroon's financial system in mobilizing and allocating resources without simultaneously analyzing the overall system by which monetary policy is conducted. How this system is managed has an important bearing upon on the attainment of domestic and external equilibrium; it will also be of major importance in setting the stage for economic growth which is consistent with relative price and real exchange rate stability. As has been suggested in Chapter II, Cameroon's rather interventionist monetary system has considerable negative impact upon financial resource mobilization and financial deepening. The question to be examined in Section 1 is whether this system, in applying an interventionist, growth-oriented strategy focussing on target sectors, may not be self-defeating. The answer is by no means obvious. This section concentrates principally on money and credit as an aspect of Central Banking and treats the question of interest rate determination and impact only peripherally, this important question being separately treated in Section B of this chapter.

4.3 Cameroon, as a member of the BEAC--the Central Bank of the franc zone of central Africa--as opposed to the largely similar BCEAO, which serves the West African States, participates in an arrangement by which exchange rates remain fixed at one CFA franc = .02 French franc; exchange

transactions costs are set at zero, and the same parity has been maintained since the inception of the zone in 1948. A fundamental feature of the franc zone system is the virtually complete monetary integration of the member countries; 1/ besides a common exchange rate, an identical currency is used with no restrictions on current or capital transactions among the members. Moreover, common Central Bank discount rates are applied for all countries, and although interest rates charged to final borrowers may diverge somewhat, as may credit policies, the degree of actual financial integration is higher than for any other monetary union save the BCEAO, whose rules of operation are very similar.

4.4 Another important element characterizes the union: interest rates tend to be kept at low levels, 2/ i.e., considerably below the Paris rate structure, despite the high degree of openness of the economies (including vis-à-vis France, toward which restrictions on capital transactions are limited) and the virtually complete lack of exchange risk. The notion implicitly associated with this approach is: (a) that incomes are too low in zone countries to generate much savings, financial or real, at any interest rate, so that low rates--following this argument--do not represent an important disincentive to savings, financial or otherwise; (b) that as a result it is the role of the Central Bank to cofinance and thereby supplement the meager deposit base through rediscounts rather than to act as a lender of last resort; (c) that with a generally below market rate the Central Bank could effectively take over the role of the market in allocating scarce credit toward appropriate uses; 3/ and (d) that investments in these countries are elastic to interest rates. The truth of these propositions, however, is far from being clear.

4.5 With the French treasury standing ready to support the parity of the CFA franc through an overdraft facility known as the operations account, it is obvious that domestic demand in the member countries must be managed in such a way as not to spill over onto the operations account through balance of payments deficits brought about by excessive credit creation. Apart from credit rationing necessitated by below-market interest rates, this was believed to require restrictions on fiscal policy,

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1/ BEAC member countries are, besides Cameroon, the Central African Republic, Chad, Equatorial Guinea, the Congo and Gabon.

2/ Thus, "cette politique ... traduit (le) souci (des autorités monétaires) de maintenir assez stables et à des niveaux relativement bas les conditions d'intervention de la BEAC pour favoriser le développement économique des Etats membres." La BEAC a dix ans, Tenth Anniversary Green Book, BEAC, 1983.

3/ This also assumes that credit rationing, biased against activities, such as commerce, judged to be of low priority, will correct the disequilibrium inherent in the rate structure.

whose effects in the franc zone countries tend to be potentially much more expansive than a liberal monetary policy, mainly because of institutional constraints common to the zone member countries, but also because Government borrowing from the Central Bank immediately affects the monetary base, which is not necessarily the case with increases in credit to the private sector.

4.6 For these reasons BEAC regulations tend to be quite strict with respect to the levels of Government borrowing permitted; generally these restrict direct (and sometimes indirect) Government borrowing to 20% of total fiscal revenues. Often this restriction has proven difficult to enforce, not only because it does not cover foreign borrowing, but also because Governments have not infrequently been known to shift fiscal functions to quasi-government agencies such as commodity stabilization boards which may enjoy rediscount facilities with the Central Bank. In Cameroon, however, the Government's recourse to BEAC borrowing facilities amounts to less than 10% of its revenues, and little or no financial manipulation of the nature described above exists.

2. Institutional Elements

4.7 Under the BEAC operating rules, the statutes clearly outline the functions of each level of authority. The most important decisions are taken by the Board of Directors, which in turn delegates the implementation of monetary policy in each member country to the National Monetary Committees. Each of the National (country) Directors acts in the name of the BEAC Board and the country's National Monetary Committee. There are some important differences with the BCEAO which are illuminating. In the BCEAO countries the Governor calls the meetings of the Board, sets its agenda and guides its deliberations. In contrast, the chairmanship of the BEAC Board is exercised by each member country in alphabetical order for one year, and the Governor attends Board meetings only in an advisory capacity. The Board of BEAC comprises mainly the member countries' Ministers of Finance, thus institutionalizing the Central Bank's dependence on the national ministries. This dependence is increased as a result of the powers assigned in each country to the National Credit Council. Chaired by the Ministers of Finance, these Councils are, inter alia, responsible for deciding the margins to be added to the prime rates (taux débiteurs/créditeurs) set by the BEAC board, thus determining the lending and borrowing rates in each member country.

4.8 Mechanisms for setting monetary policy are very complex within the BEAC zone, particularly given the effort simultaneously to control, or otherwise to determine, under conditions of considerable openness:

(a) the external balance, at least to the extent that this negatively affects the operations account, together with the evolution of money supply in each member country;

(b) (roughly), the amounts of rediscountable credit going to a large number of individual sectors, enjoying either privileged or ordinary access to BEAC rediscounts;

(c) the quality of banks' portfolios with respect to their solvency, this to be done via rediscount policy bearing on individual loans, rather than by separate audits, which take place rarely; and

(d) the access of individual borrowers to credit according (a) to their total exposure; and (b) their own apparent creditworthiness.

4.9 Thus the statutes simultaneously impose restrictions bearing upon: (a) growth of the money supply; (b) amounts of credit flowing to favored versus non-favored sectors; and (c) overall portfolio quality, as judged by two separate criteria. Later we will see that the relationships between instruments used and targets sought are excessively complex to the point where decision-makers can have little or no idea about the effect of individual policy measures on quantitative or qualitative targets: as a result, these measures are often honored in the breach. In any event, there is considerable question as to whether a number of these targets are in fact achievable, or even desirable. There is also the problem that the complex criteria established by BEAC operations substitute for decisions which basically should be made by the market (at least in a relatively sophisticated economy such as that of Cameroon) and that this may have inhibited domestic financial development.

3. Monetary Policy and its Conduct

4.10 The simplified BEAC balance sheet shown below indicates that there are three asset components entering into the monetary base (BEAC liabilities). These liabilities--the counterpart of the assets in question--are currency in circulation and commercial bank reserves, and it is these which, via the money multiplier, are the base of the money supply. As is the case with any Central Bank, the BEAC has a number of alternative ways in which to affect the money supply. Theoretically, it could affect bank reserves directly, either through open market policy or by changing reserve requirements, although as a practical matter these options are not currently open to it. Or it could operate on the currency component of the monetary base through any of the three components of its assets.

BEAC Balance Sheet (1984)
CFAF Billions

ASSETS		LIABILITIES	
Net Foreign Assets	3.7	Currency in Circulation	146.0
Loans to the Treasury	-5.1	Reserves with BEAC	7.3
Bank Rediscounts	162.3	Capital Account	7.6
TOTAL	160.9	TOTAL	160.9

4.11 Essentially, by opting to keep domestic interest rates fixed at levels below international (Paris) rates to stimulate investments (see Table 4.3), BEAC has in effect chosen to accommodate changes in the money supply which result from the interest-rate differential in the open franc zone economies; it does not use interest rate changes to affect net foreign assets (or via that account currency in circulation). 4/ Since interest rates are set at low levels compared with international rates, Central Bank rediscount policy is made complicated because it must simultaneously be conducted: (a) so as to counteract the balance of payments leakages due to the capital flows associated with these rates and adjusting for changes in Paris rates since domestic rates are far less flexible; and (b) to permit growth in the domestic money supply sufficient to satisfy the demand for real balances consistent with stable domestic growth and external balance. Particularly when maintaining a disequilibrium interest rate this may be an impossible task.

4.12 BEAC rules permit Central Bank lending to the Government according to a fixed formula, which provides for Central Bank financing of Government deficits in a negotiable amount which may be up to 20% of total fiscal receipts of the Government (plus lending to public enterprises). This implies that public sector credit needs will be accommodated before those of the private sector, so some crowding-out may be involved. However, Government borrowing is considerably below statutory requirements in Cameroon, and in any event Central Bank lending to the Government is not a discretionary item by which money supply can be manipulated.

4.13 While compulsory reserves have been authorized since 1977, reserve requirements have not yet been implemented in Cameroon, largely because these have been felt to be unnecessary under the current system. In any event voluntary reserves amount to less than 5% of the total monetary base. Open market policy, moreover, is nonexistent. Thus in effect the only discretionary measure the Central Bank possesses to control the money supply is through changing the currency component of the monetary base by use of the rediscount mechanism. 5/ Even this mechanism is weakening, however, since the independence of the Cameroonian financial system from the Central Bank has grown considerably over the past decade,

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4/ Another way of saying this, however, is that monetary authorities cannot easily use interest rate changes to change the money supply in their open economies, since a rate change will lead to offsetting changes in the net foreign asset account.

5/ This does not, however, exclude the possibility that the Central Bank might (with the agreement of the Government) shift Government balances currently on deposit with the BEAC into, and out of the commercial banks. This would be closely similar to conducting an open-market policy using Government debt (which is practically non-existent in Cameroon).

with the demand for Central Bank money (BEAC rediscounts) down to 21% of total lending by 1984, as compared with 31% in 1976. This independence is manifested analytically in the decline in the share of currency in the money supply (from 28% of M2 in 1976 to 18% in 1984): as explained above, the currency component of the monetary base is virtually the only part of that base over which the Central Bank has control in the absence of compulsory reserves.

4.14 It must be emphasized that the absence of any real overall BEAC monetary policy has not yet had any dramatic repercussions apart from the contribution of interest rate policy to some financial repression. Monetary policy has been accommodating, having passively adapted to external shocks, changes in public sector liquidity, etc., shown, among others by a relative stability in the M2/GDP relationship. 6/ The balance of payments position, although obscured somewhat by the management of oil earnings, remains healthy, there is little obvious "crowding out," and the system is not contaminated by a government budget which is out of control. Thus the main concern must be to develop a monetary system whose capacities of intermediation and resource mobilization are commensurate with the requirements of Cameroon's relatively sophisticated economy, particularly in providing access to the formal credit system to borrowers--such as the small and medium-scale enterprise sector--which are usually excluded, and in giving stimulus to growth rather than impeding it. There is some reason to believe that the BEAC regime may have somewhat constrained the capacity for intermediation of the Cameroonian financial system, particularly in that more or less automatic access to BEAC rediscounts, especially for medium-term loans, tends to inhibit the development of non-bank intermediary institutions which could render the same services.

The System in Practice

4.15 The functioning of the BEAC system is centered about: (a) a set of prime (rediscount) rates which form the basis of the member countries' entire interest rate structure; (b) a set of multi-purpose banking ratios which have both macro-economic as well as micro-economic implications and seek to ensure stability (or solvency) at the banking as well as firm levels; (c) various absolute (as opposed to relative) ceilings, of which the most important is that pertaining to rediscounts, which are established for overall lending, as well as for individual enterprises; and (d) the quantitative restrictions on lending to the Central Government.

6/ However, this may suggest some increasing financial repression as the degree of monetization increases in a growing economy which continues to have a relatively high level of subsistence agriculture.

(a) The Prime (Rediscount) Rates (Taux de Base) 7/

4.16 The Board of Directors of the BEAC sets five identical prime rates for all member countries. These are:

(a) the ordinary prime lending rate (taux de base débiteur ordinaire: TBDO), which is BEAC's regular discount rate, now equal to 9%;

(b) the preferential prime lending rate (taux de base débiteur préférentiel: TBDP), now 5.25%;

(c) the prime borrowing (deposit) rate (taux de base créditeur: TBC), now equal to 2.5%;

(d) the lending rate to the national treasuries relative to advances on current account (taux des concours aux Trésors), now 4%; and

(e) the penalty rate (taux de pénalité), 18%.

4.17 Each country's National Credit Council can, within certain limits, decide upon the margins to be added to the first three of these prime rates to establish final borrowing and lending rates. Thus considerable differences in nominal rates of all categories (save for the penalty rate and Treasury borrowing rate) are found throughout the BEAC zone. In Cameroon, the application of these margins results in a total of 21 different lending rates and 49 different deposit rates, all administratively determined.

(b) Target Ratios

4.18 In addition to setting base deposit and rediscount rates, BEAC decides on the quantitative ratios which protect depositors from bank insolvencies. Here again, it is up to the national credit councils to set the actual value of these ratios. The ratios in question are: (a) the liquidity coefficient; (b) the lending/capitalization ratio; and (c) the ratio of deposits to non-rediscountable credit. The values of these ratios for the BEAC member countries are shown in Table 4.1.

7/ These rates were lowered on March 26, 1986. The new rates are 5.0% for the preferential prime lending rate, 8.5% for the ordinary prime lending rate, and 16% for the penalty rate. The rate for advances to the national treasuries was maintained at 4.0%.

Table 4.1 : BEAC - Imposed Bank Ratios

Liquidity Ratio	70% Cameroon	75% People's Republic of the Congo, Gabon	80% Chad
Lending/Capitalization Ratio	5% overall Cameroon	7% for rediscountable loans 10% for non-rediscountable loans Remaining BEAC countries	
Use of deposits for non-rediscountable loans		25% for demand deposits 50% for term deposits All countries	

Table 4.2 : Liquidity and Non-Rediscountable Loan/Deposit Ratios, December 31, 1984 (provisional)

Banks	Liquidity Ratios	CEDCNR /a	
		Maximum Authorized	Actual
SGBC	94.8	40.8	44.1
SCB	99.7	38.2	70.7
BICIC	86.8	38.6	60.6
BIAOC	71.8	37.9	66.5
BCC	120.1	40.5	91.2
BPPB	59.6	45.3	86.0
Bank of America	20.2	44.4	95.5
Chase Bank Cameroon	80.9	40.5	72.6
Boston Bank	94.1	44.2	130.1
Cameroon Bank	69.5	42.8	83.2

/a Coefficient d'emploi des dépôts en crédits non-réescomptables (use of deposits for non rediscountable credits).

4.19 Of these various ratios, only the liquidity ratio (liquid assets + readily rediscountable assets/current liabilities) is widely observed by the banks; in December, 1984, only three of the ten commercial banks (one of them the bankrupt Cambank) had a ratio below the required level of 70%. (See Table 4.2) It should be noted that this ratio is, in effect, multi-purpose and thus under-determined. On the one hand it seeks to ensure

banks' liquidity and therefore solvency; on the other, by excluding from rediscount assets declared non-priority it also introduces a qualitative judgment into the calculation.

4.20 The fact that most banks in Cameroon have little difficulty in adhering to the prescribed ratio may be related to an excessively broad definition of the term "liquidity." Probably more relevant, however, is the fact that these figures reflect the excess liquidity position of the banks, via public deposits, generally.

4.21 With respect to the lending/capitalization ratio, ("ratio des fonds propres"), this ratio, like the liquidity ratio, is designed to protect bank solvency; unlike the liquidity ratio it is purely a quantitative measure. Banks in Cameroon are strongly in non-compliance with the ratio, and show loans in excess of 45% of what they would be if the 5% ratio were adhered to. If the assets in question were written down, as their heavy load of non-performing assets would suggest, the stability of the banking system would be even more open to question. However, any attempt by the monetary authorities to enforce this regulation would have severely deflationary effects on the economy.

4.22 The ratio of deposits to non-rediscountable credits also combines quantitative and qualitative restrictions, and as is the case with the capitalization coefficient, Cameroonian banks are far from being in compliance (see Table 4.2). While the ratio is principally designed to orient lending to desired sectors, it would also have quantitative implications to the extent that demand from the rediscountable sectors is not forthcoming at given interest rates, and this is the main reason: (a) for the generalized non-compliance; and (b) why banks are not pressed by BEAC to restore their ratios to compliance. Since, however, loans to individual firms may not be rediscountable because BEAC adjudges them to be insufficiently creditworthy, we again find a ratio which as a single policy variable may affect a multiplicity of targets.

(c) Rediscount Ceilings

4.23 Among the multiplicity of policy instruments the principal intervention instrument (apart from the restrictions on Government borrowing from the Central Bank) is the rediscount ceilings. As with the lending ratios discussed above, with which they have important points of intersections (and which basically combine to over-determine the system), these ceilings are used not only to control the quantity of credit, but its quality as well. 8/ These ceilings (plafonds de réescompte) are determined by the National Monetary Committees for the individual member countries in

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8/ Since 1977 the principle of compulsory reserves has been formally established but not yet implemented in any of the member countries. This is also the case in the BCEAO.

accordance with levels set for the zone as a whole by the BEAC; these are then subdivided according to individual banks, types of loans, and individual rediscount limits for each borrower.

4.24 It is important to realize that the aggregate rediscount ceilings are far in excess of levels required by the Cameroonian financial system; at present roughly 20% of total lending has its source from BEAC rediscounts as compared with the quantitative ceiling which would permit more than double this level. This reflects not only the institutional difficulties in finding attractive rediscountable loans, but suggests an increasing maturity of the Cameroonian financial system itself. It may also reflect excess liquidity due to Government deposits.

4.25 The individual rediscount limits (i.e., with respect to particular enterprises) represent an important element of the overall rediscount-oriented BEAC system, and they have considerably more "bite" than the aggregate ceilings. These individual limits are basically determined by an advance examination by the National counterparts of the BEAC of the financial situation of the individual borrowing enterprise, the sector of its activity and the nature of the operations to be financed. One of the most important elements in the determination of the individual discount limits is the firm's working capital position.

4.26 The above criteria apply to short-term lending to individual enterprises. With respect to medium-term loans, the BEAC will give a "prior authorization" for loans to the individual enterprise (up to the limits in question). 9/ As with a number of other elements of the system, the ultimate impact of this policy measure is unclear. On the one hand, if individual firms are unable to meet the criteria in question their borrowings will have to be made on somewhat less favorable terms out of the banks' own deposits, rather than through rediscounting. On the other hand, because of the allowable margins on lending, which are greater than for rediscountable loans, the latter loans are more attractive for the banks. Thus the ultimate impact of the system may be to encourage the loans which it seeks relatively to discourage.

4. The Rediscount System: An Evaluation

4.27 The rediscount system is pivotal to the functioning of the BEAC/Cameroon monetary system. Because of the multiple advance determinations required with respect to whether a loan is rediscountable or not, the Central Bank's involvement in the whole process must be an intense and time-consuming one whose quantitative implications must be intimately

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9/ The prior authorization rule ("autorisation préalable") now operates automatically, but it might be redesigned to work on a discretionary basis as one means of supporting a possible global credit restraint system.

involved with the qualitative aspects in question. Among others, this significantly extends the lead time for BEAC responses to bank applications and implies considerable uncertainty with respect to whether the loan will be rediscounted or not. With the large number of lending rates about which determinations must be made on all sides, the overall efficiency of the financial system in responding to the needs of the economy is compromised. Also, with the BEAC taking on the task of essentially examining the credit-worthiness situation of virtually each individual borrower, there seems to be some inclination for the commercial banks to slight this aspect of their activities. Thus apart from the lending margin aspect of non-rediscountable lending mentioned above, the difficulties in obtaining agreement for refinancing have also induced the banks to increase the volume of non-rediscountable loans well beyond the limits implied by the ratios set for such lending. The established rediscount procedures have probably had the opposite effects from those intended, and raise the question as to whether they are really viable.

4.28 Table 4.2 indicates that as of December, 1984, the ratio of non-rediscountable credit to deposits is far in excess of that authorized for all banks in Cameroon. This drift has been noted for some years. Although the monetary authorities have means to correct the situation through the use of the 18% penalty rate for all rediscount operations until the ratios are brought in line, these penalties are not levied. This is in large part due to the tacit understanding that the instruments of monetary policy (of which the restrictions on non-rediscountable credit are an important element) in fact tend to overregulate the system. It also reflects the understanding that the imposition of such sanctions would badly compromise the commercial banks' already extremely poor operating position stemming from their poor portfolios.

4.29 The system as such is perhaps not inappropriate in a country (such as Chad, or the CAR) where savings, financial and real, are constrained by low income (and thus where Central Bank rediscounting may be of considerably greater importance than lending out of deposits); where the Central Bank may be the only safeguard with respect to the quality of loans; and where low interest rates may be considered the only way to stimulate private investments in a relatively primitive economy dominated by the public sector. Under such circumstances the social cost of financial repression may be relatively small and administrative complexity a small price to pay for financial development. For Cameroon, on the other hand, all of these elements may severely compromise the ability of the financial system to deliver the services required of an increasingly sophisticated economy.

