

DIALOGUE

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EDITORIAL

This issue of Dialogue marks the simultaneous publication of DIAL's newsletter in the languages of Shakespeare and Molière. A large number of our collaborators and correspondents are based in non-francophone countries and we believe this initiative will promote the wider diffusion of DIAL's aims and achievements in the field of development economics. From this issue onwards Dialogue will be published both in French and in English.

But first, those of you who are receiving Dialogue for the first time might be wondering : what is DIAL? It is a European research centre established in 1990 by ORSTOM (the French Institute for Scientific Research in Co-operation), the French administration and the European Commission. Its main objective is to provide French and European institutions in charge of development aid, as well as developing countries, with analyses and advice on macro-economic issues. In addition, DIAL's specific mission is to develop concepts and instruments to help define medium-to-long term strategies for Sub-Saharan African countries facing severe financial constraints.

DIAL's early years have been strongly marked by its efforts in Cameroon. It is there that our institute undertook its first researches and we have continued to monitor developments in the country. While several of DIAL's reports cover different aspects of the Cameroonian economy, a broad synthesis of their conclusions is as yet unavailable. We are rectifying this situation and hope to publish before the end of this year a comprehensive book containing the results of our research and analyses.

We thought it useful to offer a foretaste of this volume by devoting the whole of the current issue of DIALOGUE to a summary of our work in Cameroon. Those readers interested in further information regarding one or another of the themes covered will find, at the end of this bulletin, a list of some of our publications devoted to this country. DIAL would be grateful to hear from its English-speaking readers their reactions to this first issue of Dialogue in their language!

An overview of DIAL's work on the economy of Cameroon

DIAL was established six years ago with the object of studying the long-term prospects of developing economies facing serious financial constraints. Initial research was concerned with identification of the long-term determinants of growth in the Cameroonian economy which, having experienced a period of prosperity, seemed to have slipped into an impasse despite a severe, if belated, programme of structural adjustment.

DIAL's work in Cameroon has evolved in three distinct phases. The first phase, from 1991 to 1992, consisted of establishing an historical macro-economic review and developing an economic forecast to the year 1995. This work allowed identification of the principal characteristics of growth and sources of blockage of the Cameroonian economy. Nevertheless, due to the inadequacy of statistical data, this macro-economic overview contained considerable grey areas. In particular, little was known about the significance of the informal sector, the dynamics of industry, or the importance of cross-border trade with the Republic of Nigeria. As a result these subjects were treated separately, without any real linkage to broad macro-economic questions.

The second stage of the DIAL study, from 1993 to 1994, was designed to bridge these gaps. In collaboration with the Cameroonian statistical services, **surveys were conducted of urban households, industrial enterprises, and the formation of prices and exchange rates.** A new system was adopted (surveys 1-2-3), using criteria compatible with national accounting methods, allowing in-depth analysis of the **employment situation** in Yaoundé and measurement of the **informal sector**. In particular, information gathered in the 1994 survey enabled examination of changing household consumption patterns in the wake of the CFA franc devaluation. This survey also permitted the study of other questions, hitherto ignored, such as ethnic discrimination in the labour market.

An analytical tool adapted to other developing countries

The accumulation of in-depth analyses, using relatively homogeneous techniques, is indispensable to the current work of DIAL in developing comparative studies of different economies. Researchers from DIAL are now conducting studies in Madagascar (the MADIO project) using an approach and methodology similar to those adopted in Cameroon.

A research partnership

DIAL's studies in Cameroon have been realised in close collaboration with the Statistics and National Accounting Directorate (Direction de la Statistique et de la Comptabilité Nationale - DSCN) and Cameroonian researchers. This liaison has enabled DIAL to fulfil its mission of co-operation and training, and contributed to the strengthening of the Cameroonian statistical services as well as to the development of economic analysis and management in the country. The tools and methods developed have been transferred to Cameroonian managers and researchers who have now assumed responsibility for continuing the research and analysis. Furthermore, DIAL's studies have been carried out through various operation-oriented programmes sponsored by different donor organisations¹, which have led to various economic policy recommendations, policy evaluations, and the development of analytical tools to be used directly by economic institutions and authorities within the country.