5. A Reform Program

4.30 We have seen that the Cameroonian monetary system (as exercised within the context of the BEAC) is excessively complex without permitting the exercise of real control over the domestic monetary environment. Policy instruments simultaneously related to quality and quantity have controlled neither, but have muddied the waters with respect to the

relationship between instruments and targets. Moreover, there is no evidence that the interest-rate structure gives stimulus to investments, either overall or for favored sectors; if anything, the interest rate structure, particularly with respect to permitted bank margins, has perverse effects. In addition, interest rate policies have constrained financial deepening, and particularly favorable terms extended to medium-term loans may have worked to constrain the ability of the Cameroonian financial system to carry out term transformation effectively. The distinction between rediscountable and non-rediscountable credit has not brought an increase in rediscountable credit; 10/ nor has it prevented the system from being burdened with low quality loans. Thus ratios bearing upon this distinction are continuously honored in the breach. However, administrative complexities continue to inhibit the system as banks are frequently unable to determine whether a loan being granted will be rediscountable or not; nor can they easily know--with 21 different possibilities--what interest rate will be chargeable.

4.31 Reform of the Cameroonian system should thus involve a number of elements, of which simplification should be a major one:

(a) the commingling of qualitative and quantitative targets should, to the extent possible, be avoided;

(b) in particular, the distinction between rediscountable and non-rediscountable credits should abolished, with all loans being in principle rediscountable, with quality criteria not being exercised on a loan-by-loan basis;

(c) to compensate for this, the role of lending/capitalization and liquidity ratios should be strengthened;

(d) individual credit limits should be eliminated, as should prior authorizations;

(e) interest rates should be aligned on international (generally Paris) rates;

(f) overall credit ceilings should be applied as the main instrument in the control of growth in the money supply (as opposed to rediscount ceilings) 11/ and;

10/ That the effect may have been opposite from that sought is itself reflected in the sharp decline of BEAC rediscounting, as a percentage of total lending, since 1976.

11/ Given the openness of the Cameroonian economy, the enforcement of overall credit ceilings would require including borrowing from parent banks in the ceilings in question.

(g) compulsory reserve requirements should be considered as a tool for reinforcing a credit allocation scheme.

4.32 In order to allow the abolition of the distinction between rediscountable and non-rediscountable credit (as well as permit the transfer of bank control functions to the national authorities), the Central Bank would be concerned with the initial examination and financial analysis of loan applications only in exceptional circumstances. Together with stricter attention to liquidity ratios, and lending/capitalization ratios and strengthened supervision over bank portfolios by the Direction du Contrôle of the Ministry of Finance, the category of non-rediscountable credit would be dropped, as would individual credit limits and prior authorizations.

4.33 Clearly, a satisfactory recapitalization of the commercial banks would have to be undertaken before any changes, such as the above, could be introduced. Possible modalities toward this end are discussed at length in Chapter V.

4.34 In order not only to lessen financial repression, but to reduce the burden on the financial system of rationing credit where interest rates were below equilibrium, and to simplify the maintenance of macroeconomic equilibrium, as well as of the control over the money supply, domestic interest rates should be aligned, probably on a quarterly basis, on Paris rates. This would not, however, preclude the use of a preferential discount rate. 12/

4.35 In order to provide for a greater degree of control over the domestic money supply (assuming that interest rates are neutral in their effect), an overall credit ceiling policy (encadrement de crédit) should be instituted. A policy of this nature, which would determine the overall amount of credit to the private sector desirable given expected changes in net foreign assets and government borrowings, would have the advantage of being more precise and easier to control than rediscount ceilings 13/ with respect to setting monetary growth. This would be the case since it would directly affect the money supply, unlike the current system, where the relationships between rediscount ceilings and money supply are highly

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12/ Details as to how a new rate structure might appear will be presented in the following section.

13/ Again, it should be emphasized that this approach to controlling monetary growth has not resulted in any particularly untoward events in Cameroon's financial history. Given the very open nature of Cameroon's economy this would have been unlikely. But the approach proposed here has the advantage of reducing administrative unwieldiness and making the system more adaptive to the needs of an increasingly sophisticated economy.

obscure. It would also be more easily possible, via this mechanism, to control the money supply: (a) where the independence of the BEAC rediscount mechanism is in any event increasing; and (b) in tandem with substantial Treasury balances whose manipulation might have considerable impact, as shown above, on the money supply.

4.36 Under the credit ceiling policy, an overall credit package, i.e., total amounts of credit which the banking sector would be permitted to grant over the course of the year, would be allocated to the individual banks roughly according to existing sizes of banks as well as according to the efforts made by the individual banks to increase deposits, with preferences perhaps being given to the mobilization of term, as opposed to demand deposits. While rediscounting would continue, no ceilings on rediscounts would be set, as is currently the case. Banks would be permitted to exchange credit allocations on the open market, possibly in conjunction with the money market system, or against an administratively mandated penalty rate. Alternatively, if guidelines were exceeded by individual banks, they could be obliged to increase their deposits of non-interest-bearing reserves with the Central Bank. 14/

4.37 As noted above, credit authorizations would take into account the expected evolution of government borrowings and net foreign assets. On this basis indicative ceilings could be set for a year but made binding, say, for the following three months; depending upon changes in these counterparts of the money supply, credit allocations could be modified as needed.

4.38 The credit ceiling policy, instituted in 1977 in Gabon and thus compatible with BEAC rules, is a much more powerful and precise mechanism for controlling domestic credit than the current system of rediscount ceilings. It also tends to be less intrusive with respect to monetary management and less inhibiting of financial intermediation generally. Particularly with the abolition of the distinction between rediscountable and non-rediscountable credit it is also administratively much easier to manage, although it does require a more precise information and data system than now used so that the BEAC would be able to keep track of the evolution of credit by banks and institute mid-course corrections as required. The system can also be used in order to stimulate deposit mobilization, and particularly to encourage the development of term deposits by the commercial banks.

4.39 Simultaneously with the institution of the credit ceiling system the de facto introduction of compulsory reserves would be desirable because this would permit the BEAC an additional instrument of fine-tuning for

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14/ Another possibility would be that current in the BCEAO countries, where the "autorisation préalab :" measure is used by the Central Bank to grant supplemental credit authorizations.

overall credit, particularly with respect to penalties for banks overshooting agreed credit expansion limits, whether financed by domestic deposits or borrowings from foreign banks. While other collateral measures controlling the overall evolution of credit and the money supply might be applied, the increased use of the reserve requirement would, in principle, be desirable as a means of directing the BEAC system--at least as practiced in Cameroon--toward a less all-encompassing role, and more one which focussed on the basic aggregates.

B. Interest Rates

1. Introduction

4.40 We have argued that interest rates in Cameroon are excessively low, not only absolutely--particularly in real terms--but also in comparison with Paris rates. This has tended to cause financial repression by discouraging domestic financial savings, but also to inhibit the development of a domestic capital market as the attraction of higher Paris rates, together with various institutional factors, has drawn shorter- and even longer-term resources from the domestic capital market. Table 4.3 gives a useful overview of the situation. Before proposing a new interest rate structure and rules for its determination, designed to be compatible with the BEAC structure as it now exists, we will examine some other issues bearing upon the interest rate structure and levels (including possible "crowding out" effects and the impact of "targeting") and upon its role in overall monetary policy.

Table 4.3 : Comparison: Cameroonian/Paris Interest Rates

	Cameroon Deposit Rates /a	Paris Interbank Rate /b	Differential: Paris/Cameroon
1975	5.5	7.9	2.4
1976	5.5	8.6	3.1
1977	5.5	9.1	3.6
1978	5.5	8.0	2.5
1979	5.5	9.1	3.6
1980	7.0	11.8	4.8
1981	7.0	15.3	8.3
1982	7.0	14.9	7.9
1983	9.0	12.5	3.5
1984	9.0	13.3	4.3

/a Time deposits rates paid for six to twelve months deposits for amounts in excess of CFAF 75 million.
/b Annual average bank overnight rate.

2. Interest Rates and Monetary Policy

4.41 Under the current monetary regime, interest rates are not used as an instrument of monetary policy in Cameroon. As we have seen, the average rate is maintained at low levels in order to give stimulus to domestic investments; within the average rate structure particularly low rates are provided for via BEAC's "privileged" discount rate. The latter is uniform throughout the BEAC zone, but may be modified by permissible margins for loans to final borrowers which will differ from country to country depending upon the decisions of the independent National Credit Councils. Thus monetary policy is essentially designed to accommodate the interest-rate structure, which itself is adjusted only once every two to three years. Since the low interest rates compared with the Paris structure give rise to capital outflows of varying levels and intensity, and since levels of government borrowing are ordinarily automatically accommodated up to a fixed level (so that government borrowing is essentially preemptive of domestic credit), 15/ this has had the result that the entire burden of accommodation is placed upon rediscount policy.

4.42 The alignment of the Cameroonian interest rate structure on Paris rates on a regular basis would not only remove a basic impediment to financial deepening but would also work to offset the impact of capital flows on the money supply. It would thereby permit credit policy to focus entirely on satisfying the liquidity requirements of the economy itself and would simplify the policy target/policy instrument relationship.

4.43 An important consideration relating to the upwards shift in the interest rate structure resulting from the alignment on Paris rates is the impact of the interest rate level on savings on investment. It is clear that the low interest rate structure has had a negative impact on financial, if not real savings. However, the degree to which the interest rate structure has had an unfavorable impact on investment is another matter. Very likely this has been very little, particularly in light of the poor state of money and capital markets which the Cameroonian investor faces. No proof either way is available, but a part of the impact of the alignment on international rates could be mitigated by the removal of the taxes which are now imposed upon borrowing. Should these taxes, the TDC and the ICAI--whose fiscal return is negligible--be removed (or recovered from bank profits), this would permit approximately a 2.5 percentage point reduction

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15/ As we have seen, this is not the case for Cameroon, whose borrowings from the Central Bank have always been below statutory limits. However, if circumstances required, the Government would very likely obtain the authorization from the BEAC to increase its borrowing to the statutory level of 20% of fiscal receipts, which, if external balance were to be maintained, would abruptly crowd out private borrowing, particularly to the extent that commercial banks were dependent upon BEAC rediscounts, rather than deposits, for lending.

in interest costs to the borrower, which would considerably offset the rise in interest rates resulting from alignment.

3. Interest Rate Selectivity

4.44 While crowding out does not appear to be a problem in the Cameroonian economy, the targeting of priority, or privileged sectors does entail a certain cost to the economy and the banking system. Target sectors, which benefit from the 5.25% privileged rediscount rate, include agriculture, both for marketing as well as for export, small- and medium-scale enterprise, loans to cooperatives and state organizations, social housing, etc. Probably the main problem with interest rate selectivity is not so much that the banking system bears its cost (although this does happen) but that it adds a considerable measure of complexity to the system without having much stimulative effect. This is, if anything, pointed up by the fact that none of the commercial banks has been able to comply with the requirement that 10% of their total credits must be made to the SME sector, despite its privileged access to rediscounts.

4.45 A major problem in this regard is the fact that for privileged credits, approved margins over the 5.25% rediscount rate vary between 2.5% (if the credit is within the agreed limit, and therefore rediscountable) and 3.5% if it is non-rediscountable. Given the fact that the processing costs and risk premiums are probably highest for the loans in question there is little doubt that the effects of the low-margin policies are perverse, with the incentive effects of the low rediscount rates being completely overwhelmed by margins which in most instances are considerably below bank costs.

4.46 Based upon the differentials between rediscount rates for privileged and ordinary loans (3.75%) and average final lending rates for the two types of loans (5%), it is possible, taking into account the importance of these loans in banks' total portfolios, to calculate the opportunity cost to the banking system of making privileged loans as compared with ordinary loans (assuming both are rediscountable). This cost is equal to approximately 1.3 percentage points over the average deposit rate and gives an indication of amount by which deposit rates could be increased if the targeting system were to be abolished. While this is not a particularly heavy burden it obviously contributes to a dampening of financial resource mobilization. Possibly preferable to the abolition of the targeting system (which in any event does not appear to be compatible with the current BEAC system) would be an increase in banks' permissible margins for privileged loans. While this would increase the final cost to borrowers it would provide banks with more incentive to accept the higher risks and costs associated with these loans. Moreover, changes in the margins in question could be made independently by the National Credit Councils.

4. A Revision of the Interest Rate Structure

4.47 We have suggested that the Cameroonian interest rate levels

should be aligned with those of the international markets, generally those of France. Ideally, interest rate determination should by left to the market. However, with the commercial banking sector being highly concentrated, and with capital markets being as fragmented and segmented as they are, the result would bear little relationship with that which should result from an open competition in the supply and demand for loanable funds.

4.48 The current rate structure provides for 21 different lending rates. The multiplicity of lending rates results from: (a) the distinction between discountable and non-rediscountable; (b) the distinction, within each category, of short and medium-term; and finally, (c) the distinction between privileged and ordinary operations. Thus it is possible, under the system, to have a privileged, non-rediscountable, medium-term loan, 16/ which would bear a considerably different rate (9.75%; if it were rediscountable the rate would be 7.75%) than an ordinary non-rediscountable medium-term loan (13.75%). Apart from penalty rates, borrowers may pay between 7.75% and 15.25% for their loans. These lending rates are basically calculated from the two BEAC-set "prime" rates of 5.25% for privileged operations and 9% for non-privileged operations by the establishment, by the national monetary authorities, of permissible margins over the prime rates.

4.49 The abolition of the category of non-rediscountable credit would result in a greatly simplified rate structure based on only two distinctions: privileged vs. ordinary and short-term vs. medium-term. With the identical distinctions being made within these categories as presently, this would result in ten lending rates plus the penalty rate. Assuming that the same sub-categories as presently existing would be maintained via differentiations around a given base lending rate for the category as a whole, 17/ four such lending rates can be established.

4.50 At least until the advent of a zone-wide money market (discussed below) however, Cameroon's national monetary authorities must continue operating on the basis of the privileged and ordinary rediscount rates established zone-wide and not with respect to their average borrowing costs. This problem is, however, easily accommodated by the fact that the adjustment of permissible margins over the base rates is under the jurisdiction of the national Ministers of Finance. This means that Paris rates

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16/ It will be recalled that a privileged loan may not be rediscountable if the amount of the loan is in excess of the borrower's individual credit limit.

17/ In fact, the best approach would probably be to establish a range ("fourchette") for the base lending rate for each category; while bank competition is not very strong, this would allow for differences in risk for lending within the category.

can be taken as a reference point, with the margins set as appropriate to achieve a final lending rate. Subsequently, the margins legal under the BEAC can be expressed as the margin determined plus or minus the difference between the Paris rate and the base rate. Furthermore, some safety valve would be built into the system by permitting banks who have reached their assigned credit allocation within a given period to borrow a portion of the allocation assigned to other banks at negotiated or even penalty rates, so that in effect there would be a market for credit allocations.

4.51 The solution above is somewhat legalistic, and doubtlessly the new arrangement would be carefully scrutinized by other member countries, particularly the poorer ones, which would find investable funds absorbed into the richer member countries. On the other hand, it seems clear that if Cameroon's financial system is to develop commensurate with the sophistication of other sectors of its economy it needs to reduce the present constraints to its financial development.

4.52 Assuming, as argued above, that the two tax categories affecting lending rates, the TDC and the ICAI, were themselves abolished, this would give rise to the following possible base lending rate structure which is designed so that on average margins would be equal to the present margin on short-term ordinary rediscountable loans, or 5.75%. The rate structure, moreover is designed to encourage medium-term lending to productive investments, with the ranges being provided to take account of the various subcategories as they now exist. Needless to say, the various rates in question would be maximum rates.

(a) Privileged short-term loans: IR + 0-2% 18/

(b) Ordinary short-term loans: IR + 2-4%

(c) Privileged medium-term loans: IR + 2-4%

(d) Ordinary medium-term loans: IR + 3-5%.

4.53 Using the center rate for the changes shown, this results in the following lending rates as calculated net of the taxes on financial instruments (TDC and ICAI) as compared with the old rates, assuming relevant (Paris) interbank rates at 10%.

18/ IR is the International Rate, here taken to be the Paris overnight interbank money rate.

	New Rates	Present Rate
Privileged short-term	11.0	10.7
Ordinary short-term	13.0	17.4
Privileged medium-term	13.0	9.3
Ordinary medium-term	14.0	14.3

Borrowing/Deposit Rates

4.54 The present deposit rate structure includes 49 different fixed rates depending upon duration, i.e., whether demand deposits, time deposits or certificates of deposit ("bons de caisse") and amounts. Following a decree of June, 1984, interest payments for all demand deposits have been abolished as a measure to improve bank profits. With the exception of the bons de caisse, which can only be held by individuals, all of these rates are subject to the tax on capital revenues (TPRCM) of 16.5%, which is withheld at source; the residual is also subject to income taxation. The bons de caisse (whose return is fixed for the duration of the deposit) are exempt from the TPCRM and also benefit from prepaid interest. All deposit rates are expressed in terms of margin over the base lending rate (taux de base créditeur).

4.55 The first step in an interest rate reform would involve a basic simplification in the rate structure which in itself would encapsulate the existing rate structure without changing average interest rate levels. This would bring the number of deposit rates (excluding for demand deposits) down from 49 to 13, establishing categories for small and large, rather than for the ten deposit size categories currently existing. Thus deposits might be classified as to whether they were for deposits of more or less than CFAF 5 million. Moreover, just as lending rates would be maximum rates, deposit rates would be minimum rates and would be changed once a quarter in line with changes in the average international rate.

4.56 The average after tax differentials between savings deposits, time deposits and bons de caisse would also be maintained. However, since time and savings deposits would be exempt from the capital tax, the pretax differentials between these deposits and bons de caisse would be narrowed to reflect the change in tax treatment.

4.57 With respect to the determination of the actual structure of interest rates a benchmark rate might be selected as a base for aligning domestic rates on international rates. Thus if, for example, the time deposit rate for three to six months deposits in excess of CFAF 5 million should be selected as the benchmark rate, all other deposit rates might be set as a function of that base, which would be set at the average international rate. These rates seek to keep some congruence with the existing rate structure, but some variation might be required in order to ensure that the weighted average structure was in line with the selected

international rate. The schedule of minimum deposit rates might look as follows:

Minimum Rates on Time Deposits

	3 to 6 mos	6 to 12 mos	12 to 24 mos
less than 5 mil.	IR - 3	IR - 2	IR - 1
more than 5 mil.	IR	IR + 1	IR + 2

Minimum Rates on Bons de Caisse

less than 5 mil.	IR - 5	IR - 4	IR - 3
more than 5 mil.	IR - 2	IR - 1	IR

Minimum Rate on Savings Deposits

All deposits	IR - 3.5

The actual schedules published by the Ministry of Finance would not directly refer to international rates, but would define the minimum deposit rates as the TBC (taux de base créditeur) plus the relevant margins.

4.58 Again, assuming the relevant Paris rate to be 10%, this would result in some representative after tax deposit rates as follow:

	new minimum rate	present rate (after tax)
large 6 to 12 mos deposits	11.0	10.00
large 6 to 12 mos bons de caisse	9.0	8.25
Savings deposits	6.5	6.25

C. A Possible BEAC-Zone Money Market

4.59 For some years now--since 1977--the possibility of instituting a zone-wide money market somewhat along the lines of that existing in the BCEAO zone has been under study, largely at the instance of Cameroon. Such a money market could go a long way in remedying some of the deficiencies of the BEAC system noted above; in particular, it would permit some degree of interest rate alignment with rates prevailing on the international money market, mainly Paris.

4.60 Because the money market would be zone-wide it would have, at least theoretically, the effect of equalizing interest rates among the zone members. As such, however, it has been resisted by the poorer countries such as Chad and the Central African Republic, which would see their interest rates rise to levels judged more realistic by countries such as Cameroon and Gabon. As an interbank market, it would not be managed to create new liquidity (unless overall circumstances required this), but would channel excess liquidity among country (sub-) markets. Thus in theory the money market would not affect the zone-wide operations account position.

4.61 As planned, the money market would operate principally through the commercial banking sector and would later be extended to other financial institutions. The BEAC would play a pivotal role in the new institution, particularly in that the Governor would set intervention rates in line with international rates. Moreover, there would be fixed levels of intervention by the BEAC on a country-by-country basis (but not on a bank-by-bank basis); liquidity expansion would be contained by a "maximum refinancing ratio" which would vary on a country-by-country basis. However, a considerable degree of decentralization is foreseen (among others because of the poor communications between countries), and the national Directorates would be able to carry out their own interventions within the country ceilings.