An original approach

From a methodological point of view, research projects conducted by DIAL have a common denominator; this involves the application of quantitative economics to the construction of

frameworks for the analysis of macro-economic growth determinants in developing economies facing financial constraints. This approach combines field work and macro-economic analysis.

A **national industrial census** was conducted in 1992 to complement a survey of informal urban activity. This allowed examination of the factors of production and the competitive situation of the formal industrial sector through the collation of responses to questions regarding competition and competitiveness. The laborious recovery of information gathered during an earlier industrial census, taken in 1983/1984, allowed not only the constitution of a sizeable **panel of companies** (a rarity in Africa, given the absence in most countries of centralised information on the accounts of industrial companies) but also comparison of data from the two surveys permitted a deeper understanding of industrial dynamics during the crisis years.

Finally, the study of cross-border trade, initiated by the Centre for the Study of Change and Social Innovation in Cameroon (Observatoires du Changement et de l'Innovation Sociale au Cameroun - OCISCA), established by ORSTOM and the government of Cameroon, was continued by DIAL in association with the Statistics and National Accounting Directorate (Direction de la Statistique et de la Comptabilité Nationale - DSCN) and local researchers. This on-going project consists of periodic surveys of commodity prices and relative exchange rates, and the operations of currency markets and distribution networks in towns serving as commercial hubs or markets for merchandise coming from Nigeria. Particular attention has been paid to the collection of data enabling the study of Nigeria's role in the formation of prices and exchange rates on the parallel market.

The third phase of the project, from 1994 to 1995, built on work accomplished in earlier phases. It comprised the **construction of econometric models** integrating information gathered from different sources and allowing analysis of the impact of domestic economic policies.

Principal Results.

I - Prospects for growth of the Cameroonian economy

Three distinct growth patterns have been identified. The first, covering the period from 1960 to 1977, can be characterised by modest but balanced growth, free from relative urban/rural price distortions or unmanageable external or domestic deficits. Throughout this period urban expansion and industrial growth were sustained, largely by public sector investment, and significant progress was made with education. Nevertheless, the period was also marked by weak diversification in exports.

The discovery and subsequent capitalisation of petroleum resources introduced significant changes to this growth pattern. From 1977 until 1985 Cameroon enjoyed a period of rapid expansion, with strong growth in production and consumption. However, this period also brought structural vulnerability to the economy with strong dependence on public finances, accruing from oil receipts and the accumulation of international debts, without any corresponding expansion of productive capacity. Although the influx of oil revenues did not provoke a bout of "Dutch Disease", it nevertheless allowed considerable expansion of current expenditure by the state (excessive public sector recruitment, wage increases, the establishment of inefficient public enterprises) which introduced significant structural rigidities and reduced the economy's capacity to adjust to external shocks.

The third pattern of growth started in 1985/1986. The collapse of agricultural commodity prices (coffee, cocoa, cotton), depreciation of the US dollar, and the progressive depletion of oil reserves triggered a crisis that was aggravated by structural weaknesses inherited from the previous period. The terms of trade (expressed in CFA francs) fell by 40% in each of the following two years (1985/1986 and 1986/1987), bringing rapid deterioration in domestic

and external balances. These external shocks profoundly disturbed the fundamentals of the Cameroonian economy, provoking a severe recession in most productive sectors. Furthermore, having extended sizeable credits to large companies, the formal banking sector found itself in a situation of quasi-bankruptcy (with the accumulation of unrecoverable loans and a collapse of the deposit base). This prompted a severe liquidity squeeze throughout the economy.

Ethnicity : A factor in employment discrimination?

The regional expression of political preferences and various other indicators coming from surveys 1-2-3, such as the absence of inter-group marriage and the recruitment of informal labour from within the family circle, permits the hypothesis that ethnic factors are significant in the functioning of the labour market. In reality, unemployment (at a rate of roughly 25%) is of equal importance within the two main ethnic groups (béti and bamiliké), each of which is ascribed different modalities of participation in the market economy and of working relationships. Furthermore, the impression that the civil service is largely staffed by bétis has no real foundation; the proportion of bétis in the public service corresponds to their relative importance in the active population of Yaoundé as a whole (41%).

Econometric analysis of age and qualifications accords no statistical significance to the ethnic factor in the calculation of probabilities of unemployment. The same result emerges from the analysis of income levels, once structural effects are held constant. Nevertheless, social status, as measured by socio-professional categories, is significant in explaining income differentials.

The absence of entry barriers to a deregulated market (with price flexibility, generalised bargaining, choice of retailer according to price, and so on), coupled with the narrow spread of variety among low-technology goods on offer, limits the significance of ethnic factors both in employment and in the economic performance of individuals.

Between 1984/1985 and 1993/1994 public sector revenues fell by half, in nominal terms, but adjustment was slow in coming. Public expenditure continued to expand, by 19% in volume in 1986/1987, even though the declining trend in oil revenues was already established. Moreover, in the early years the burden of adjustment fell on the capital budget; current outlays were trimmed much later, and to a lesser extent. In 1988 the government introduced a strict adjustment programme to curtail spending (the investment budget was cut by 80% between 1985 and 1994). Meanwhile, throughout the period 1985-1994, the real exchange rate appreciated considerably. Competition from Asian producers of agricultural raw materials (coffee, cocoa, rubber) caused a loss of export markets while strong competition from Nigeria posed a serious threat to companies manufacturing for the domestic market. The external debt rose sharply in the space of a few years, from the equivalent of 35% of GDP in 1985 to 91% in 1994.

From 1990, declining oil production volumes brought further constraints to public finances and the balance of payments. Throughout the 1980s, an unfavourable tax regime had discouraged prospecting and, while exploration has resumed with a more favourable fiscal environment, concrete results have yet to be forthcoming. At current levels of output, Cameroon's identified oil reserves will be exhausted early in the 21st century.

In 1991 DIAL, in collaboration with the French Development Bank (Caisse Française de Développement - CFD), constructed econometric models to explore the real constraints of pursuing adjustment policies. These models indicated weak prospects for growth. Despite the range and size of public spending reductions introduced, mostly in 1991, these remained insufficient to bring public accounts back to equilibrium. In 1993 the government, having already frozen civil service recruitment, was twice forced to cut public sector wages (measures without equivalent or precedence elsewhere in the Franc Zone). The extent of Cameroon's macro-economic imbalances and the rarity of external funding imposed a

requirement for alternative policies to be introduced to bring real adjustment. The definition of such alternative was made possible by the devaluation of the CFA franc in January 1994.

II - Employment and the informal sector in Yaoundé

The decline of public spending induced a recession throughout the modern private sector. At the start of the 1990s the capacity of the informal sector to reduce the effects of the crisis was little understood. This prompted the implementation of specific surveys by DIAL and the DSCN.

These surveys, called surveys 1-2-3 because of the three phases of their production, allowed measurement and appreciation of the preponderant weight of informal activities in an administrative city where, in fact, public sector employment is particularly important.

In the first quarter of 1993 Yaoundé counted some 89,000 informal production units (IPU), employing approximately 125,000 people in non-agricultural activities (56% of the working population). These IPUs are strongly concentrated in marketing activities, with more than half engaged in trading. With the addition of IPUs dealing in other services and construction, it becomes apparent that the informal sector is preponderantly made up of enterprises engaged in the provision of services rather than in producing tradable goods.