4.62 The new money market would be primarily an overnight market, with surplus banks depositing resources with the BEAC and deficit banks drawing on them to the extent that their availability allows. Thus the interbank rate would not primarily function as a market clearing rate, except over the longer term, as the BEAC decided. Any depositor with the market would have to have retired all preferential advances from the BEAC before being able to participate.

4.63 BEAC refinancing would continue as before for all preferential operations and for ordinary medium-term advances; the new money market would be primarily oriented toward the market currently satisfied by rediscounts for ordinary short term-credit would, under its terms, now be satisfied by money market operations.

4.64 Particularly because the unanimous consent of all member countries is required for the institution of the money market, and because the poorer of these countries continue to see it as involving considerable dangers for themselves, it is not obvious that the market, desirable as a first step as it appears, will come into being, at least in the immediate future. 19/ Indeed, a first step toward a more zone-wide integrated money market under the aegis of the BEAC might be the set of propositions enunciated above, particularly with respect to interest rate determination and establishing how the new Paris-oriented system might best work. However, a fundamental difference between the two new systems would be that the higher deposit rates which would result from the system proposed above should result in higher financial savings (cf. para. 2.11) and an increasingly stronger ability of the banking system to finance lending out of deposits. The latter would permit moving toward an overall credit ceiling policy, a system which would be reinforced by the utilization of compulsory reserves.

19/ Moreover, even the Cameroonian commercial banks regard the new idea with some reticence, especially since with their situation of excess liquidity it is of no particular interest to them, especially since liquid funds can now be maintained overseas at attractive rates.

CHAPTER V

THE CAMEROONIAN MONEY AND CAPITAL MARKET

A. Introduction

5.1 The commercial banking sector is the weakest link in the rather frail chain which characterizes Cameroon's financial system. Essentially this is a reflection of the serious undercapitalization of the sector as a whole, although certain banks have been less affected than others. However, because bank audits been few and far between, it is difficult to obtain a clear picture of the true state of the banks' portfolios. A number of sources have alluded to a total volume of non-performing assets--bad debts--held by the commercial banks amounting to a total of CFAF 120 billion, a sum close to 6.5 times the banks' bad debt reserves of CFAF 18.4 billion. These non-performing assets amount to roughly four times the total aggregate capitalization of the commercial banks.

5.2 Commercial banking in Cameroon is also highly concentrated. There are ten banks serving the market, but four of them together represent 85% of total credit and 83% of total deposits for the sector as a whole. This is a matter of some concern, for it implies that liberalization measures (e.g., with respect to interest rate determination) must be conjoined with careful Government oversight: the mission was unable to discern any real measure of competition between the banks even where regulations permitted this. Moreover, Government ownership, legally set at a minimum of 35% of banks' capital, now averages considerably more than this for the sector as a whole, with one bank (the Cameroon Bank) being wholly-owned and in outright bankruptcy. While the weakened straits of the banking sector of Cameroon cannot be attributed to the importance of Government's shareholdings in the sector, it is clear that the policy begun in the early 1970s of acquiring substantial shareholdings in the banks to support Cameroon's development strategy has not been a marked success. While re-capitalization of the banking sector will ultimately be required, care should be taken that this does not result in an increase in Government participation.

5.3 It is also widely accepted that the commercial banks are overly liquid, but data which support this view are subject to varying interpretations. A somewhat complex picture emerges by which public sector deposits--designed in part to compensate for the banks' weakened capital base--have led to substantial increases in the banks' virtually risk-free loans (most likely to their parent banks) rather than to increases in domestic lending activity.

5.4 The Cameroonian capital market, on the other hand, is scarcely extant. While the Societe Nationale d'Investissement was set up in 1964 with the specific intention of playing the role of the lead institution in the national capital market, its history and current situation demonstrate not only the dangers of aggressive Government intervention in the investment financing process, but also point up some of the pitfalls involved in

using financial intermediaries to support investments or institutions whose financial non-profitability is virtually assured. SNI's dismal record with respect to its portfolio is well-known; what is perhaps less well appreciated is that its present role as a financing institution is the negative term transformation of its resources. In effect, through its policies it effectively transforms medium- and long-term resources into short-term deposits--a phenomenon which is pervasive in the Cameroonian financial system.

5.5 Particularly given important manpower constraints, the relative proliferation of specialized first-tier financial institutions found in Cameroon is probably not the best way to meet the needs of the borrowers of investable funds. Given the manpower limitations in question, probably the most effective means of economizing on these resources is through universal banking, which uses generic institutions such as the commercial banks to perform a wide range of specialized activities. Thus the role of the commercial banks in, for example, term lending or investment banking, would be strengthened.

5.6 An alternative structure more attuned to the financing requirements of the smaller, less well-organized borrowers than the present one would have to be defined in recognition of the fact that the formal commercial banking network is only gradually going to be in a position to supply their needs (and only then of the more urban-based SMEs). This alternative structure, in which the new Fonds de Gestion de l'Epargne Nationale would play an important role, would link to the formal financial system a network of new and existing institutions catering directly to the smaller borrowers. It would, moreover, implicitly supply the specialized information and knowledge specific to the needs of SMEs and rural borrowers which the universalized commercial banking system would ordinarily not possess. To the extent realistically feasible the new system would adopt and adapt some of the features of the informal sector--the tontines. Although the latter contribute little or nothing to financial intermediation, they know and understand far better than the commercial banks the markets for credit from which future economic growth is likely to come. It is this feature which should be emulated and reinforced.

B. The Commercial Banking Sector

5.7 The parlous straits of the commercial banking sector's capital base is, among others, pointed up by the fact that even before an independent (and confidential) BEAC study called attention to the fact that (as of March, 1984) bad debts in Cameroon were much higher than previously estimated, the Cameroonian banking system had been responsible for 65% of total BEAC zone credits but held only 38% of the total equity. As noted earlier in this study, perhaps half of the estimated CFAF 120 billion of currently non-performing assets arose from loans to merchants from North Cameroon. It is broadly agreed that these loans are virtually irrecoverable. Another sizeable portion of the total is the approximately CFAF 40-50 billion of government guaranteed loans to public enterprises. Technically, since these loans benefit from the guarantee of the state,

they cannot be in default. On the other hand, some of these loans may not be paying interest, and to the extent that this is the case it clearly compromises the profitability of the banks holding the assets (and thus leads to an increase in financial repression). The remainder of the loans in question are basically of undefined origin.

5.8 Although the Government budget, especially when consolidated with the parapublic organizations such as the ONCPB and CNPS, had long been in structural surplus, total public sector deposits rose unusually sharply from CFAF 76.2 billion in 1980 to CFAF 173.8 billion in 1981; after subsequently falling slightly, they have since remained at similar levels. Obviously a good share of these deposits were placed by ONCPB, CNPS, SNI, etc., in commercial banks accounts for lack of a better short-term financial instrument; an undeterminable amount was probably also due to SNH repatriations. However, a bedrock of Treasury deposits has been held with the banking system since 1981, varying from CFAF 64.8 billion in that year down to a relatively stable CFAF 44-46 billion over the past three years. It is these deposits which were meant tc compensate for the banks' weakened capital position.

5.9 It is clear that total Government deposits made an important contribution to liquidity, particularly in 1981, when official deposits made up over 32% of banks' total deposit base. However, this ratio subsequently fell to 27%, which would suggest that if official deposits are compensating for the banks' weakened equity base, their contribution is in relative decline.

5.10 There are two possible indicators of the liquidity position: 1/ (a) the ratio of private sector loans to total deposits (including those of the Government); and (b) the ratio of net foreign assets held by the banks to total deposits. It is clear that the first may simply indicate either that the demand for rediscountable credit had fallen relative to that for non-rediscountable credit (since otherwise private sector loans could be financed by BEAC rediscounts), or that the average rate structure had made lending from deposits more attractive than rediscounts. 2/ And the second

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1/ By liquidity we mean essentially the excess of bank's financial resources over local uses. If the question is considered from the more strictly accounting point of view, i.e., the coverage of short term liabilities by short-term (and thus easily convertible) assets, we see that short-term assets were more than twice the level of demand deposits at the end of 1984.

2/ It should be noted that voluntary reserves of the commercial banks with the BEAC are usually negligible and have historically amounted to no more than 2-3% of the monetary base. Although technically banks are obliged to pay off all rediscounts from the Central Bank before

(Footnote Continued)

may, equally, suggest that the spread between Cameroonian and Paris interest rates exercised a greater pull than formerly. Alternatively, with the interest rate differential in question being a virtually risk-free investment, the banks' weakened capital position may have made these investments relatively more attractive, as compared with inherently risky domestic loans. In any event, as Table 5.1 shows, the loan/deposit ratio fell from 1.36 in 1978 to 1.04 in March, 1985; similarly, the relationship of gross foreign assets to deposits rose sharply from 3.6% in the earlier year to 21.6% by March, 1985. A summary account of the situation, however, would seem to suggest that Government deposits, rather than being used to expand inherently risky domestic lending on a weak capital base, are placed overseas--with the complicity of the BEAC--in risk-free loans with parent banks at interest rates several points higher than the 10% ordinarily paid on Government deposits, largely as a means of reestablishing bank profits.

Table 5.1: Liquidity Measures of Cameroonian Banks

(CFAF billions or percents)

	Private Credits	Deposits	Ratio	Gross Foreign Assets	Gross Foreign Assets/ Deposits
	---- CFAF Billions ----			CFAF Billions	%
1978	266.8	169.9	1.36	7.1	3.6
1979	323.8	257.8	1.26	6.5	2.5
1980	416.6	312.6	1.33	7.7	2.5
1981	559.7	476.4	1.18	43.6	9.2
1982	678.7	532.4	1.28	23.9	4.5
1983	808.8	610.8	1.32	54.2	8.9
1984	806.1	738.9	1.09	134.2	18.2
3/85	841.0	812.0	1.04	175.5 /a	21.6

/a In May, 1985 this reached CFAF 190.1 billion.
Source: BEAC

5.11 Whatever the precise implications of the data it is evident that Government deposits cannot be fully fungible with losses due to bad debts because: (a) only Treasury deposits are relatively stable at about CFAF 45 billion, not enough to compensate for the erosion of the banks' capital base; and (b) the banks must nonetheless pay 10% on Government deposits, which would not be the case with equity. The result is clear: banks will be extremely cautious in their lending, and the decline in their

(Footnote Continued)
they are permitted to maintain overseas accounts, this requirement is ignored in practice.

profitability--not sufficiently offset by overseas profits--will contribute to a decline in their efforts to mobilize domestic financial resources.

5.12 It is difficult to assess with any degree of reliability just what the profit position of the individual banks is, since the calculation of profits must take into account the assignment of a certain portion of profits to the provisions account. Obviously if banks have been seriously decapitalized by the bad debts to which we have alluded, profits would in considerable degree be eroded--if not entirely wiped out--depending upon the approach adopted with respect to the allocation of accounting profits. However, one source--the Journal de l'Economie Africaine (September, 1985) provides a useful ranking of 150 African banks in thirty-four African countries in descending order according to dollar volumes. These rankings are illuminating for they suggest in almost every case that equity ranks less than total assets in Cameroon by a considerable margin indicating a below normal capitalization ratio) and that earnings and return on equity--generally lower ranked than assets, have usually fared relatively poorly.

Table 5.2: Cameroonian Banks Ranked Against 150 African Banks According to Dollar Values /a

	Total Assets	Equity	Earnings	Return on Equity
BICIC	23	54	-	-
SCB	29	58	91	-
BIAO	34	70	49	43
SGBC	42	75	71	73
BPPC	75	-	-	-
BCCC	85	-	63	23
Boston	97	-	-	-

/a Possible rankings between 1 and 150; a ranking of one means the highest for the banks surveyed; a ranking of 150 indicates the bank is lowest of the category for all banks surveyed.

5.13 Data obtained by the mission for the four largest banks show that financial margins as a percentage of total assets earned by these banks were generally more than sufficient to ensure profitability under ordinary circumstances where a 3.5% spread is enough to cover administrative costs and constitution of bad-debt reserves. Table 5.3 indicates a generally healthy position for the banks surveyed, particularly for 1983/84. However, there is no way of determining the extent to which the banks in question have entered into their accounts and capitalized interest payments

due but in fact not received, a practice not ordinarily condoned in banking but nonetheless frequently carried out by African banks. 3/

Table 5.3 : Financial Margin/Total Assets; Four Leading Banks

(percentages)

	81/82	82/83	83/84
SCB	3.7	4.3	4.5
SGBC	n.a.	n.a.	4.4
BICIC	3.1	3.0	3.9
BIAO	5.1	4.6	4.5

Source: Banks' Annual Reports

1. The Commercial Banks as Capital Market Institutions

5.14 Apart from the Cameroon Development Bank (BCD), the commercial banks are virtually the sole source of medium and long-term lending (i.e., up to ten years) in Cameroon; in January, 1985, the commercial banks supplied 88% of the total (see appendix Table 1). While such activity--at 28.5% of total lending is high and only exceeded in Gabon--it has nonetheless been declining from earlier years. The BEAC, moreover, has played a much more important role in providing term resources than it has in financing short-term lending. Thus in January, 1985 it supplied 47% of total resources available for term lending as compared with only 14.5% for short-term lending. This gives some indication of the importance of BEAC in supporting term-lending for the economy as a whole.

5.15 More directly relevant, however, is the fact that in January, 1985 long-term foreign borrowings to finance domestic term lending amounted to 20.5% of the total, while banks' own capital resources (severely compromised, as we have seen) provided another 32.5% of total term resources. (In December, 1979, the proportions were almost identical.) There are several points to be noted here. First, BEAC rediscounts provided the preponderance of term resources, basically short-circuiting the intermediation system. While under the circumstances this was probably the only possibility, lasting dependence by the banking system on BEAC resources for term loans can only weaken the development of a strong and indigenous financial intermediation system. The weaknesses of the current system are also manifest in the fact that while substantial short-term capital outflows take place through the banking sector (cf. Table 5.1), the banking system must still rely on foreign borrowing for longer-term capital

3/ This question in fact needs to be clarified through audit.

resources. This also works to short-circuit the system; among other things, it has the effect of frustrating the domestic development of longer term portfolio instruments for Cameroonian savers.

5.16 Apart from the fact that the capital base from which long term resources may be drawn to finance commercial banks' term loans may be much weaker than the figures suggest, the three above-mentioned sources of term resources have--at least between 1979 and 1985--been insufficient to cover term loans. The difference, which is the amount of such loans which must be covered by short-term deposits, is the "maturity gap;" in January, 1985 this was CFAF 81.3 billion. While a certain level of term transformation by commercial banks is normally acceptable and even desirable, the banks' weakened portfolio position has clearly eroded term resources and made such term transformations increasingly risky.

2. Recapitalizing the Commercial Banks

5.17 Because relatively little is in fact known about the true extent of the damage to the banks' balance sheets by their "non-performing assets" it goes without saying that the restoration of the financial soundness of the banks will require an independent audit in order to permit an assessment, not only of the full extent of the damage, but also of the most appropriate measures to take in rectifying the situation. The Government has been proceeding on a case-by-case basis: indeed, it is this effort which is at the origin of the development of several new financial instruments, particularly the "prêt participatif," recently designed to consolidate government deposits into quasi-equity. These efforts, however, appear to be proceeding rather slowly, and the case-by-case approach could be usefully accompanied by greater generalization.

5.18 Probably the most important first step in this direction would be an accurate accounting of the situation of the public enterprise sector debt and the degree to which (a) it is still being serviced; and (b) the degree to which balance sheet restoration may require the retirement of these debts. Action here should follow the recommendations of independent auditors, although possibly with the Government caveat that any financial settlements on its part did not undermine its claims on co-owners. 4/

5.19 Assuming that it is possible to make a determination of what Government guarantees should be exercised, 5/ it should thereby be possible to determine the total amounts of financial resources required for recapitalization, as well as the shares required from each shareholder. (Presumably these would remain roughly as is, but this would also be subject to negotiation. It may, however, be desirable for the Government

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4/ It is very possibly this aspect of things which may slow the settlement of non-performing loans guaranteed by the Government.

5/ That is, to the extent that Government has guaranteed domestic borrowings of public enterprises, which is apparently rare.

to make known its intentions with respect to changes in taxes, interest rates and other measures, such as discussed in Chapter IV, since these would materially improve the operating positions of the banks.)

5.20 A possible recapitalization scheme might be as shown in Table 5.4, which is based on a number of assumptions the accuracy of which only a thoroughgoing financial audit can evaluate. Here, non-performing loans are classified into three categories and amounts roughly corresponding to information received by the mission. Corresponding to these three categories, assessments are made as to the likelihood of recovery and provisions are established accordingly. Thus while some debts to the Northern traders may be recovered, we have assumed irrevocable losses of 80%. Similarly, 20% of all loans to state enterprises may be irretrievable, presumably because of lack of adequate guarantee provisions. With the residual category ("other") being arbitrarily assumed to be 50% recoverable, total recapitalization (provision) requirements can be expected to amount to about CFAF 66 billion. As Table 5.4 indicates, fresh funds may be supplied in a number of different ways appropriate to the particular situation. 6/

Table 5.4 : Possible Recapitalization of Banks

(CFAF billion)

	Outstanding Non-Performing Loans /a	%	Suggested Provisions /b	Suggested Financing Fresh Capital	Quasi	Bonds (State)	Bonds Public
Northern traders	60	80	48	12	12	12	12
State enterprises	40	20	8	8	-	-	-
Others	20	50	10	4	4	-	2
				24	16	12	14

/a Estimated amounts.
/b Estimated - will be based on: (i) age of arrears, (ii) securities provided and related recovery expectations.

5.21 Assuming that the responsibility for bad debts to the Northern traders is equal to the distribution of shares among parent banks and the

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6/ However funds are supplied, care must be applied to ensure that the new operation does not substitute increased Government participation for private shareholdings. In any event, since most Cameroonian banks are majority-owned by foreign banks, considerable cooperation on their part will be required in this effort.

Government, fresh capital financing of CFAF 12 billion might be divided according to shareholdings; a similar treatment of other bad debts would add an additional CFAF 4 billion. Presumably the entirety of provisions required for state enterprise debt would be supplied be the state, at least to the extent guaranteed. 7/ Similarly, "quasi-capital" could be supplied through the application of the "prêt participatif." This is a debt instrument of five-years' maturity earning a given interest rate and enjoying participation in profits. Under current Cameroonian legislation this instrument may be considered as equivalent to equity capital if, as a source of funds, it amounts to no more than one-half of total equity. The Government's share in total issues of this instrument could be purchased through a transformation of current Treasury deposits; for parent banks new funds would generally be required.

5.22 The remaining amount of capitalization required--CFAF 26 billion--might be funded through the issuance of ordinary long-term bonds, either to the Treasury/CAA, the FGEN, or the general public. Given the status of the Cameroonian capital market and existing Treasury surpluses, the bulk of these should be subscribed by the Treasury/CAA. In the case of the latter, this would again be accomplished by a transfer from current Treasury deposits, but here the State would be a third party, so that no increase in Government's share would result. Finally, long-term bonds would also be issued to the general public, including the FGEN. The bonds would necessarily bear the joint guarantee of the banks' shareholders, including the Government. The bonds might provide for sinking funds for repurchase before maturity (thereby increasing the confidence of the purchaser and moving toward an incipient capital market); alternatively, the FNEG itself might make a market in these instruments (as well as in the prêts participatifs) thereby also supporting the development of a local capital market.

5.23 Certain parent banks have suggested that their liquidity and profit positions do not permit them to supply adequate financial resources for recapitalization. 8/ To the extent that this is in fact the case, it may in some cases be possible for the new FNEG (or the Treasury/CAA) to constitute a recapitalization loan fund for the parent institutions with the understanding that the interest (fixed, say, on the Paris interbank rate) be charged to the parent institution and not the local bank. It is, however, also possible that the parent institutions wish to reduce their shareholdings, as some have suggested. A priori, however, the Government should not, except as a last resort, increase its holdings, although some

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7/ Apparently, however, little domestic state enterprise debt is in fact guaranteed.

8/ This statement, however, needs to be put in perspective of the fact that the parent banks number among the largest of French commercial banks.

argument might be made that the independent FNEG might itself purchase shares, at least on a temporary basis, particularly for resale to local investors.