The conditions of activity in the informal sector are extremely precarious in nature. Almost 80% of the IPUs are housed in makeshift shelters, without access to public utilities (water, electricity, telephone). The average number of people working in these micro-units is just 1.4, and four out five IPUs rely wholly on self-employment. Unlike the formal sector, the proportion of salaried employment is extremely low; only 10% of those involved in the sector receive a wage. Many of the least stable jobs are occupied by women, who comprise 40% of the workforce. The level of education attained by workers in the informal sector is reasonably high (at 8 years of schooling), although this is below the national average. Nevertheless the yield on this educational investment remains low throughout the sector, even when correction is made for the bias of self-selection. Finally, numerous forms of under-employment co-exist within the sector. People engaged in informal activities gain, on average, CFAF 32,000 per month although this figure masks a wide variety both in the average hourly income and the number of hours worked. Indeed, the median income is just CFAF 15,000 per month, far below the legal minimum wage, which illustrates the large number of low-income jobs in the sector. Excluded from the formal banking system, informal sector entrepreneurs finance up to 90% of their capital from individual savings. Tontines (communal savings clubs) have but a marginal role in informal sector investment.

In sum, informal sector activities are for the most part unstable and precarious, comprising very small-scale operations which the Cameroonian authorities have great difficulty in identifying or monitoring. Nevertheless, the non-respect of prevailing economic regulations does not mean that the sector is completely beyond control by the state. Informal activities in Yaoundé are partially taxed, with 16% of enterprises paying trading licence fees, and the total tax take from the sector accounts for 6.5% of its value added. In addition, roughly 20% of these businesses claimed to have been involved in litigation with the state or its agents during the previous twelve months. In such circumstances it becomes normal to make payment of a "gift". This, according to more than 70% of the entrepreneurs interviewed, is the dominant mode of settling litigation. It appears that for each CFA franc paid in the form of a fine which reverts to the state, 10 CFA francs are pocketed by unscrupulous government employees. Nevertheless, for the informal sector as a whole, public deductions, whether legal or otherwise, do not constitute a prohibitive tax on their activities and have little influence on the profitability or the survival of enterprises. In fact, entrepreneurs give only secondary consideration to taxation and/or regulation as a brake on their activities. Excessive state intervention was cited as a problem by only 13% of the businessmen surveyed, coming far behind difficulties associated with a lack of customers (71%) or with excessive competition (68%).

In 1993 the non-agricultural informal market in Yaoundé produced goods and services to the amount of CFAF 95 billion, creating CFAF 55 billion in value added. According to national estimates (the social accounting matrix) the added value of activities in the urban informal sector amounts to CFAF 504 billion (60% in productive activities and 40% in trading), equivalent to 22% of the country's total GDP in 1992/1993. With an estimated 807,000 workers (of whom 341,000 are engaged in trading), the sector represents a similar level (21%) of total employment.

Focused exclusively on the domestic market, the primary role of the informal sector is the satisfaction of household needs. Private consumption represents more than 80% of the total demand for informal goods and services. In such circumstances, informal productive activities have only weak linkages with the formal sector (a low level of subcontracting that is confirmed by the national census of industrial enterprises - see below). However, informal businesses remain dependent on the formal sector for up to two-thirds of their supplies of merchandise and materials. Furthermore, the informal sector trades part of the output of the formal sector and, to a lesser extent, in imported goods (notably those arriving from Nigeria). National estimates indicate that up to half the trade in agricultural products and 20% of sales of goods coming from the formal sector (imported or manufactured locally) take place in the informal market.

Informal activities are conducted in a highly competitive environment. This strong competition is, above all, of an internal nature, even if nearly one third of entrepreneurs surveyed claim to suffer competition from the formal sector. As such, price flexibility is a dominant trait, not only regarding charges for productive activities (manufactured goods and services) but also affecting profit margins applied to trading activities.