C. Development Banking Institutions: BCD, FOGAPE AND FONADER

5.24 While there is no capital market to speak of in Cameroon (save the unfortunate example of the SNI), there are nonetheless a number of institutions which belong to a network which, with the creation of supporting non-bank financial intermediaries, could represent an important part of the fabric of an incipient capital market and complement the activities of the commercial banks. Of these, the Banque Camerounaise de Developpement (BCD) and FOGAPE, the guarantee fund for SMEs could, together with FONADER, play a meaningful role. But to understand better the operations of the Cameroonian financial system in its entirety it is useful to examine the strengths and weaknesses of these institutions together with the more traditional capital market institutions examined below. This will form the basis for an articulation of a broad reform program leading to a functioning capital market. Ultimately the nexus of new and reformed institutions, together with the appropriate selection of new financial instruments, may form the basis of a "bourse des valeurs." In this context it bears emphasizing that Cameroon does not lack the long-term resources to support a domestic capital market, but rather the intermediary institutions and financial instruments to play this role. To a certain extent the BEAC rediscount mechanism, particularly for medium-term loans, reinforces this problem.

1. Banque Camerounaise de Développement (BCD)

5.25 The BCD was established in 1960 with the assistance of the Caisse Centrale de la Coopération Economique to take over development financing from the former Crédit du Cameroun. It was initially charged with a wide range of activities until other specialized institutions were created to take over some of its functions. As a development bank, it plays a role which is intermediate between the commercial banks and formal capital market institutions. In fact, it has tended to behave much as a commercial bank; unlike many development banks it also accepts deposits, which have tended to be mainly from institutional, rather than private sources. However, in line with BCD's general role, its operations have emphasized term-lending; between 1979-85, such loans represented about 65% of its total lending. About 11% of BCD's term loans are long-term in nature. Notably, however, BCD term loans appear to have an average maturity of about three years, which appears low.

5.26 Appendix table 5 indicates that the manufacturing and handicrafts sectors received about 40% of total BCD term loans between 1980-84, considerably higher than the share of commercial banking institutions. BCD, moreover, has been more active than the commercial banking sector in providing credit to the SME's, and in 1983 its loans to these entities amounted to 23.1% of its total direct credits approved; by 1984, however, this proportion had dropped to 14.5% of the BCD portfolio. BCD has also

played an important role in lending to the agricultural sector, where short-term marketing credits have ave aged roughly one-half of total loan approvals.

5.27 A good part of BCD's operations have directly involved the commercial banks. It is a significant shareholder in seven domestic commercial banks, and of total government ownership in the banking sector about 37% of the total is represented by BCD shareholdings. However, the most important aspect of its relationship with the commercial banks is the high level of its bank deposits, which amount to over 22% of its total credits.

5.28 On balance, these figures tend to mask--or even point up--some grave difficulties. These difficulties, particularly with respect to the quality of management and the qualifications of personnel, have persisted despite two loans from the World Bank, close supervision in cooperation with the CCCE (whose shareholdings amount to 10% of the total). These difficulties have manifested themselves in a number of ways: among others, BCD loans to the private sector have stagnated since 1983, with doubtful and unrecoverable loans representing a minimum of 13% of its total portfolio in 1984. Together with the large volume of short-term deposits being held by the BCD and the importance of its virtually risk-free agricultural marketing loans ("crédits de campagne"), 9/ in lieu of a more aggressive effort toward the SME sector, the picture is one of a quasi-capital market institution which is far from doing its job. To a certain extent this is due to an acute lack of skilled manpower to carry out banking functions as these are defined, but to some extent it reflects the difficulty of lending to the sectors where the BCD is supposed to operate. As noted above, managerial problems also exist. Equally important, however, is the fact that BCD has never had a clear role, and has never been able to develop a strategy or plan of action despite the efforts of the World Bank during the course of its lending and supervision to BCD: for all practical purposes the institution is defunct as a development finance intermediary. In large part because of this, FOGAPE has been created to perform much the same operations as BCD, essentially leaving the latter as a shell. It is unclear whether this will lead to a net improvement.

2. Fonds d'Aide et de Garantie des Crédits aux Petites et Moyennes Entreprises (FOGAPE)

5.29 Established in 1975, FOGAPE operated under the general aegis of BCD as a guarantee fund for loans to SMEs until 1984, when it was transformed into a full-fledged development banking institution. Unlike BCD, FOGAPE is not allowed to accept deposits, and is basically dependent upon the taxation of other financial institutions, principally the commercial

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9/ These loans are essentially export credits and in all likelihood substitute for foreign capital inflows.

banks. Thus a one-percent levy on all new loans is imposed on commercial banks; they are, moreover, obliged to pay a tax of 10% of their total net income to FOGAPE's operating fund as well.

5.30 By June 1984, after 10 years of operations, total FOGAPE guarantees amounted to CFAF 3.9 billion (apparently mostly for term loans) as compared with outstanding term credits from the banking sector of CFAF 226 billion. While the two figures are not strictly comparable, they put the importance of FOGAPE's operations into some perspective. It is, on the other hand, clear that FOGAPE's operations were essentially aimed at the smaller and even artisanal size SMEs: with an average FOGAPE guarantee covering 65% of a loan, the average loan guarantee was for only CFAF 15 million. About 60% of FOGAPE's guarantees covered loans made by the BCD.

5.31 In any event, opinion seems to be uniform that FOGAPE's guarantee operation has been largely ineffective; this may to some extent explain the lesser importance of the commercial banks' usage of this facility as compared with the BCD. For the most part guarantees have not been particularly helpful in reducing lending risks to the sectors enjoying the guarantees, since the judicial system has ordinarily required demonstration that every available legal recourse against defaulters be exercised before the guarantee be honored, a requirement that has been costly and time-consuming and which, ultimately, has been a disincentive to the use of FOGAPE guarantees.

5.32 This was increasingly recognized by the Government and it was for this reason that FOGAPE was converted into a full-fledged development finance institution. Although FOGAPE will continue to provide guarantees and will provide equity and debt financing, as well as technical assistance, to the SME sector, the new institution will in many ways play the same role as the one originally assigned to the BCD--which has now basically abdicated its developmental role, to make "safe" loans, e.g., to export agriculture. This is taking place despite the fact FOGAPE shares with BCD the same lack of qualified manpower to carry out the operations which will be expected of it, thus continuing an unfortunate tradition of creating a new entity upon the failure of the older one without resolving the underlying problems which led to its failure in the first place. Unfortunately, however, it is unlikely that the small- and medium-scale enterprise sector will be better served unless more fundamental changes are brought about. In some ways the reinforcement of FOGAPE represents a net step backwards, since its funding through net increases in taxation on the commercial banking sector will ultimately lead to an increased degree of financial repression. The taxes will ultimately yield more to FOGAPE than the "bons d'équipement" yield to SNI.

Credit to the Small and Medium-Scale Enterprises: a Program

5.33 While the FOGAPE initiative may help in bringing a greater amount of credit to the SME sector than has been available through BCD or the commercial banks, severe problems in reaching this sector will remain. On the one hand, bankers lack the capability (and incentives) for lending to

the sector: an important disincentive is the low margins fixed for lending to the SMEs, which, being limited to 2.5% for re-discounted loans, are in no way commensurate with the costs and risks associated with lending to the sector. But capacities are also limited with respect to the project evaluation or monitoring capabilities required, even with BCD/FOGAPE.

5.34 From the demand side, managerial and administrative deficiencies are legion, accounting records often absent, collateral non-existent, and legal recourse weak despite guarantees. It is, in effect, not surprising that the SME sector is scarcely reached by credit from the formal sector.

5.35 On the other hand, the tontines are available and demand for their resources remains high despite high interest charges and the maturities of resources available. Since the socio-economic circumstances within which loans are made ensure repayment to the tontines there is little need for the evaluation, review and monitoring process associated with loans from the formal sector. As important as the tontines may be in the economic and social life of the country, however, they contribute very little to the financial intermediation mechanisms which are necessary for a modern economy, and to the extent that domestic savings continue to be directed towards this sector, financial mechanisms underlaying economic growth will be weak. Moreover, interest rates ranging up to 100% a year on loans of no greater than a year's maturity do not exhaust the potential needs of the SME sector.

5.36 Thus what is required is a lending apparatus which conjoins the role of the tontines in essentially guaranteeing loan repayment while providing loans at acceptable interest rates and maturities. To a great extent this implies shifting the locus of SME lending operations to grass roots institutions, whether credit unions (crédits mutuels), "caisses populaires," or otherwise. A number of these already exist in Cameroon; their success has been mixed. But what is required in addition to what exists are the mechanisms for transferring, from the apex institutions, the technical assistance in loan processing and management, as well as the financial resources in question. With specific reference to FOGAPE (which should probably be merged with BCD) 10/, a more useful role for it would be for it to cease direct operations with the final borrowers and concentrate on reaching these borrowers via "wholesale" operations. Thus FOGAPE would work directly with the "retail" institutions, providing both debt and equity resources, and technical assistance in loan management. Among other benefits, this arrangement would permit the economization of scarce banking expertise.

10/ The Government is, however, contemplating transforming the BCD into a "Banque du Commerce extérieur". This potential action requires further study.

5.37 One form which this might take would be through an entrepreneurial entity (the retailer), which would borrow resources from FOGAPE for on-lending to individuals which it would itself identify and service; resources lent--possibly supplied through rediscounting--would, of course, have to respond to certain requirements with the retailer's legal obligations being formalized. Thus the new entity--A Small Enterprise Investment Corporation (SEIC), say--consisting itself of no more than two to four entrepreneurs--would in part be capitalized by FOGAPE, and permitted to lend some modest multiple of its capitalization. Members of individual tontines, knowing well their own markets, might well find an investment proposition of this nature attractive. 11/ FOGAPE, in turn, would be supplied through rediscounts from the Fonds de Gestion de l'Epargne Nationale; taxes on commercial bank operations currently supporting it would be suppressed for reasons explained above.

5.38 The SEIC would, of course, be only one instrument in bringing lending operations closer to the smaller borrower. FOGAPE could equally well work with the existing institutions described above. A number of these are self-contained in generating the savings which are then re-lent within the organization. This aspect should in any event be maintained, but the forging of stronger institutional links with these organizations via FOGAPE and the FGEN with the formal financial system would ultimately enhance the workings of the intermediation system as a whole.

3. Fonds National de Développement Rural (FONADER) and Rural Credit

5.39 In the rural areas, the commercial banks, like BCD, are mainly involved in the financing of marketing, storing and exporting of agricultural products; their contribution to rural smallholder credit is thus almost nil, particularly inasmuch as margins allowed on loans to this sector are insufficient to cover costs of lending, especially given the fact that secure collateral with respect to land titles is practically non-existent. To the extent that agricultural production loans are available from the commercial banks or the BCD these are almost entirely channeled to the larger planters.

5.40 FONADER was created in 1973 at least in part to compensate for this problem; its philosophy was to channel a share of the substantial

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11/ It must, however, be emphasized that while the operations of the tontine members ordinarily escape taxation this would not be the case where borrowings from entities such as the SEIC were involved. This could represent a clear disincentive to the development of SEIC-like entities. However, it is likely that the long-run advantages involved, which would include lower interest rates and longer maturities, should be interesting. If the SEICs themselves are to get off the ground, certain tax advantages will probably be required.

public savings generated by the taxation of export crops (paid through ONCPB) into rural development projects and programs. 12/ Collaterally with this, one of its functions was to facilitate the distribution of rural credit--in effect taxing the producers to lend the resources back to them.

5.41 As with the BCD and FOGAPE, FONADER's activities in rural credit have been beset with problems stemming from an unqualified staff, inadequate accounting practices and an organizational structure maladapted to banking activities. Again as with BCD/FOGAPE, excessive centralization of activities precluded reaching large numbers of potential borrowers, who then were obliged to depend upon informal credit markets.

5.42 However, FONADER, in being essentially a conduit for funds from official sources to finance development projects, is basically ill-equipped to operate as a bank, lacking an incentive structure geared toward effective financial performance. Despite having access to a substantial volume of financial resources, FONADER has been unable to fulfill its mandate and credit disbursements declined from CFAF 2.5 billion in 1979 to CFAF 1.8 billion in 1984; perhaps no more than 2% of all farmers benefited, either directly or indirectly, from FONADER's credit programs. Considering that FONADER's total resources as of mid-1984 were CFAF 38.7 billion (of which CFAF 24.7 billion were held in cash, or on short-term deposit), its record with respect to the provision of credit has been particularly poor.

5.43 There are two major groups of cooperative institutions in the rural financial system, the marketing cooperatives and the credit unions. The function of the former is mainly the marketing of members' produce. A number of them have also taken on the role of retail agents for FONADER's credit, but are themselves generally ill-equipped to carry out this function. A good part of the problem is that with the basic function of these cooperatives being the provision of marketing services and input supply and financing, for which they are seriously underfinanced, these organizations, in addition to their organizational shortcomings, are poorly equipped to take on the burden of rural credit distribution.

5.44 The credit unions (crédits mutuels and caisses populaires) of the rural areas. which have no ties with FONADER, operate primarily on the basis of regular savings by members, and have begun to play a significant role in the mobilization of rural savings. Thus, they are ordinarily self-financing, and exist with little or no government intervention. To some extent their self-sufficiency is the basis of their success, and external interference of a dirigiste nature could tend to undermine this success. However, either FONADER or conceivably FOGAPE (in tandem with its activities in support of SMEs via the crédits mutuels) might adopt an

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12/ However, perhaps FONADER's most important function is the importation and distribution of subsidized inputs.

active program of technical assistance, specifically with respect to banking and credit operations, to both the marketing cooperatives and the credit unions; to the extent required, lending operations might also be supported. Moreover, the apex institutions in question could also act as a channel for those crédits mutuels which now are primarily in surplus, thus establishing a more effective intermediation function than that presently existing.

5.45 Unlike the case with the SME sector, however, cash crop production in Cameroon is heavily taxed. Here, an important question must be addressed: rather than taxing producers at present levels, would it not be appropriate to channel resources--at least those which the Government seeks to supply as credit--back to the producers via higher prices? Under the best of circumstances, agricultural credit operations will continue to be fraught with difficulties and high costs, and there are strong reasons for suspecting that higher prices, rather than increased credit, may be the best way to supply resources to the sector.

5.46 More generally, most of the potential users of financial services in rural areas of Cameroon are of two types; semi-subsistence households with intermittent cash incomes, or small businesses in which turnover is relatively low and most of the capital is in the form of movable goods (inventory) or cash. Especially rural households require a safe but relatively accessible place to keep cash until it is needed, or exceptionally from which they can borrow, and rural businesses have analogous needs. For both this implies, at a minimum, access to a safe but easily accessible place for savings and which preferably provides some return. For rural businesses to prosper, they need well-functioning financial markets for both their financial assets as well as credit requirements.

5.47 With respect to the latter, however, it is difficult to assess to what extent there is an effective credit demand for productive investments which is not satisfied by existing financial structures. Indeed, there are some indications that the "credit needs" of farmers may have been overestimated, and it has been found in one rural development project that adoption of production increasing technology was not constrained by a shortage of capital. An examination of saving and borrowing patterns of credit union members suggested that the rate of capital accumulated by farmers was sufficient to support the use of traditional technology and the limited improved technologies available to them, and that they can (and have), over time, mobilized capital commensurate with their level of labor and land usage.

5.48 Thus the priorities for development of the financial sector in the rural areas of Cameroon are fairly clear; develop robust financial structures which (i) provide a reasonable return on savings; (ii) provide credit to respond to demand and cover the full scope of rural people's needs; (iii) increasingly rely more on deposit collection and less on public sector savings as their main sources of funds; and (iv) are integrated into the broader financial system. However, the path to this

mature state of a well functioning rural financial system is more difficult to trace. It should at least include a preliminary consolidation phase for existing credit activities which should not be expanded before financial institutions are in a position to handle a larger volume of funds.

D. Capital Market Operations: Non-Bank Financial Institutions

5.49 While Cameroon possesses a number of non-bank financial institutions which would ordinarily be understood as together playing the role of a capital market, these institutions, as they operate in the Cameroonian context, basically do not function as such. Indeed, to a considerable extent they are involved in negative term-transformation, i.e., the transformation of essentially long-term funds into short-term deposits. The following categories will be dealt with in turn:

(a) leasing and finance companies;
(b) housing finance;
(c) investment finance (SNI);
(d) contractual savings; and
(e) other government-owned institutional investors.

1. Leasing and Finance Companies (cf. appendix tables 7-9)

5.50 In Cameroon, there are two leasing companies in operation: Societe Camerounaise de Crédit Bail (SOCABAIL) and Société Générale de Leasing (SOGELEASE), as well as two sales finance companies: Société Camerounaise d'Equipement (SCE), and the Société Camerounaise de Crédit Automobile (SOCCA). Essentially, the capital market operations of these companies are limited to medium-term financing for chattels. While the leasing companies finance mainly machinery and equipment including vehicles, SCE and SOCCA finance consumer durables and vehicles, respectively. SOCCA and SOCABAIL are captive sales finance companies organized to provide financing facilities as a selling aid to car dealers; SCE is a commercial entity providing installment financing of consumer durables. Thus of the four institutions three are primarily adjuncts to commercial sales activities serving mainly individuals; they are not direct competitors with other financial institutions and their impact in developing financial markets is negligible.

5.51 SOGELEASE, on the other hand, is primarily an adjunct to the commercial bank by which it is wholly-owned, and was essentially established to provide leases which have tax benefits for the parent bank's clientele as well as effectively to avoid limits to non-rediscountable credit on the parent bank. About one-half its financial resources for its leasing operations are provided by BEAC; because of BEAC restrictions, SOGELEASE does not finance assets with a depreciation schedule in excess of five years. With SOGELEASE relying on the parent bank for its clients the company is in effect an extension of bank operations. Although leasing companies under Cameroonian law are permitted to issue their own financial instruments, the absence of any securities market forces them to depend

upon their own capital, borrowings from parent companies and BEAC rediscount operations.

5.52 Because the four companies under study are largely linked to other business entities their net addition to term resources appears to be relatively limited. However, with its relative independence, SOCABAIL appears to make a greater net contribution than SOGELEASE.

2. Housing Finance: Crédit Foncier du Cameroun (CFC) (cf. appendix table 10)

5.53 Credit Foncier, the national housing bank, established by the Government in 1977, is the only institution in Cameroon specialized in providing long-term financing for real estate. Its CFAF 1.5 billion capital was subscribed by four shareholders, (a) the Central Government (70%); (b) the Caisse Nationale de Prévoyance Sociale (20%); (d) Caisse d'Epargne (5%), and the Caisse Nationale de Réassurance (5%). Besides its capital CFC is mainly financed directly by a one-percent tax on wages and salaries of non-government employees, and a 2.5% employer's payroll tax. Moreover, CFC can borrow from the public or international agencies, accept deposits or use BEAC rediscount facilities.

5.54 Unfortunately, at present terms there is relatively little demand for housing credit, at least in comparison with CFC's total resources, so that with respect to its role as a capital market institution CFC has mainly acted as an administrator of resources obtained from compulsory payroll taxes which in turn are, in part, allocated to social housing projects. Thus term-loans for real estate projects represented only 43% of its total assets as of mid-1984 while liquid assets held in banks were 47% of the total (as well as a substantial proportion of government/parapublic bank deposits). The reasons for CFC's evident failure in expanding housing credit beyond current levels appear to be largely administrative, much as the case with the other development finance institutions investigated; an obvious problem with CFC is the passive role which it plays in promoting housing projects. It is, in any event, unclear that housing projects, social or otherwise, should be financed by payroll taxes; a "plan d'épargne- logement" linking housing credit with savings, now practiced in many francophone countries, would appear to be a more desirable approach. Whatever CFC's failings as a mortgage lender, however, the institution is currently highly overcapitalized and excessively liquid. As CFC is currently constituted, it is thus practicing a high degree of negative term transformation in using what are long-term resources--the proceeds of payroll taxes--to create short-term deposits.

3. Société Nationale d'Investissement (SNI) (cf. appendix 11)

5.55 Established in 1964 as a government-owned holding company, SNI is in practice the only viable investment company in Cameroon; although there are others, their scale and importance are negligible. As suggested

earlier, SNI represents an attempt by the Government to establish a surrogate capital market in place of the non-existent private market. As planned, SNI's shareholdings were to go to promising investment undertakings where the lack of an institutional source of local equity capital was felt to prevent deserving investments from being undertaken. In parallel, it was hoped that SNI could play a stimulative role giving a forward thrust to the country's industrial policy. Specifically noted in SNI's enabling legislation was the expectation that once an investment had proven profitable, SNI would resell its shares to private Cameroonian investors.

5.56 Alas, all of this was not to be, and the effort must not only be considered a failure, but an expensive one with negative repercussions for Cameroon's financial system as a whole. Basically, SNI has not been master of its own house. On the contrary, it has frequently been the arm of government policy which directed investments into areas which had little or no chance of profitability. Indeed, SNI was often obliged to make investments where it was strongly disinclined to do so. In any event, no new equity investments have been made by SNI since 1983. As of June 30, 1984 the SNI portfolio included 62 ongoing enterprises, of which only one--a brewery--was truly profitable; two enterprises had been closed down and seven were in liquidation.

5.57 Although SNI is technically bankrupt with a net worth of minus CFAF 13.7 billion, it is simultaneously excessively liquid as flows from the bons d'equipement (to which, it will be recalled, the commercial banks must subscribe 10% of their liquid assets) build up without being invested in capital ventures. Thus cash and bank deposits of CFAF 16 billion were practically identical in size to SNI's investment portfolio and equivalent to 61% of its total portfolio. Of the roughly CFAF 50 billion of outstanding proceeds from the 4.5% bons d'equipement, somewhat more than 30% are redeposited with the banks as time-deposits yielding 10%. Particularly with 12% of SNI's net term borrowings from the rest of the financial system lost as of June 30, 1984, SNI's role in term resource mobilization has been markedly negative.

5.58 What we are witnessing here are some rather severe forms of financial repression. Not only are the banks obliged to lend, at rates sharply below market, to the SNI, but outstanding bons d'equipement represent one-quarter of the commercial banks' net term assets in a situation where they are already overexposed, via the above-described maturity gap. Since these resources are redeposited in term accounts of two years or less, the negative maturity transformation is doubly burdensome.

5.59 New legislation (in a decree of August 28, 1985) may bring some improvements in SNI's operations, particularly with reference to its explicit requirement that projects which it initiates must be mainly profitable or viable; moreover, all shares acquired by SNI must be resold to the private sector within seven years unless the "presence of the SNI is deemed indispensable by the Government" (article 7.(2)). While the intent is clearly good, the exceptions appear to leave some important loopholes.

5.60 To the extent that SNI continues to exist as a financial entity (about which there is considerable doubt), its continued existence should no longer remain the major, aberrant and unnecessary source of financial repression which it now represents. Even in advance of measures to restructure the entire public enterprise sector, which should necessarily involve SNI, a number of preliminary measures appear to be in order:

(a) the requirement that banks subscribe 10% of their liquid assets to bons d'equipement should be abolished, and these bonds should be retired at maturity and not be rolled over (except as may be required, at market rates);

(b) to the extent made possible by the public enterprise reform, viable assets should be sold off, if necessary to the Fonds de Gestion de l'Epargne Nationale, which could sell the shares in question, either individually or en bloc; the ultimate role of the FGEN in this respect would be as a secondary market for the securities of profitable enterprises. In the absence of an intermediary institution such as the FGEN, it is highly doubtful that any attempt to transfer assets of public enterprises selected for privatization, either in whole or in part, to the Cameroonian private sector, could succeed;

(c) it would most probably initially be the Treasury/CAA that purchased bons d'equipement to supply proceeds needed by the SNI following retirement of the 4.5% bonds and their replacement with instruments issued at market rates; ultimately, as a measure broadening the Cameroonian capital market such bonds would also be issued to the public, with the FGEN supporting the secondary market for these instruments; and

(d) the ultimate role of the SNI would be to maintain those public enterprises which the Government decided to retain in the public portfolio <u>despite</u> their unprofitability; thus SNI might play the role of channel of subsidies as well as (possibly) monitor of performance under <u>contrat-plan</u>.

4. <u>Contractual Saving Institutions</u> (cf. appendix tables 12-13)

5.61 As of December 31, 1983, there were five local insurance companies in operation in Cameroon which had a nearly 95% share of the insurance market. In addition there are two subsidiaries and six agencies of foreign companies, and Lloyd's of London, a U.K. society of private underwriters, and the national reinsurance fund (Caisse Nationale de Réassurance du Cameroun: CNRC). The Government's share in the equity of all insurance companies is roughly 30%; it is, moreover, sole owner of CNRC and (probably) one other insurance company.

5.62 As is the case in certain segments of the banking sector (BCD and the Cameroon Bank), the insurance sector is exemplified by the lack of

current and public information. As of July, 1985, the most recent financial statements from the sector were 17 months old, neither standardized nor independently audited. Also similar to other financial institutions in Cameroon, the financial position and performance of the insurance companies is weak, and the average debt/equity ratio for the sector as a whole is about 20:1. This precarious capitalization is aggravated by recurrent losses in the automotive insurance subsector (40% of the market) resulting from frozen premiums.

5.63 In comparison with total assets of the banking system, the insurance industry in Cameroon remains in relative infancy; its total assets were only 7% of those of total bank assets. However, at an estimated CFAF 60 billion these represent the second largest amount of total financial assets of the country. This compares with BCD (CFAF 71.7 billion), CFC (CFAF 47.5 billion) and SNI (CFAF 51.2 billion).

5.64 The capital market operations of the insurance companies are term loans (17% of total resources) about which there is, unfortunately, no information available. In any event, a significant proportion of insurance company resources--one-third--is invested in their own buildings; moreover, short-term loans and bank accounts represented nearly 50% of total resources. Although the nature of the business--and particularly the extent to which it is concentrated in the automobile insurance side--is such that capital market operations are relatively limited, this degree of liquidity remains on the high side. Because 40% of total premiums are from automobile insurance, whose payout cycles tend to be of relatively short duration, however, the Cameroonian insurance industry is unlikely to be able to contribute very strongly to capital market operations, at least in comparison with their total assets. This is to some extent exacerbated by the fact that with the adjustments of government regulated insurance premiums in line with prices being slow, automotive insurance tends to be an unprofitable operation. This is the primary reason for the technical bankruptcy of AMANCAM (100% government-owned), 69% of whose business is in automobiles. The market for life insurance, moreover, whose business tends to generate much longer-term resources, is limited by nature of the low-income levels of most Cameroonian households.

5.65 On the other hand, the use of one-third of total resources for term investments in real estate for the industry's own use suggests that alternative term investments are not easily available for profitable use; in addition, the investment of 50% of total resources in short-term assets seems somewhat high despite the nature of the industry. Apart from the fact that a more frequent adjustment of auto insurance premiums would probably allow a somewhat greater level of capital market operations, however, a real contribution of this industry, which represents an important volume of total investable assets, is difficult to foresee.

5.66 With perhaps one exception: while we have suggested that the FGEN be the repository of the financial assets of quasi-governmental bodies, it is also possible that it could play an intermediary role with respect to potential private sector capital market institutions as well.

There is, thus, no reason why the new Fonds could not issue medium-term bonds to the insurance industry as well as to accept some shorter-term commercial paper.

5. Caisse Nationale de Prévoyance Sociale (CNPS) (cf. appendix table 14)

5.67 The CNPS (National Provident Fund) is a government institution providing a range of social security services including medical services, labor and life insurance, and pensions. It is funded through payroll tax deductions which range between 15.45% and 18.7% of payrolls and has accumulated a substantial amount of resources. Thus as of mid-1984 CNPS has accumulated total assets of CFAF 131.9 billion, with almost no liabilities. To some extent CNPS has played the role of capital market institution in picking up equity shares in manufacturing corporations. These investments, undertaken under government pressure, were in failing parastatal operations--principally the most notorious, CELLUCAM (wood pulp) and CAMSUCO (sugar)--and for the most part had to be written off. Subsequent investments of a similar nature were channeled through the Government at CNPS's insistence, and amounted to CFAF 38.5 billion--29.4% of CNPS's resources--in low-interest term loans. In view of the fact that its term investments were otherwise restricted to investments in its own facilities (14% of its resources), with 2.5% for other term or equity participations, the CNPS's role an institutional in capital market investments has been minimal.

5.68 A corollary of this is that 54% of CNPS's resources which could be placed in term investments have in fact been channeled to the banking sector as short-term investments through sight and time-deposits. Such deposits represented nearly 85% of total government and parapublic deposits held with the banks as of mid-1984. 13/ This reflects an enormous negative term transformation, which represents a substantial degree of de-capitalization of the Cameroonian financial system. Some of these resources, as we have seen, flow overseas from the commercial banking sector; because of the lack of real capital market facilities resulting from such term transformation, large-scale Cameroonian investors themselves are obliged to borrow from the French capital markets. While this effect is, on balance, probably not enormous, it remains striking that it is not so much the absence of term resources which hinders the development of a Cameroonian capital market as the absence of the requisite financial resources and intermediary institutions. It is in this context that the development of a new non-bank financial intermediary must play an overarching role.

13/ In this context, it bears repeating that the resources of ONCPB are nearly half those of CNPS.

E. A "Fonds de Gestion de l'Epargne Nationale (FGEN)"

5.69 At a number of different points in this report reference has been made for the need, in the Cameroonian financial system, of a true non-bank financial intermediary which would: (a) permit the spreading of risk; (b) support and broaden the process of generalized term transformation; (c) encourage the development of new financial instruments (supporting these through the establishment of an active secondary market); and (d) supply the framework for the privatization of appropriate segments of public enterprises. During the course of the analysis it has become increasingly clear that the economy requires a degree of financial development beyond that which existing institutions can provide. In particular, this implies a greater degree of independence of the Central Bank--BEAC--not so much in terms of the regulation of aggregate demand, to be sure, but more in terms of financial development enhanced beyond what the regulatory framework of the BEAC can provide. In the financial system as presently constituted, it is clear that BEAC rediscounts will continue to be required, and that some administrative control over interest rates, even if more closely aligned to the international market, will be necessary. However, apart from the control of domestic money and credit and the implementing of the regulatory functions which normally devolve upon Central Banks, BEAC's role as co-financer of domestic credit, which as we have argued, tends to short-circuit and thereby hinder the development of domestic intermediation, should gradually be taken over by domestic second-tier institutions.

5.70 A new non-bank financial intermediary (which would neither accept private deposits nor lend to final users) could, and indeed, would be necessary in helping break some of the sources of financial repression and underdevelopment in the Cameroon system by "delinking" the financial system from subsidies or other forms of non-market support which in a number of ways have prevented the system from developing as it should. While the latter must doubtlessly continue, these should be supported directly by the budget or by the Treasury/CAA fund; activities of the new FGEN should, to the extent feasible, be strictly commercial while at the same time working to reinforce the effectiveness of existing institutions and supporting the development of new and existing financial instruments. This would provide the financial market with new possibilities for the placement of financial savings (and encourage the mobilization of such savings); it would also work to permit an increasing independence of the Paris market, and ultimately underpin the development of new investment instruments--or packages thereof--particularly to Cameroonian investors whose access to international capital markets is necessarily limited. With respect to the latter, the FGEN would work with the institutional networks proposed above to strengthen access by the smaller rural and urban borrowers whose access to credit will form an important part of Cameroon's future growth. An important role of the FGEN would also emphasize the development and support of secondary markets, now for all practical purposes non-existent in Cameroon; in addition it would be an important interface for private capital market institutions such as insurance and leasing companies. Such secondary markets would initially be confined to debt instruments (although SNI-related equities could also be involved early on depending upon the progress of public enterprise reforms). Debt instruments in question would

include those associated with the recapitalization of the banks, 14/ but could also include other assets consolidating their shorter-term liabilities (e.g., via the establishment of CDs). Moreover--to the extent required--the FGEN could either purchase market-rate SNI bonds, or provide a secondary market for private purchasers.

5.71 It is evident that possibly as much as a decade's work lies ahead. New institutions of the nature suggested cannot be completely designed and implemented from scratch, but must be worked out over a period of time, adjusting the different elements as the market, development priorities and domestic and international circumstances require. This does not mean, however, that a major start is not possible.

5.72 The proposed new Fonds de Gestion de l'Epargne Nationale has a number of elements in common with the French Caisse des Dépôts et Consignations (CDC) which largely stem from the strong institutional similarities already existing between French and Cameroonian financial and legal systems. Thus sources of financing for the new Fonds would come from much the same sources as for the CDC, particularly the national providence fund (i.e, the CNPS) and the national savings funds, especially the Caisse d'Epargne. However, until an institution paralleling that of the French Caisse Nationale de Crédit Agricole is developed, ONCPB surpluses not directly associated with price stabilization would be assigned to the Fonds de Gestion. Like the CDC, the Fonds would be an "établissement public" permitting it not only a certain degree of independence in its operating decisions but allowing it to hire a core of expatriate cadres which would be necessary until Cameroonian nationals came onstream. Very much unlike the CDC, however, the Fonds would not in the first instance lend to municipalities; moreover, it would itself abstain from providing subsidies or below-market rate loans: these would continue to be forthcoming from preferential rediscounts from the BEAC or would be financed from the Central Government budget itself. This would therefore preclude, for example, lending for the construction of social housing. The purpose of these restrictions would not be to deny legitimate financial support to groups or individuals deemed worthy, but would seek to the extent possible to avoid the weakening or contamination of the financial system with respect to its carrying out its role of financial intermediation. As was noted in Chapter II with respect to one of the few indicators available for financial deepening--M2/GDP--that of Cameroon is the lowest of the BCEAO states (save Niger).

14/ The Treasury/CAA operations alluded to above would basically represent consolidations of current Treasury deposits into equity or "prêts participatifs" and would be associated with public equity participations. FGEN participations, on the other hand, would of themselves not change the structure of equity holdings between the state and private sector.

The Role and Functions of the Fonds de Gestion

5.73 The FGEN would be headed by a Board of Directors whose composition might be determined as appropriate; essentially it should be independent from the Government (and in particular, the Treasury), with its Managing Director named by the President. While the Government should clearly enjoy some oversight or review, it is critical that the management of the Fonds assets not in any way be regarded as a complement to the resources, say, managed by the CAA. 15/ The Managing Director would have extensive powers, and enjoy Ministerial rank. As for the Board of Directors, it would play the important role of setting forth general investment policies to be followed by the FGEN and ensuring that the distribution of its investments were in line with national priorities, remembering, however, that its activities would be profit-oriented.

5.74 The FGEN would be capitalized directly by the Treasury, with equity contributions also being made (obligatorily) by the CNPS, ONCPB, the Caisse d'Epargne and other structurally surplus organizations such as the Crédit Foncier. The debt-structure of the FGEN--as with its French homologue--would be primarily short-term, one of its main function being that of term transformation and guarantor of liquidity in secondary markets (described below). Unlike the CDC, however, the FGEN would play an activist role in strengthening existing weaknesses in the Cameroonian financial system, in particular, those of the commercial banks.

5.75 In principle, member organizations, i.e., the ONCPB, the CNPS, Crédit Foncier, the Caisse d'Epargne and the postal checking system, would thus hold their excess financial assets as short-term deposits; it is, however, evident that some controls would be necessary to ensure that parastatal depositors did not expand unreasonably their own real estate investments to limit their engagements vis-à-vis the FGEN. Moreover--unlike the French system--private institutional depositors such as insurance companies would be admitted.

FGEN Financial Market Interventions

5.76 We have seen that the commercial banking system is badly undercapitalized. Moreover, the sector as a whole demonstrates a certain potential maturity gap problem with term-transformation which may be

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15/ The Cameroonian Government is considering establishing an institution with certain functions similar to those of the FGEN. It believes, however, that these should be exercised under the direct aegis of the CAA. If this option is taken, great care should be exercised to isolate the FGEN-like activities from the management of Treasury resources. The FGEN should be seen and operated as an independent profit-making institution even if ultimately subordinate to the management of the CAA.

excessive in view of the bank's serious undercapitalization. In this respect the FGEN could play an important role in the rehabilitation of the sector, basically in two separate ways:

(a) First, it could fund (i.e., lengthen the term-structure of) the deposits its eventual constituent members (e.g., CNPS, ONCPB) now held on short-term deposit with the banks themselves. As of mid-1985 these were approximately CFAF 152 billion of the CFAF 198 billion Government deposits (excluding SNI) with the commercial banks. Obviously--given the other potential activities of the FGEN--a funding operation could not involve anywhere near the totality of these resources. However, with the resources in question having been transferred to the FGEN, the latter could purchase a certain volume of longer-term debt instruments of the banks, which might include Certificates of Deposit, essentially via an open-market bidding process. This would permit the commercial banks to widen their role as universal banking institutions (with greater attention to term-loans) as argued for above. In any event (except as an element of the management of liquidity within the context of FGEN's overall portfolio), FGEN would not routinely practice negative term-transformation by maintaining short-term deposits with the banks in excess of current liquidity requirements.

(b) Second, consistent with the recapitalization requirements of the commercial banks, the FGEN would make and support a market for the mutual-fund-like SICAVs, the latter permitting private individual shareholdings in the commercial banks as well as in other corporate entities.

4.77 As explained above the FGEN would participate in the financial restructuring measures bearing upon the state enterprise sector which involved the SNI. This in particular would involve those public enterprises being privatized under the terms of the on-going effort to rehabilitate the sector. While the FGEN under no circumstances would take over any unprofitable investments in the SNI portfolio, its assets could be used to purchase the shares of financially profitable companies for resale to private Cameroonian investors, perhaps via the SICAV, which could permit some measure of privatization of the public enterprise sector through relatively small-scale shareholdings In effect, in so doing the FGEN would be playing the role of a stock market. However this activity were carried out, the investments should be freely decided upon with no compulsion. Should this not be the case, the viability of the FGEN itself could be compromised. While the modalities of any such arrangement would have to be very carefully worked out, the existence of the FGEN would ultimately materially facilitate efforts to reprivatize some industries currently in the public portfolio.

4.78 The relevance of FGEN's involvement in this sector would be at least two-fold. First, to the extent that the new organization were able to function as an independent entity, it could operate much as an

investment bank, dealing at arm's length between the SNI and the ultimate buyers, establishing independently the values of equity shares being privatized. 16/ Second, to the extent that it acted as an intermediary in the purchase of public enterprise shares before resale to the general public it would also vote these shares independently of the Government or its tutelary authority. In any event, the degree to which the FGEN was involved in the public enterprise restructuring exercise should be left open. While some type of intermediary operation of this nature appears to be required if the restructuring effort is to succeed, it is clear that a major operation could absorb the entirety of its assets, which would detract from other important tasks.

5.79 At this juncture it would not be desirable for the FGEN to hold outright the debt instruments of private industrial companies; 17/ this should be the domain of the private sector, including the commercial banks, whose asset structure might be made more amenable to such debt through the indirect support of the FGEN. However, it might be appropriate for the FGEN to act as a secondary market for such debt instruments, holding them on a short-term basis for that purpose. "Prêts participatifs" and shares in SICAVs might thus be issued by concerns other than commercial banks with the FGEN making a market. Ultimately, in the more distant future the FGEN could play a role in evening out fluctuations in equities markets. It--rather than the BEAC--could also rediscount and even resell real estate instruments such as mortgages.

5.80 Earlier we considered the Government's support for the establishment of a zone-wide money market; it will be recalled that BEAC was to be the intermediary institution. It is, however, clear that the FGEN could play the same role for Cameroon alone, placing funds on the overnight interbank markets through a form of auction. It is not clear that this would have an appreciable impact on the money supply (if at all), since merely a substitution of financial assets would be involved as its short-term deposit holdings were transferred among banks. However, the substitution of (some) short-term deposits for long-term bank debt which would take place following the above recommendations could lead to monetary expansion as the banks, with an assured capital base, expanded their lending. For the most part, however, it is likely that any operation of the nature in question would lead to a greater degree of term transformation, to the development of a wider range of financial instruments, and to the ultimate diminution of financial repression. In effect, as the deepening of the Cameroonian financial system progressed, the demand for money supporting

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16/ It is clear that to the extent that the Government accepts only Cameroonian equity participation asset values will be commensurately lower.

17/ It might, however, hold the shares of private companies not associated with SNI.

the greater degree of financial intermediation would grow, a development of which BEAC authorities should take account.

5.81 Finally (and particularly with the phase-out of bank taxes supporting FOGAPE), the FGEN should play the role of refinancing CD/FOGAPE/FONADER. Thus loans made from these institutions to third-tier borrowers such as the crédits mutuels or the SEICs could be purchased by the FGEN.

5.82 It remains an open question whether the FGEN should be admitted to the rediscount facilities of the BEAC. On the one hand, permitting this would probably allow a more rapid development of financial intermediation, particularly if accompanied by a reduction in rediscounting by the BEAC to institutions which the FGEN itself supported. It would also provide a greater degree of flexibility with respect to resources from the ONCPB, whose financial resources, as we have seen, should probably revert to the private sector through a reduction in agricultural export taxes. On the other hand, relatively easy access to FGEN resources, themselves fed by BEAC rediscounts, would probably finally tend to discourage the mobilization of private resources. On balance, while it would appear desirable to permit FGEN access to BEAC rediscounts, this should probably be done sparingly, with BEAC playing the role of lender of last resort, rather than as co-financer.

5.83 Several further implications for BEAC follow. First, to the extent that FGEN operations were to be rediscountable, commensurate reductions in rediscounts to commercial banks would have to be undertaken: i.e., global credit restraints would have to be tightened. On the other hand, where FGEN activities really amounted to a transformation of maturities it is not obvious that BEAC intervention would be required (although there would be certain implications with respect to the interest rate structure.) Thus the funding operations with respect to commercial bank liabilities discussed above should not require any interventions with respect to monetary policy; on the other hand, the transfer of resources now on deposit with the commercial banks from, say, CNPS to the FGEN which were not used in a funding operation, but rather for support of a SNI operation, might require increased BEAC rediscounts depending upon the demand for cash balances of the final recipients of these resources. 18/ In any event, however, the gamut of changes proposed with respect to interest rate policy, taxes of financial instruments, abolition of the category of non-rediscountable loans, etc., is likely to require an even more thorough review of monetary policy than the establishment of an FGEN, and considerable trial and error with respect to monetary policy is likely to be necessary.

18/ Given, however, overseas balances of the commercial banks of between CFAF 150 and 200 billion, it is unlikely that the institution of the FGEN would precipitate a liquidity crunch.

5.84 It is also clear that many of the details of the FGEN's activities and responsibilities remain to be worked out. The basic goal of the new institution, however, would be to broaden the process of term transformation in the economy, provide secondary markets where the flow of investable funds to desirable borrowers has been impeded by their lack, to help in de-linking the financial system from the support of unprofitable activities, and to demarcate better the role of taxation/budget system from the financial system. If any of this can be accomplished, substantial strides will have been made toward strengthening the system of financial intermediation and resource mobilization.

5.85 While the principle of the establishment of a new non-bank financial intermediary for Cameroon appears well within the realm of the appropriate, we can, at this juncture, only offer ideas and proposals and seek to demonstrate their validity. Should an institution of the nature of the FGEN ultimately be established, it is very possible that a number of its functions and modalities will be quite different from those set forth in these pages. If, however, the strength of the Cameroonian financial system is to be established on a basis commensurate with the rest of the economy, the Government owes it to itself not only to examine these proposals with care, but also to consider alternatives not put forward in this report.

CAMEROON

FINANCIAL SECTOR REPORT

Financial and Capital Market Statistics

List of Tables

CAMEROON

CAPITAL MARKETS

Table 1: Summary Accounts of Commercial Banks and The Development Bank - December 1979-January 1985 a/
(In billions of CFA Francs)

	1979		1980		1981		1982				1983				1984				1985	
	Dec.	of which medium- and long-term	Dec.	of which medium- and long-term	Dec.	of which medium- and long-term	June	of which medium- and long-term	Dec.	of which medium- and long-term	June	of which medium- and long-term	Dec.	of which medium- and long-term	June	of which medium- and long-term	Dec.	of which medium- and long-term	Jan.	of which medium- and long-term
	Total		Total		Total		Total		Total		Total		Total		Total		Total		Total	
...a																				
	3.9		4.8		8.1		6.8		7.9		6.1		8.5		8.4		11.6		10.4	
...ign Assets (net)	-3.4		-35.7		28.7		-18.2		-20.0		-5.5		9.8		39.1		116.6		95.2	
...ns on private sector	323.8	110.3	416.6	142.7	530.7	204.1	603.6	196.6	678.7	221.2	746.2	200.7	800.8	223.1	801.2	225.4	806.1	229.1	809.2	230.4
...which BCD	(31.1)	(20.3)	(30.2)	(19.0)	(60.7)	(25.0)	(36.0)	(26.1)	(37.8)	(35.5)	(42.7)	(27.6)	(42.7)	(27.6)	(42.7)	(27.6)	(42.7)	(27.6)	(42.7)	(27.6)
...d Assets	324.2	110.3	385.7	142.7	599.5	204.1	592.2	196.6	666.7	221.2	746.8	200.7	826.2	223.1	860.2	225.4	934.1	229.1	916.8	230.4
...ilities and Net Worth																				
...d deposits	115.1		129.2		115.9		173.8		180.4		190.6		267.9		289.3		374.9		289.8	
...and savings deposits	75.8		107.2		146.7		177.2		184.9		184.2		235.4		228.6		325.5		343.9	
...rment deposits (net)	47.5		48.5		160.3		113.3		113.2		144.7		72.6		83.8		72.1		66.7	
...t from Central Bank ...k)	61.0	35.6	67.8	36.4	104.4	60.1	108.0	51.1	124.6	78.2	134.3	78.3	139.4	81.8	144.0	85.2	155.1	76.4	122.0	78.1
...m- and long-term ...eign borrowing	14.3	14.3	28.4	28.4	68.7	68.7	67.8	67.8	64.8	64.8	78.7	78.7	44.6	44.6	68.1	68.1	68.9	68.9	38.5	38.5
...al accounts	24.3	24.3	28.8	28.8	42.2	42.2	44.5	44.5	49.2	49.2	52.8	52.8	62.4	62.4	58.3	58.3	46.6	46.6	48.5	48.5
...items (net)	-13.9		-22.5		-33.6		-44.6		-59.4		-49.7		23.9		-23.4		-9.9		13.1	
...Liabilities and Worth	324.2	74.2	385.7	93.6	506.5	143.0	592.2	143.6	666.7	184.3	746.8	201.8	826.2	188.9	860.2	211.6	934.1	181.9	914.8	149.1
...ity Cap:		36.1		51.1		61.1		53.2		36.9		7.2		34.1		14.3		47.4		81.1

...mmary accounts are rearranged to better show the resources available to the banking sector.

...e: BEAC

CAMEROON

CAPITAL MARKETS

Table 2: Distribution of Bank Loans by Sector
(Percentages) a/

	December 1980		June 1984	
SECTOR	Short-term	Medium- and long-term	Short-term	Medium- and long-term
Agriculture, foresty and fisheries	5.6	5.0	4.6	3.2
Mining, mainly petroleum	1.2	18.9	4.2	30.8
Manufacturing	27.7	26.4	20.0	22.2
Water and Electricity	0.3	6.9	1.7	5.2
Construction and Public Works	6.1	2.3	9.3	1.9
Commerce and Trade	46.4	10.8	42.0	9.6
Services	9.1	9.0	11.4	11.2
Other b/	3.3	20.2	6.7	15.8
TOTAL	100.0	100.0	100.0	100.0
Percentage of Total	69.3	30.7	70.1	29.9

a/ Sums may not add-up due to rounding.

b/ Mainly loans to individuals.

Source: BEAC: The distribution is based on loans reported to the Centrale des Risques.

CAMEROON

CAPITAL MARKETS

Table 3: Several Accounts of Major Banks - June 30, 1984
(In billions of CFA Francs)

	BANKS e/				
	BICIC	SCB	BIAO	SGBC	TOTAL
Total Assets	259.2	210.8	192.9	173.4	836.3
Total Loans to private sector	204.0	166.6	155.3	142.0	667.9
Non identified Securities a/	0.1	0.1	2.9	.....	3.1
"Bons d'equipement" b/	18.4	12.6	13.0	11.0	55.0
Net Worth	6.0	5.7	5.5	3.8	21.0
Acceptances	5.2	2.5	30.4	2.8	40.9
Guarantees	86.2	112.4	79.3	80.8	358.7
Debt-to-equity Ratio (D/E)	42.2:1	36.0:1	34.1:1	44.6:1	38.8:1
D/E if acceptances and guarantees are included.	57.4:1	56.1:1	54.0:1	66.6:1	57.8:1
% of Ownership of Major Shareholder c/	51.0 d/	55.4 d/	65.0	45.0 d/	NA
Number of Major Shareholders c/	5	3	3	3	NA

a/ No information is available about the nature of these securities.
b/ Information as of February 15, 1985.
c/ As of June 30, 1983.
d/ Government and government-owned institutions.

e/ Abbreviations:
BICIC: Banque Internationale pour le Commerce et l'Industrie du Cameroon
SCB: Société Camerounaise de Banque
BIAO-Cameroon: Banque Internationale pour l'Afrique Occidentale Cameroon
SGBC: Société Générale de Banques au Cameroon
NA: Not Applicable

Source: Published Annual Reports; due to the different classification of accounts, figures should be considered as estimates.

Table 4 Cameroon Development Bank
(Banque Camerounaise de Developpement - BCD)

Balance Sheet a/
(In billions of CFA Francs)

	June 30					
	1982		1983		1984	
	Total	of which medium- and long term	Total	of which medium- and long term	Total	of which medium- and long-term
ASSETS						
Cash and Banks	8.7		12.8		10.7	
Cash	0.1		0.1		0.1	
Local Banks	8.4		12.6		10.4	
Banks Abroad	0.2		0.2		0.2	
Short-term Notes	0.6		0.1		0.1	
Total Loans	35.0		43.6		46.9	
Short-term Loans	7.2		13.2		16.4	
Medium- and Long Term Loans	22.4	22.4	24.3	24.3	24.3	24.3
Doubtful Loans	4.3	4.3	4.3	4.3	2.7	2.7
Unrecoverable Loans	1.1	1.1	1.7	1.7	3.4	3.4
Other Debit Accounts	2.2		0.8		3.3	
Deferred Assets	0.4		0.8		2.7	
Fixed Assets	1.4	1.4	1.6	1.6	1.9	1.9
Shares	1.2	1.2	1.3	1.3	1.3	1.3
Other Assets	0.1		5.1		5.0	
TOTAL ASSETS	49.4	30.4	66.1	33.2	71.7	33.6
LIABILITIES AND NET WORTH						
Banks	0.1		0.1		1.0	
Total Debt	19.4		29.8		27.2	
Short-Term	6.4		11.7		9.6	
Medium- and Long-Term	13.1	13.1	18.1	18.1	17.6	17.6
Deposits	15.4		21.4		23.2	
Other Credit Accounts	0.5		0.4		3.8	
Deferred Liabilities	2.2		2.3		3.9	
Other Liabilities b/	5.8	5.8	6.1	6.1	6.4	6.4
Net Worth	5.9	5.9	6.0	6.0	6.2	6.2
Capital	6.0		6.0		6.0	
Retained Earnings	(0.2)		(0.1)		0.1	
Net Income for the Year	0.1		0.1		0.1	
TOTAL LIABILITIES AND NET WORTH	49.4	24.8	66.1	30.2	71.7	30.2
Maturity Gap		5.6		3.0		3.4

a/ Sums may not add up due to rounding.

b/ Includes monthly provisions and depreciation.

Source: Published Annual Reports

CAMEROON

CAPITAL MARKETS

Table 5: Cameroon Development Bank - (BCD)

Sectoral Distribution of Credits Approved
(In billions of CFA Francs)

	June 30				
	1980	1981	1982	1983	1984
Short-term	6.6	12.1	14.3	17.3	21.6
Of which: agricultural production and marketing	(6.4)	(11.1)	(12.5)	(14.2)	(13.9)
Medium- and long-term	7.0	3.9	9.0	8.7	7.3
Agriculture	2.5	0.2	3.2	0.6	0.1
Manufacturing and handicrafts	2.5	2.2	4.0	4.2	3.0
Other	2.0	1.5	1.8	3.9	4.2
Total	13.6	16.0	23.3	26.0	28.9
Memorandum items:					
Credit to small- and medium-sized enterprises	...	...	...	6.0	4.2
Guarantees a/	3.4	2.3	7.5	3.8	16.4

a/ Settlement of BCD guaranteed credits originating from other financial institutions.

Source: IMF (?)

CAMEROON

CAPITAL MARKETS

Table 6: FOGAPE

Summary Balance Sheet - June 30, 1984[a/]
(In millions of CFA Francs)

Assets		Liabilities	
Property	112.0	Own Resources	1,887.7
Loans to be recovered	94.9	Provisions to cover guarantees	79.1
Other Assets	53.5	Other Liabilities	4.4
Cash and Banks (83% deposited at BCD)	1,896.2	Net Income of the Period	185.4
	2,156.6		2,156.6

Memorandum Accounts:

Guarantees 3,945.3

a/ Except for highlighting some accounts, the summary balance sheet follows FOGAPE's financial statements presentation.

Source: FOGAPE

CAMEROON

CAPITAL MARKETS

Table 7: Leasing Companies

Summary Balance Sheet - June 30, 1984[a/]
(In millions of CFA Francs)

	SOGELEASE	SOCABAIL
Assets		
Deferred Assets	7.6	-
Leases	4,363.1	2,495.1
Other Assets	92.0	46.7
Liquid Assets	257.5	302.8
TOTAL ASSETS	4,720.2	2,844.6
Liabilities and Net Worth		
Net Worth	573.9	536.0
Medium- and Long-term Debt	4,009.4	2,122.3
Short-term Debt	136.9	186.3
TOTAL LIABILITIES AND NET WORTH	4,720.2	2,844.6

a/ Except for highlighting some accounts, the summary balance sheets follow companies' financial statements presentation.

Source: SOGELEASE; SOCABAIL

CAMEROON

CAPITAL MARKETS

Table 8: - SOCCA

Summary Balance Sheet - June 30, 1984[a/]
(In millions of CFA Francs)

Assets		Liabilities and Net Worth	
Deferred Assets	15.0	Net Worth	1,311.5
Property	442.7		
Other Assets	2.4	Term Debt	354.0
Short-term Loans	1,833.9		
Shares b/	58.8		
Other Liquid Assets	379.2	Other Liabilities	1,066.5
	2,732.0		2,732.0

Memorandum Accounts:

Acceptances	8,667.7

a/ Except for highlighting some accounts, the summary balance sheet follows SOCCA's financial statements presentation.

b/ This may be investments in SOCABAIL.

Source: SOCCA

CAMEROON

CAPITAL MARKETS

Table 9: - SCE

Summary Balance Sheet - June 30, 1984[a/]
(In millions of CFA Francs)

Assets		Liabilities and Net Worth	
Deferred Assets	52.1	Net Worth	236.4
Property	353.3		
Other Assets	3.1	Term Debt	240.8
Consumer Credit	1,197.1	Suppliers Credit	149.6
Inventory	266.1	Other liabilities (mostly liquid)	1,336.0
Other Liquid Assets	91.1		
	1,962.8		1,962.8

Memorandum Accounts:

Guarantees or Acceptances 349.3

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a/ Except for highlighting some accounts, the summary balance sheet follows SCE's financial statements presentation.

Source: SCE

CAMEROON

CAPITAL MARKETS

Table 10: - National Housing Bank
(Credit Foncier du Cameroon - CFC)

Summary Balance Sheet - June 30, 1984[a]
(In millions of CFA Francs)

Assets		Liabilities and Net Worth	
Property	1.1	Net Worth	6.0
Long term Securities	0.1		
Real Estate Term Loans	20.5	Taxes Levied on Wages and Salaries	38.2
Other Assets	1.1	Savings Accounts	0.3
Funds in Investment	2.5	Debt to Beneficiaries	2.1
Liquid Assets (Primarily Banks)	22.2	Other Liquid Liabilities	0.9
	47.5		47.5

Memorandum Accounts

Guarantees received from clients	26.9
Guarantees provided to clients	4.8
BIAO rediscount operations	1.0

a/ Except for highlighting some accounts, the summary balance sheet is based on CFC's financial statements presentation.

CAMEROON

CAPITAL MARKETS

Table 11: - SNI

Summary Balance Sheet - June 30, 1984[a/]
(In millions of CFA Francs)

Assets		Liabilities and Net Worth	
Cash and Banks	16.0	Other Liabilities	1.6
Liquid Assets	2.6	Liquid Liabilities	4.5
Loans (Mostly Term Loans)	9.5	Provisions	0.1
Investments	16.9	Term Borrowings (Mainly SNI Bonds)	58.8
Fixed Assets	6.7	Net Worth	(13.7)
TOTAL	51.2		51.2

a/ Except for highlighting certain accounts, the summary balance sheet follows SNI's financial statements presentation.

Source: SNI

CAMEROON

CAPITAL MARKETS

Table 12

Summary Balance Sheet of Major Insurance Companies - December 31, 1984 a/
(In millions of CFA Francs)

ASSETS	SOCAR	AMACAM	SNAC	CCAR	TOTAL
Deferred Assets	0.1	0.3	0.1	0.2	0.7
Property	5.7	3.2	1.5	2.2	12.6
Terms Loans	5.8	0.2	0.7	0.5	7.2
Equity Investments	...	...	0.1	...	0.1
Reinsurance	5.9	2.1	2.6	2.5	13.1
Short-term Loans	4.6	2.4	5.9	1.0	13.9
Other Liquid Assets	1.7	0.5	1.5	0.1	3.8
Cash and Banks	1.2	2.9	0.7	2.5	7.3
TOTAL ASSETS	25.0	11.6	13.0	9.1	58.7
LIABILITIES AND NET WORTH					
Net Worth	1.7	(0.3)	0.8	0.6	2.8
Term Borrowings	1.5	0.4	1.3	0.2	3.4
Technical Provisions	18.2	10.4	8.3	6.0	42.9
Short-term Liabilities	3.6	1.2	2.6	2.2	9.6
TOTAL LIABILITIES AND NET WORTH	25.0	11.6	13.0	9.1	58.7
% of Total	42.6	19.8	22.1	15.5	100.0
Insurance Premiums b/	11.9	6.8	5.6	3.4	27.7
of which auto insurance	4.9 (41.2%)	4.7 (69.1%)	1.6 (28.6%)	1.1 (32.4%)	12.3 (44.4%)
Market Share %	38.4	21.9	18.1	11.0	89.4
Ratios					
Technical Provisions to Net Worth Ratio (times)	10.7	N.A.	10.4	10	15.3
Debt to Equity Ratio (times)	13.7	N.A.	15.3	14.2	20.0
Reinsurance to Technical Provisions (%)	32.4	20.2	31.3	41.7	30.5
Loans to Technical Provisions (%)	31.9	1.9	8.4	8.3	16.8
Cash and Banks to Technical Provisions (%)	6.6	27.9	8.4	41.7	17.0
Short-term Loans to Technical Provisions (%)	25.3	23.1	71.1	16.7	32.4
Property to Technical Provisions (%)	31.3	30.8	16.1	36.7	29.4

a/ Except for highlighting some accounts, and estimating the nature of accounts that have different classifications, the summary balance sheets presentation follows that of major companies.

b/ Source: Association des Societes d'Assurances Du Cameroun.

Abbreviations: SOCAR: Sté Camerounaise d'Assurances
AMACAM: Assurances Mutuelles Agricoles du Cameroun
SNAC: Sté Nouvelle d'Assurances du Cameroun
CCAR: Compagnie Camerounaise d'Assurances et de re'assurances

Source: Financial Statements of Insurance Companies submitted to the Ministry of Finance

CAMEROON

CAPITAL MARKETS

Table 13: National Reinsurance Fund (CNRC)

Summary Balance Sheet - June 30, 1984[a/]
(In billions of CFA Francs)

Assets		Liabilities and Net Worth	
Deferred Assets	0.1	Net Worth	0.8
Property	1.4	Term - Liabilities	1.8
Term Loans			
Banks	2.7		
Deposits with Reinsured Companies	3.2		
Equity Investments	0.5	Technical Provisions	7.2
Technical Provision with Concessionaires	1.5	Short-term Liabilities	0.3
Short-term Assets	0.6		
	10.1		10.1

a/ Except for highlighting some accounts, the summary balance sheet follows CNRC's financial statements presentations.

Source: CNRC

CAMEROON

CAPITAL MARKETS

Table 14: Social Security Fund

(Caisse Nationale de Prévoyance Sociale - CNPS)

Summary Balance Sheet - June 10, 1984[a/]
(In billions of CFA Francs)

Assets		Liabilities and Reserves	
Deferred Assets	1.0	Reserves	98.1
Property	18.4		
Term Loans to the Government	38.5	Short-term liabilities	1.2
Equity Investments	0.8		
Other Term Securities	2.3		
Other Term Assets	0.3	Net Income	31.7
Time Deposits	56.5		
Demand Deposits and Cash	14.1		
	131.9		131.9

a/ Except for highlighting certain accounts, the summary balance sheet follows CNPS's financial statements presentation.

Source: CNPS

CAMEROON

CAPITAL MARKETS

Table 15: ONCPB

Summary Balance Sheet - September 30, 1984[a/]
(In billions of CFA Francs)

Assets		Liabilities and Net Worth	
Agencies	1.7	Net Worth	108.4
Property	8.5	Government Term Debt	-1.8
Term Loans	16.7		
Equity Investments	14.7	Short Term Liabilities	12.4
Inventories	0.1		
Short-term loans	33.0	Short Term Liabilities with Banks	1.0
Other Short Term Assets	2.2		
Government	20.0		
Banks and postal debt deposits	23.2		
	120.0		120.0

a/ Except for highlighting several accounts, the summary balance sheet follows ONCPB'S financial statements presentation.

Source: ONCPB

CAMEROON

CAPITAL MARKETS

Table 16: Capital and Net Worth of Manufacturing Enterprises[A/]
(In millions of CFAF - June 30, 1979)

Industrial Classification	Capital					Retained Earnings	Net Worth	Average Net Worth per Enterprise
		Domestic		Foreign				
	Total	Private	Public	Private	Public			
Grains, Vegatables & Flour	580	34	-	546	-	273	853	85.3
Other Agroindustry	2,134	453	318	1,363	-	378	2,512	628.0
Bakery and Pastry	805	619	55	131	-	495	1,300	46.4
Other Food	28	18	-	10	-	-16	12	2.4
Beverages and Tobacco	10,797	1,473	2,113	7,211	-	2,388	13,185	2,197.5
Textiles and Clothing	4,057	483	804	2,684	86	952	5,009	167.0
Leather and Shoes	1,658	153	375	1,099	31	-167	1,491	298.20
Wood	-20	438	-181	-277	-	-1,252	-1,272	-60.6
Paper	2,401	1,323	869	209	-	1,621	4,022	211.7
Chemicals	10,618	282	1,466	8,870	-	-3,706	6,912	460.8
Rubber and Plastics	9,275	5,274	35	3,966	-	91	9,366	851.4
Construction Materials	2,452	58	964	712	718	651	3,103	775.8
Metallurgy	9,296	808	2,355	5,202	931	2,195	11,491	2,298.2
Mechanical, Electrical, metallic	2,784	992	270	1,522	-	1,272	4,056	162.2
Transportation Equipment	344	15	-	329	-	229	573	573.0
Other Manufacturing	1,493	993	436	64	-	222	1,715	171.5
TOTAL	58,702	13,416	9,879	33,641	1,766	5,626	64,328	323.3
Percentages	100	22.8	16.8	57.3	3.0	9.6	109.6	N.A.

A/ Manufacturing enterprises included in the industrial census of the modern sector, include enterprises with sales of more than CFAF 5 million (Based on the 1978/1979 foreign exchange rate this was equivalent to about US$23,000).

Source: Direction de la Statistique et de la Comptabilité Nationale.

CAMEROON

CAPITAL MARKETS

Table 17: Legal Form of Manufacturing Enterprises
(Number of enterprises - June 30, 1979)

	Sole Proprietorship	Cooperative	General Partnership (Societe en nom collectif)	Limited Liability Company (S.A.R.L.)	Corporation (S.A.)	Joint Venture Contract (Societe de Participation)	Other	Total
Grains, Vegetables & Flour	3	-	1	2	4	-	-	10
Other Agroindustry	1	-	-	1	2	-	-	4
Bakery and Pastry	12	1	1	8	6	-	-	28
Other Food	2	-	-	1	1	-	1	5
Beverages and Tobacco	-	-	-	1	5	-	-	6
Textiles and Clothing	9	-		4	16	-	1	30
Leather and Shoes	-	-		1	4	-	-	5
Wood	11	-	-	6	4	-	-	21
Paper	5	-	-	1	8	2	3	19
Chemicals	-	-	-	2	13	-	-	15
Rubber and Plastics	-	-	-	3	8	-	-	11
Construction Materials	-	-	-	2	2	-	-	4
Metallurgy	-	-	-	1	4	-	-	5
Mechanical, Electrical, Metallic	3	-	-	2	20	-	-	25
Transport Equipment	-	-	-	-	1	-	-	1
Other Manufacturing	4	-	-	1	5	-	-	10
Total	50	1	2	36	103	2	5	199
Percentages	25.1	0.5	1.0	18.1	52.8	1.0	1.5	100

Source: Direction de La Statistique et de la Comptabilité Nationale.

THE FINANCIAL SOCIAL ACCOUNTING MATRIX

A. A Short Guide to an FSAM

1. An FSAM is nothing more than a series of interrelated accounts for each of the productive sectors, economic agents and institutions which follow the basic accounting principle of double entry bookkeeping (King, 1981, p.1). In other words, for the accounts of each sector, agent or institution, inflows must equal outflows. For example, the liabilities of the banking system must equal its assets, or that expenditure on GDP must equal GDP on the product side. In the matrix, each account will consist of one column representing expenditures and one row representing receipts. This, of course, implies that a FSAM is a square matrix of dimension equal to the number of accounts and that the sum of all the elements in a row will equal the sum of all the elements in the corresponding column. Each transaction is an expenditure of one account and a receipt by another and is recorded at the intersection of the appropriate row and column. A transaction can be viewed as money flowing from the column to the row and "goods" flowing from the row to the column. However, the entries represent not only the purchases of goods and services, but also of financial assets and the direct transfer of resources. An important implication of all the above is that the entries in the matrix for both real and financial variables register flows during one fiscal year, not the levels or stocks.

2. Table 1 shows the structure of the FSAMs constructed for Cameroon. The matrix has seven major accounts. The production, factor, current, and the Rest of the World current accounts reflect the real side of the economy and their elements either involve payments for factor services and taxes, or the selling and buying of goods and services. The capital account displays both real transactions, e.g., real savings and investment, and financial transactions. The latter are basically financing items needed when real savings and investment are not equal for a particular institution (the usual case). The Financial Institutions, Financial Assets and the Rest of the World capital accounts display financial transactions, basically changes in the liabilities and assets of the financial system. Not all accounts are directly related to each other, for example, the factor and capital accounts are not, reflecting how money and goods actually flow in the real economy. The non-zero elements of the FSAMs for Cameroon have been identified in Table 1 by their coordinates which will be useful in the following sections on the interpretation of FSAMs.

3. The production account displays the transactions originating from the supply and demand for real goods, services and factors of production. The account has been further subdivided between activities and commodities. The activities account reflects the economic activity originating from the production of goods and services in Cameroon (the supply side of the economy) and basically corresponds to the producing sectors of an Input-Output table. Thus, the activities account's revenues are from exports (Q1), domestic sales or supply (B1), and government subsidies (G1); while expenditures reflect the use of inputs during the production process:

intermediate consumption (A2), payments to labor (A3), payments to capital (A4), and indirect taxes (A7). The commodity account corresponds to the domestic market for all goods and services (the demand side of the economy), including those which have been imported. Its column combines total domestic supply (B1), imports (B17) and tariffs (B7) to yield total supply at market prices (B19), or absorption. In the commodities row are the "incomings" to the account: the proceeds of sales at market prices from intermediate consumption (A2), household final consumption (E2), government final consumption (G2), and investment (I2+J2+N2).

4. The factor account indicates payments for factors of production (rows 3 and 4) and the distribution of this factor income to the main institutions or "actors" of the economy (columns C and D). Thus, labor value added (A3) is paid to households (C5), to government through social security contributions (C7), and to the Rest of the World (workers' remittances) (C17). "Capital" value-added (A4), basically the difference between total and labor value-added, is paid to firms (D6), government (D7) and to the Rest of the World (D17). The payments from labor and capital to the overseas account are the net factor services outflows except for interest on the public debt which is included elsewhere. The government receipts from the capital account (D7) are an estimate of net government revenue from the oil sector, inclusive of profits not directly transferred to the Central Government by SNH and direct taxes on profits paid by the foreign oil companies. The government account therefore includes SNH. Basically, the factor accounts act as transfer mechanisms channeling wages (from A3) and capital rents (from A4), to the "institutions": household (C5), firms (D6), the government (C7 + D7), and the rest of the world (C17, D17).

5. Institutions have two sets of accounts, current and capital. This is to reflect the different economic processes and behavioral assumptions underlying consumption (current) and investment (capital) transactions. The capital account of firms has been further disaggregated into six subsectors (agriculture-food, agriculture-exports, private industry, private services, public or parapublic industry and public or parapublic services) in two of the FSAMs to indicate the way in which the allocation process works to channel savings to investments in the major sectors.

6. Households' revenues on their current account are labor income (C5), income from firms in their capacity of "capitalists" (F5), and income from the government in the form of social security benefits (G5). Household current expenditures consist of consumption (E2), direct income taxes paid to government (E7), direct net transfers overseas (E17), and savings (E8). The three cells that remain to be explained in the current account are all on the expenditure side (columns). They are retained earnings or savings of firms (F9), government savings (G10) and net government transfers overseas plus interest on the public foreign debt (G17). All three savings items are determined as a residual, the difference between current revenues and current expenditures.

7. Before proceeding with the explanation of the structure of a FSAM, a few comments about the relationships between National Income Accounts, Balance of Payments Accounts and a FSAM may be relevant. All of the most important national account identities can be derived from the FSAM. For example, GDP on the expenditure side is the total of row 2 (S2) minus intermediate consumption (A2) plus the trade balance (Q1 - B17). GDP at market prices on the income side is total value added (A3+A4) plus indirect taxes and import tariffs (A7+B7) minus subsidies (G1). The current account of the balance of payments if in surplus would appear in R17, if in deficit in Q18 (not shown in Table 1). The circular flow of income is also reflected in the matrix. Producers pay factors for their services (A3 and A4) including government's "share" of value-added: indirect taxes (A7) and import duties (B7). The factor accounts then transfer the income to the institutional sectors either directly (for example C5) or indirectly (for example F5). The institutions through the current account either consume, completing the cycle for that income fraction, or save. These savings (E8+F9+G10) are either invested directly or channeled through the financial system back to investment (total investment equals I2+J2+N2) completing the cycle. The FSAM also displays the leakages to and from the circular flow of income due to government operations and transactions with the rest of the world. We will now turn to explaining how the FSAM captures the workings of the financial system. The capital account is explained last as it interconnects real flows to the financial system.

8. Three financial institutions have been identified in the FSAM, the Central Bank, Commercial Banks and the Informal sector. Other financial institutions, for example, insurance companies, have been omitted because preliminary analysis showed them to be relatively unimportant in Cameroon, and the lack of good data.

9. Row 11 displays the change in liabilities of the Central Bank: government deposits at BEAC (J11), commercial bank reserves at BEAC (O11), currency held outside banks (P11) and foreign liabilities of BEAC (R11). Column K shows the changes in BEAC's assets: claims on commercial Banks (new rediscounted loans - K12), claims on government and other BEAC assets (K15), and BEAC's holdings of foreign assets (K18). The liabilities of the commercial bank are shown in row 12: deposits held by households (H12), deposits held by firms (I12), government deposits (J12), loans (rediscounts) from BEAC (K12) and foreign liabilities (for the most part debt owed to home offices and not deposit liabilities owed to foreigners) of the commercial banks (R12). The assets of the commercial banks are shown in column L: new holdings of "bons d'équipement" (L14) and other assets (debt) of commercial banks (L15) which will be identified more exactly when discussing the debt account.

10. There are two important properties of how the FSAM displays the financial system. First, it should be understood, as stated before, that all these transactions like all others in the matrix represent flows, i.e., changes in the liabilities and assets of the banking system, and not stocks. Second, changes in the banking sector's assets are transactions with the financial assets account. The FSAM specifies the banking sector

as buying debt or equity which is not directly related to a particular institutional agent, which together with other debt or equity held by other agents or other financial institutions is transferred as a totality and then distributed to households, different sectors of production and the government by the financial assets account.

11. The other financial institution is what has been termed the "informal" sector. Its only source of funds is the household sector (H13) and it places all of its funds in the equity account (M14). Its magnitude is the residual found by subtracting from total household savings changes in the holdings of bank deposits and currency by households. The informal sector measures those real savings of households which are put to use through intermediation channels different from the banking system. As is well known, a particular characteristic of the Cameroonian financial system is the existence of a large and dynamic informal sector organized through tontines. A tontine consists of a group of individuals interrelated by some social factor (family, tribe or occupation, for example) who meet regularly (typically once a month) and deposit a certain amount in a common fund. This fund is then bid for by the tontine members, who offer different terms for the use of the money. Terms vary between tontines, implicit nominal interest rates run from nil to very high rates. In any case, tontines offer members an alternative to commercial banks and official savings institutions, which may not be present in every rural area, both as a savings mechanism and as a source of liquidity to finance investment over and above their own savings capacity during that time period. Typically only small scale investments are financed through tontines, for example, improvements in housing, market stalls, taxicabs and small repair or artisan shops, although there have been reports of large-scale investments being financed from this source. This type of informal system is what is being reflected in the FSAM by the informal account.

12. However, the informal sector account may also reflect some direct investment by households that is not financed through a tontine, especially investments not directly related to a specific productive sector as, for example, housing improvement. This investment not directly related to a productive sector performed by households, whether or not partially or fully financed through a tontine, is estimated by the FSAMs as will be pointed out further on. Investments in productive sectors financed through retained earnings is by definition captured in the FSAM by firms' savings (F9), but because of the statistical difficulties in distinguishing between when an individual is acting as an entrepreneur managing a firm or as a "household" which decides to invest its savings in equity capital, there may be some funds assigned to the informal sector that should have been considered regular retained earnings or vice-versa.

13. The Financial Assets Account has been disaggregated into three sub-accounts: Equity, Debt and Money; these are the three most important types of assets which are held by financial and other institutions as a repository of their financial savings. Equity is defined for the purpose of the FSAM as a claim by the holder of the account on the future returns of the issuer. Inflows into the equity account are changes in government

holdings of parapublic enterprise bonds or stocks (S14), new issues of "bons d'équipement" bought by commercial banks (L14), new funds channeled through the informal sector (M14) and foreign direct investment (R14). Outflows from the equity account are direct investments by households in housing improvement and other activities not directly related to the productive sectors (N2), and equity funds used by firms (N9). The debt sub-account is the loans provided by the domestic banking sector and by foreign institutions. Inflows into this account originate from the central bank (K15), from commercial banks (L15), and from the Rest of the World Capital Account (R15). The total (S15), is shown as allocated to loans to households (O8), to firms (O9), to the government (O10), changes in reserves (deposits) held by commercial banks at BEAC (O11) and changes in overseas assets held by commercial banks (O18). The last financial asset, money, is held by households (H16) and firms (I16) for transactions or precautionary purposes and is issued by BEAC (P11).

14. We are now in a position to explain the capital account of the institutional sectors. Through this account the financial and real sides of the economy are interlocked; the capital account shows the sources and uses of funds for capital type transactions of the main economic agents or institutions. For households the sources of funds are real savings (E8) and loans from the banking sector (O8) which may then be absorbed by changes in bank deposits (H12), channeled to the informal sector (H13) or held as increases in currency outside banks (H16). Firms have as sources of funds retained earnings (F9), direct loans from the government (J9), equity funds (other than retained earnings) (N9) and loans from the banking sector (O9), and as uses investment (I2), changes in banking deposits (I12) and holdings of currency (I16). Finally, government has as sources real savings (total revenues less recurrent expenditures) (G10), loan from the domestic banking sector (O10), and foreign loans (R10), and as uses direct investment (J2), loans to parapublic firms (J9), changes in deposits at BEAC (J11), changes in commercial bank deposits (J12), changes in participations in parapublic firms (J14), and changes in overseas holdings (J18). This last element is an estimate of the net changes in unofficial foreign reserves held by the government through SNH and has been estimated as a residual.

15. The capital account can be thought of as an investment bank in the sense that it collects all savings, domestic and foreign, and spends them on real or other alternative assets (Dervis, de Melo and Robinson, 1982, p. 161). It also shows the interrelationships between the capital accounts of the institutional sectors if disaggregated like the one shown here and the sources of domestic savings. To analyze the sources of foreign savings we need to examine the Rest of the World (RoW) account.

16. The RoW account as set up in the Cameroon FSAMs basically reflects the sources (columns Q and R) and uses (rows 17 and 18) of foreign exchange. For the current account, sources are exports (Q1), and uses are imports (B17), net factor services outflows (C17, D17 and part of G17) and net outflow through current transfers (E17 and part of G17). If the current account is in surplus, the net inflows of foreign exchange (R17 or

the current account balance) are used to finance the net foreign exchange gap on the capital account (R10 + R11 + R12 + R14 + R15 - J18 - K18 - G18). The capital account of the RoW includes foreign exchange transactions classified in BOP accounts in both the capital account (in the BOP sense) and in changes of official foreign reserves holdings, explaining why the current account surplus is equal to the foreign exchange gap of the RoW capital account in the FSAM.

17. The FSAM's main advantages over alternative methods of presenting the savings-investment process are three. The first two arise from the fundamental property of the FSAM that each account and the whole matrix in general is balanced when the sum of all the elements of a column (expenditures) is equal to the sum of all the elements of the corresponding row (revenues). First, this constraint imposes consistency on data which, because they have different sources, are often contradictory. The SAM framework points out the inconsistencies in the data and shows the implications across accounts of different judgements on the various magnitudes. Thus, putting many different accounts in relation to each other and requiring consistency may give one grounds for departing from figures published in official tables and at the same time provide a series of consistency checks on the magnitude of each transaction. This property is especially useful in countries for which the data base is weak, as for example, Cameroon. In fact, this property was used extensively in the construction of the FSAMS as will be explained in the next section. The second advantage arising from this characteristic of a FSAM is that it allows placing a range on the size of unknown flows. For each account total overflows must equal total inflows, therefore if the total and all but one of the elements of a column or row are known, the value of this missing element can be calculated by simple subtraction. The two dimensional property of the FSAM permits greater power in the estimation of unknown flows than just simple identities. This property also has been used extensively in the FSAMs, for example, to estimate the size of informal savings by households, to estimate government and household real savings, etc. The third property is that it displays very clearly the role of the government, both through the fiscal system and through the transactions on its capital account, in the savings-investment process. The government absorbs funds through the tax system from the private sector and only partially returns them through direct loans to firms, deposits in the commercial banking sector and buying of equity. As shall be discussed further on, it displays the clear need for the government to become a better intermediary.

B. Source and Data Manipulation for the Cameroonian FSAMs

18. The basic data sources used in the construction of the FSAMs are the Official National Accounts for several years, the IMF's B.T.P. for fiscal years 1984 and 1985, and the BEAC monetary statistics which are published quarterly. In addition, the World Bank Public and Publicly Guaranteed Debt tables for Cameroon, the SNI annual reports for fiscal years 1984 to 1985, ONCPB's balance sheet for various years, as well as World Bank estimates of private foreign debt of Cameroon and various other

[illegible] statistics were used as sources for a few elements in the [illegible].

[illegible] of the FGAM involved a significant amount of [illegible] to use among the various alternatives for [illegible] of the matrices, and on what changes should be made to [illegible] figures for analytical consistency purposes. In other words, [illegible] data inconsistent in the sense that each source had [illegible] for the same variable, for example, imports and exports as [illegible] the National Accounts were different from those estimated by [illegible] in the sense of analytical consistency. By the latter we [illegible] for each account have to be equal. [illegible] may involve changes to the raw data away from the [illegible], of course, one of the advantages of the FGAM [illegible] identifying to a large extent what are the [illegible] and therefore departing from published [illegible]. The rest of this section explains in general [illegible] were preferred to others for particular variables [illegible] values.

[illegible] for the most variables is to use the [illegible] except when there were obvious reasons [illegible] basically the IMF, or to depart from [illegible] these changes by comparing the Bank [illegible] National Accounts aggregates to those [illegible] change is to use the [illegible] net subsidies. These data are [illegible] subsidies, which were identified in [illegible] enterprises in Cameroon. The correspond- [illegible] allocated to both gross private [illegible] given the true size of [illegible]. A second important departure from [illegible] trade balance. Oil exports are underre- [illegible] estimates, which basically [illegible]. In addition, the National [illegible] estimates were used instead, as [illegible] data on exports to Cameroon [illegible] of these two changes for [illegible] trade balance for Cameroon, which [illegible] the other components of expenditure on [illegible] consumption.

[illegible] variables arises from [illegible] balance of the private sector in [illegible] as shown in the National [illegible] even after the [illegible] explained in the preceding [illegible] by the private sector through the [illegible] and foreign sources were taken [illegible] consumption was reduced [illegible] consumption was increased so that

total expenditures on GDP did not vary. This incident is a good example of the advantages of the FSAM approach. The FSAM showed that the two sets of data, the real data described above and the financial data from BEAC, were inconsistent. Given that financial data is easier to collect and control and therefore can be used with more confidence, the real variables were amended. In addition, rather than reducing private investment, consumption was a better choice as it is usually estimated in national accounts as a residual. Finally, as a check on these transformations total government expenditures from the FSAM were compared to IMF figures and were found to very close. It should be understood that the government investment figures in the FSAMs are gross fixed capital formation and not government capital expenditures as shown in the Investment Budget.

22. There are other departures from official sources and published data in the FSAMs. For example, the estimate in the National Accounts of net payments for services provided by foreign capital were too low if one takes into account the profits repatriated by foreign private oil firms and interest on public and private debt. IMF estimates were used instead. Private foreign debt was also reduced substantially from un-official World Bank estimates, especially in 1983 and 1984, so as to achieve reasonable savings investment balances.

TABLE 1: THE STRUCTURE OF THE CAMEROONIAN FRANC.

	PRODUCTION ACCOUNT		FACTOR ACCOUNT		CURRENT ACCOUNT			CAPITAL ACCOUNT								FINANCIAL INSTITUTIONS			FINANCIAL ASSETS			REST OF THE WORLD		TOTAL REVENUES
	Activit. A	Commodit. B	Labour C	Capital D	Households E	Firms F	Govt G	Households H	Firms fond ag Ia	ag ind-exp Ib	priv ind Ic	priv serv Id	pub ind Ie	pub serv If	Govt J	Central Bank K	Commercial Banks L	Informal M	Equity N	Debt O	Money P	Current Q	Capital R	S
PRODUCTION ACCOUNT																								
1 Activities		B1					G1															B1		S1
2 Commodities	A2				E2		G2		Ia2	Ib2	Ic2	Id2	Ie2	If2	J2				N2					S2
FACTOR ACCOUNT																								
3 Labour	A3																							S3
4 Capital	A4																							S4
CURRENT ACCOUNT																								
5 Households			C5			F5	G5																	S5
6 Firms				B6																				S6
7 Government	A7	B7	C7	B7	E7																			S7
CAPITAL ACCOUNT																								
8 Households					E8															B8				S8
9 Firms :						F9													B9	B9				S9
9a. Food ag.						F9a													B9a	B9a				S9a
9b. Ag. ind-exp						F9b													B9b	B9b				S9b
9c. Priv. ind.						F9c													B9c	B9c				S9c
9d. Priv. serv.						F9d													B9d	B9d				S9d
9e. Pub. ind.						F9e									J9e				B9e	B9e				S9e
9f. Pub. serv.						F9f									J9f				B9f	B9f				S9f
10 Government							G10													B10			B10	S10
FINANCIAL INSTITUTIONS:																								
11 Central Bank															J11					B11	P11		B11	S11
12 Commercial Banks								H12		Ib12	Ic12	Id12	Ie12	If12	J12	K12							B12	S12
13 Informal								H13																S13
FINANCIAL ASSETS																								
14 Equity															J14		L14	M14					B14	S14
15 Debt																K15	L15						B15	S15
16 Money								H16		Ib16	Ic16	Id16	Ie16	If16										S16
REST OF THE WORLD																								
17 Current		B17	C17	B17	E17		G17																	S17
18 Capital															J18	K18				B18				S18
19 TOTAL EXPENDITURES	A19	B19	C19	B19	E19	F19	G19	H19	Ia19	Ib19	Ic19	Id19	Ie19	If19	J19	K19	L19	M19	N19	B19	P19	Q19	B19	S19

Table 2. Comparison Between Standard Tables: FSAR vs. National Accounts.

Standard Table Using FSAR Aggregates.

(Bil CFAF)

	1979/1980	1980/1981	1981/1982	1982/1983	1983/1984
Gross Domestic Product	1385.2	1760.9	2127.6	2525.6	3081.3
Resource Gap (R-I)	45.6	49.3	-3.0	-71.0	-222.7
Imports (G+NFS)	424.0	561.9	605.0	675.2	791.5
Exports (G+NFS)	378.4	512.6	608.0	746.2	1014.2
Total Expenditures	1430.8	1810.3	2124.6	2454.5	2858.6
Consumption	1108.8	1311.1	1591.1	1802.9	2095.0
Government	156.7	237.4	276.1	300.7	341.2
Private	952.1	1073.7	1315.0	1502.2	1754.2
Gross Investment	322.0	499.2	533.5	651.6	763.2
Fixed Investment	308.5	452.2	502.0	626.0	743.8
Changes in Stocks	13.5	47.0	31.5	25.6	19.4
Gross Domestic Savings	276.4	449.8	536.5	722.5	985.9
Net Factor Income	-29.1	-51.2	-65.7	-105.5	-121.1
Net Capital Payments	-27.1	-45.4	-57.0	-95.5	-110.0
Net Labour Payments	-2.0	-5.8	-8.7	-10.0	-11.1
Current Transfers	-6.6	-8.8	-9.0	-5.1	-5.5
Private	-6.3	-9.7	-7.9	-3.9	-4.1
Government	-0.3	1.4	-1.2	-1.2	-1.3
Current Account Balance	-81.4	-108.5	-71.7	-39.6	96.1
Gross National Savings	240.6	390.4	461.8	612.0	859.3

(% GDP)

	1979/1980	1980/1981	1981/1982	1982/1983	1983/1984
Gross Domestic Product	100.0	100.0	100.0	100.0	100.0
Resource Gap (R-I)	3.3	2.8	-0.1	-2.8	-7.2
Imports (G+NFS)	30.6	31.9	28.4	26.7	25.7
Exports (G+NFS)	27.3	29.1	28.6	29.5	32.9
Total Expenditures	103.3	102.8	99.9	97.2	92.8
Consumption	80.0	74.5	74.8	71.4	68.0
Government	11.3	13.5	13.0	11.9	11.1
Private	68.7	61.0	61.8	59.5	56.9
Gross Investment	23.2	28.3	25.1	25.8	24.8
Fixed Investment	22.3	25.7	23.6	24.8	24.1
Changes in Stocks	1.0	2.7	1.5	1.0	0.6
Gross Domestic Savings	20.0	25.5	25.2	28.6	32.0
Current Account Deficit	5.9	6.2	3.4	1.6	-3.1
Gross National Savings	17.4	22.2	21.7	24.2	27.9

Standard Table Using National Accounts Aggregates.

(Bil CFAF)

	1979/1980	1980/1981	1981/1982	1982/1983	1983/1984
Gross Domestic Product	1610.2	1796.5	2172.0	2618.0	3195.0
Resource Gap (R-I)	7.8	73.6	96.3	27.2	-51.8
Imports (G+NFS)	386.4	462.1	531.2	574.7	594.7
Exports (G+NFS)	378.6	388.6	434.8	547.5	646.5
Total Expenditures	1610.0	1870.0	2268.1	2645.3	3143.3
Consumption	1122.1	1381.6	1730.4	1965.2	2314.4
Government	136.0	159.1	192.0	208.7	306.4
Private	985.3	1222.5	1538.4	1716.5	2008.0
Gross Investment	295.9	488.4	538.7	680.1	828.9
Fixed Investment	282.4	441.4	507.2	654.5	809.5
Changes in Stocks	13.5	47.0	31.5	25.6	19.4
Gross Domestic Savings	288.1	414.8	442.4	652.9	880.7
Net Factor Income	-23.9	-51.2	-68.4	-59.8	-62.1
Net Capital Payments	-21.9	-45.4	-55.8	-49.8	-51.0
Net Labour Payments	-2.0	-5.8	-8.7	-10.0	-11.1
Current Transfers	-6.6	-8.8	-9.1	-5.1	-5.4
Private	-6.3	-9.7	-7.8	-3.9	-4.1
Government	-0.3	1.4	-1.2	-1.2	-1.3
Current Account Balance	-38.3	-132.8	-169.8	-92.1	-15.8
Gross National Savings	257.6	355.6	368.9	588.0	813.1

(% GDP)

	1979/1980	1980/1981	1981/1982	1982/1983	1983/1984
Gross Domestic Product	100.0	100.0	100.0	100.0	100.0
Resource Gap (R-I)	0.6	4.1	4.4	1.0	-1.6
Imports (G+NFS)	27.4	25.7	20.4	22.0	18.6
Exports (G+NFS)	26.8	21.6	20.0	20.9	20.2
Total Expenditures	100.6	104.1	100.4	101.0	98.4
Consumption	79.6	76.9	79.6	75.1	72.4
Government	9.7	8.9	8.8	9.5	9.6
Private	69.9	68.1	70.8	65.6	62.8
Gross Investment	21.0	27.2	24.8	26.0	25.9
Fixed Investment	20.0	24.6	23.3	25.0	25.3
Changes in Stocks	1.0	2.6	1.4	1.0	0.6
Gross Domestic Savings	20.4	23.1	20.4	24.9	27.6
Current Account Balance	2.7	7.4	7.8	3.5	0.5
Gross National Savings	18.3	19.8	17.0	22.5	25.4

Table 3: Savings and Investment in Cameroon.
(fiscal years)

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Gross Investment (bil CFAF)	84.3	88.7	120.7	121.7	181.8	238.8	272.6	322.0	499.2	533.5	651.6	763.2
Gross National Savings (bil CFAF)	60.4	98.4	90.5	90.0	151.9	221.5	196.8	240.6	390.6	461.8	612.0	859.3
Current Account Deficit (bil CFAF)	23.9	-9.7	30.2	31.7	29.9	17.3	75.8	81.4	108.6	71.7	39.6	-96.1
Gross Investment (% of GDP)	21.0	18.0	20.8	18.5	23.0	24.7	23.8	23.2	28.3	25.1	25.8	24.8
Gross National Savings (% of GDP)	15.1	20.0	15.6	13.7	19.2	22.9	17.2	17.4	22.2	21.7	24.2	27.9
Current Account Deficit (% of GDP)	6.0	-2.0	5.2	4.8	3.8	1.8	6.6	5.9	6.2	3.4	1.6	-3.1

Sources: From 1973 to 1979: National Accounts of Cameroon; and from 1980 to 1984: Fsaas for Cameroon.

Table 4: CAMEROON; FSAM FOR 1979/80.
(BILLION CFAF)

	PRODUCTION ACCOUNT		FACTOR ACCOUNT		CURRENT ACCOUNT			CAPITAL ACCOUNT							FINANCIAL INSTITUTIONS			FINANCIAL ASSETS			REST OF THE WORLD		TOTAL REVENUES
	Activit.	Commodit.	Labour	Capital	Households	Firms	Govt	Households	Firms (fond ag	ag ind-exp	priv ind	priv serv	pub ind	pub serv	Govt	Central Bank	Commercial Banks	Internal	Equity	Debt	Money	Current	Capital	
	1	2	3	4	5	6	7	8	9 a	b	c	d	e	f	10	11	12	13	14	15	16	17	18	19
PRODUCTION ACCOUNT																								
1 Activities		1765.6					25.1															378.4		2169.1
2 Commodities	855.4				952.1		156.7		19.2	21.7	36.4	64.7	72.6	26.2	81.0				2.5					2266.9
FACTOR ACCOUNT																								
3 Labour	539.5																							539.5
4 Capital	687.4																							687.4
CURRENT ACCOUNT																								
5 Households			549.0			265.5	7.0																	1031.5
6 Firms				618.6																				618.6
7 Government	106.8	76.5	18.5	50.0	26.3																			287.2
CAPITAL ACCOUNT																								
8 Households					66.8															2.5				69.3
9 Firms: fond ag a						12.0													5.0	2.3				19.2
ag ind-exp b						11.5													12.4	0.5				24.4
priv ind c						20.2													6.6	15.7				60.5
priv serv d						35.9													13.2	23.1				72.1
pub ind e						16.8									25.4				20.0	17.4				79.5
pub serv f						16.7									13.0				3.1	3.0				36.1
10 Government							80.0													5.1			98.2	184.3
FINANCIAL INSTITUTIONS																								
11 Central Bank															3.0					4.9	9.8		2.2	19.9
12 Commercial Banks								19.9		2.4	3.6	8.9	6.0	0.9	19.4	-7.6							15.9	77.6
13 Internal								24.5																24.5
FINANCIAL ASSETS																								
14 Equity															13.0		0.3	24.5					14.2	60.7
15 Debt																2.6	60.3						7.2	70.9
16 Money								4.9		0.4	0.6	1.5	1.0	1.5										9.8
REST OF THE WORLD																								
17 Current		429.0	2.0	9.8	6.3		17.6																	459.7
18 Capital															26.9	26.9				6.5		81.3		137.7
19 TOTAL EXPENIT.	2169.1	2266.1	539.5	687.4	1031.5	618.4	287.2	49.3	19.2	24.4	40.5	72.1	79.5	36.6	186.1	19.9	33.6	24.5	60.7	78.9	9.8	459.7	137.7	8973.9

Table 5: CAMEROON; FSAM 1980/1981.
(BILLION CFAF)

	PRODUCTION ACCOUNT		FACTOR ACCOUNT		CURRENT ACCOUNT			CAPITAL ACCOUNT			FINANCIAL INSTITUTIONS			FINANCIAL ASSETS			REST OF THE WORLD		TOTAL REVENUES
	Activities	Commodities	Labour	Capital	Households	Firms	Government	Households	Firms	Government	Central Bank	Commercial Banks	Informal	Equity	Debt	Money	Current	Capital	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
PRODUCTION ACCOUNT																			
1 Activities		2294.5					35.6										512.6		2842.6
2 Commodities	1148.8				1073.7		237.4		392.2	101.9				5.0					2959.0
FACTOR ACCOUNT																			
3 Labour	603.4																		603.4
4 Capital	956.3																		956.3
CURRENT ACCOUNT																			
5 Households			578.1			612.7	8.2												1199.0
6 Firms				806.2															806.2
7 Government	134.1	102.6	19.5	130.8	43.0														430.0
CAPITAL ACCOUNT																			
8 Households					72.7										0.0				72.7
9 Firms						193.5				25.6				83.5	117.8				420.4
10 Government							124.5								7.2			86.5	218.2
FINANCIAL INSTITUTIONS																			
11 Central Bank										-20.7					2.4	16.7		0.9	-0.7
12 Commercial Banks								26.1	23.1	52.9	25.1							12.5	139.7
13 Informal								34.9											34.9
FINANCIAL ASSETS																			
14 Equity										10.0		8.5	34.9					35.2	88.5
15 Debt											-0.4	131.2						8.7	139.5
16 Money								11.7	5.0										16.7
REST OF THE WORLD																			
17 Current		561.9	5.8	19.4	9.6		24.4												621.1
18 Capital										48.4	-25.3				12.1		108.6		143.7
19 TOTAL EXPENDITURES	2842.6	2959.0	603.4	956.3	1199.0	806.2	430.0	72.7	420.4	218.2	-0.7	139.7	34.9	88.5	139.5	16.7	621.1	143.7	11690.9

Table 6: CAMEROON; FSAM FOR 1981/82.
(BILLION CFAF)

	PRODUCTION ACCOUNT		FACTOR ACCOUNT		CURRENT ACCOUNT			CAPITAL ACCOUNT			FINANCIAL INSTITUTIONS			FINANCIAL ASSETS			REST OF THE WORLD		TOTAL REVENUES
	Activities	Commodities	Labour	Capital	Households	Firms	Government	Households	Firms	Government	Central Bank	Commercial Banks	Informal	Equity	Debt	Money	Current	Capital	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
PRODUCTION ACCOUNT																			
1 Activities		2909.2					45.2										608.0		3562.4
2 Commodities	1516.0				1315.0		276.1		392.2	131.3				10.0					3640.6
FACTOR ACCOUNT																			
3 Labour	738.1																		738.1
4 Capital	1135.3																		1135.3
CURRENT ACCOUNT																			
5 Households			705.2			748.5	9.4												1463.1
6 Firms				929.8															929.8
7 Government	173.0	126.4	24.3	184.1	50.1														557.8
CAPITAL ACCOUNT																			
8 Households					90.1										7.3				97.4
9 Firms						181.3				26.3				100.5	112.2				420.3
10 Government							190.3								18.1			44.3	252.7
FINANCIAL INSTITUTIONS																			
11 Central Bank										-2.1					2.8	11.5		8.4	20.6
12 Commercial Banks								27.8	24.6	27.5	20.7							34.1	134.7
13 Informal								61.6											61.6
FINANCIAL ASSETS																			
14 Equity										7.4		15.2	61.6					26.3	110.5
15 Debt											6.7	119.5						10.0	136.2
16 Money								8.0	3.4										11.5
REST OF THE WORLD																			
17 Current		605.0	8.7	21.4	7.9		36.8												679.7
18 Capital										62.7	-6.8				-4.2		71.7		123.0
19 TOTAL EXPENDITURES	3562.4	3640.6	738.1	1135.3	1463.1	929.8	557.8	97.4	420.3	252.7	[illegible]	134.7	61.6	110.5	136.2	11.5	679.7	123.0	14075.3

Table 7:CAMEROON; FGAM FOR 1982/83.
(BILLION CFAF)

	PRODUCTION ACCOUNT		FACTOR ACCOUNT		CURRENT ACCOUNT			CAPITAL ACCOUNT								FINANCIAL INSTITUTIONS			FINANCIAL ASSETS			REST OF THE WORLD		TOTAL REVENUES
	Activit. 1	Commodit. 2	Labour 3	Capital 4	Household 5	Firms 6	Govt 7	House-holds 8	Firms: food ag 9a	ag ind-exp 9b	priv ind 9c	priv serv 9d	pub ind 9e	pub serv 9f	Govt 10	Central Bank 11	Commercial Banks 12	Informal 13	Equity 14	Debt 15	Money 16	Current 17	Capital 18	19
PRODUCTION ACCOUNT																								
1 Activities		3343.0					92.6															746.2		4181.8
2 Commodities	1710.5				1502.2		300.7		50.8	68.4	105.3	178.2	39.6	60.3	136.0				13.0					4165.0
FACTOR ACCOUNT																								
3 Labour	855.0																							855.0
4 Capital	1414.2																							1414.2
CURRENT ACCOUNT																								
5 Households			816.1			855.0	10.0																	1681.1
6 Firms				1070.5																				1070.5
7 Government	202.1	146.8	28.9	286.6	55.5																			719.9
CAPITAL ACCOUNT																								
8 Households					119.6															5.6				125.2
9 Firms :food ag						27.0													20.8	3.0				50.8
ag ind-exp						24.5													18.9	26.9				70.3
priv ind						48.0													42.4	17.9				108.2
priv serv						54.4													54.8	76.3				185.5
pub ind						28.3													6.7	9.5				44.4
pub serv						33.2									16.8				7.0	10.5				67.6
10 Government							277.0													12.9			30.1	319.9
FINANCIAL INSTITUT																								
11 Central Bank															122.8					-2.6	7.1		-5.1	122.2
12 Commercial Bank								24.9		1.8	2.7	6.6	4.4	6.6	41.7	51.4							33.2	173.3
13 Informal								95.3																95.3
FINANCIAL ASSETS																								
14 Equity															3.3		10.8	95.3					54.0	163.5
15 Debt																4.0	162.5						16.4	182.9
16 Money								4.9		0.2	0.3	0.6	0.4	0.6										7.1
REST OF THE WORLD																								
17 Current		675.2	10.0	57.1	3.9		39.6									66.8				22.9		39.6		785.7
18 Capital															-0.7									126.6
19 TOTAL EXPENDITUR	4181.8	4165.0	855.0	1414.2	1681.1	1070.5	719.9	125.2	50.8	70.3	108.2	185.5	44.4	67.6	319.9	122.2	173.3	95.3	163.5	182.9	7.1	785.7	126.6	16718.9

Table 9: CAMEROON; FSAM FOR 1983/84.
(BILLION CFAF)

	PRODUCTION ACCOUNT		FACTOR ACCOUNT		CURRENT ACCOUNT			CAPITAL ACCOUNT			FINANCIAL INSTITUTIONS			FINANCIAL ASSETS			REST OF THE WORLD		TOTAL REVENUES
	Activities	Commodities	Labour	Capital	Households	Firms	Government	Households	Firms	Government	Central Bank	Commercial Banks	Informal	Equity	Debt	Money	Current	Capital	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
PRODUCTION ACCOUNT																			
1 Activities		3898.7					113.7										1014.2		5026.6
2 Commodities	2004.6				1754.2		341.2		533.5	209.7				20.0					4863.2
FACTOR ACCOUNT																			
3 Labour	995.1																		995.1
4 Capital	1783.2																		1783.2
CURRENT ACCOUNT																			
5 Households			946.3			1057.6	12.6												2016.4
6 Firms				1391.5															1391.5
7 Government	243.7	173.0	37.7	322.5	68.2														845.1
CAPITAL ACCOUNT																			
8 Households					190.0										2.3				192.3
9 Firms						334.0				48.8				119.0	117.9				619.7
10 Government							335.5								15.7			30.1	381.2
FINANCIAL INSTITUTIONS																			
11 Central Bank										-46.8					3.7	12.1	1.5		-29.5
12 Commercial Banks								93.1	82.6	-54.6	11.1						-35.0		97.3
13 Informal								90.7											90.7
FINANCIAL ASSETS																			
14 Equity										3.0		10.3	90.7				35.0		139.0
15 Debt											9.3	86.9					75.6		171.8
16 Money								8.5	3.6										12.1
REST OF THE WORLD																			
17 Current		791.5	11.1	69.1	4.1		42.2										96.2		1014.2
18 Capital										221.1	-49.9				32.2				203.4
19 TOTAL EXPENDITURES	5026.6	4863.2	995.1	1783.2	2016.4	1391.5	845.1	192.3	619.7	381.2	-29.5	97.3	90.7	139.0	171.8	12.1	1014.2	203.4	19813.5