The decline in urban consumer demand between 1989 and 1993 rapidly filtered through to the informal sector. While prices for food products shrank by 11%, those for informal sector merchandise fell by more than 20%. The impact of this price reduction on corresponding incomes was partly compensated by a shift in household consumption patterns, away from goods supplied by the formal sector towards those bought in the informal market. On the other hand, some formal sector companies enjoying a monopoly (or part of a restricted oligopoly) preferred to maintain their prices and adjust output volumes. This strategy of preserving margins brought greater stability in the prices of goods produced by the formal sector (which declined by just 1% per year) and, in the case of the breweries, increased by close to 20%.

Informal trading networks play a major role in the satisfaction of household demand; informal businesses provide up to three quarters of final consumption goods bought by individuals. The primary incentive for households to patronise informal outlets is, of course, lower prices. More than 80% of households surveyed cite this as the major motive for making such purchases. On the other hand, they turn to the formal sector where the quality of goods is important. This polarisation between a bargain-basement informal sector and a quality formal sector appears all the stronger as it applies no matter the type of goods or services considered. Furthermore, the price/quality relationship has become the main determinant in consumers' choice of supplier. The quality of service provided, considerations of community relations, the possibilities of consumer credit and other, extra-economic factors seem to play no part in the choice of supplier. This indicates that decisions made by Cameroonian consumers are driven by economic logic and are sensitive to the state of the market, far more than to social or cultural factors, even in the informal sector.

The strong price-sensitivity of households, and the decline in prices of informal sector goods relative to those supplied by the formal sector over the period 1989 to 1993, seem to indicate that private households had displaced part of their consumption towards informal markets. This impression has been verified by declarations made in the household survey. Almost 40% of those surveyed said that, faced with a drop in their real incomes, they attempted to maintain consumption by seeking to buy wherever prices were lowest. This provides one first indication of strong substitution in favour of the informal sector since the start of the crisis.

Evolution of the Yaoundé labour market

Between 1987 and 1993 the active population expanded at an average annual rate of 7.7%. The drop in household incomes resulting from the crisis brought a rapid growth in female labour participation rates. Furthermore, while formal sector employment remained stable (growing by 0.5% per year), the surplus supply of available labour was shared between the informal sector (which grew by 11.8%) and a swelling of the ranks of the unemployed (up by 18.3%). In 1993 and 1994 there was a significant decline in unemployment, with a fall in the rate from 24.6% to 18.2% over a period of 15 months. This decline is statistically significant given the confidence intervals of the two surveys, each covering roughly 2,000 households and 3,000 economically active people. The fact that, between the two surveys, household real incomes fell considerably under the combined effect of a 34% cut in the nominal wages of civil servants and inflation of 29% generated by devaluation of the CFA franc is probably a major factor behind this rapid decrease in unemployment.

Throughout Africa, periods of recession bring growth in the share of the informal sector in total urban employment. In theory, anyone who has failed to secure a job in the formal sector (public or private) is faced with three choices :

- ε withdrawal from the labour market and becoming inactive
- ε remaining unemployed while seeking a job
- ε creating self-employment within the informal sector

The first option may be largely excluded. In a period of recession, and faced with the need to generate an income, the only viable choice is between devoting time to finding a job or creating one of your own in the informal sector. The choice between the two options is not immediately obvious. It depends on a range of factors, including the possibility of remaining unemployed in the absence of state benefits, the constraints imposed by a search for a salaried job, and the lack of advantages associated with working in the informal sector. In particular, the reservation wage of a qualified young job-seeker, who continues being dependent on his/her family or who benefits from other supports, may remain durably higher than the income expected from working in the informal sector. Indeed, despite lengthy periods of unemployment (averaging 42 months) the average wage expectation of those looking for a job in 1993 was CFAF 48,000 per month - more than 80% above the mean per capita income received in the informal sector. Only 8% of unemployed people surveyed expressed a wish to set themselves up in the informal economy.

Households where the bread-winner is employed in the formal sector are the principal sources of transfer earnings but, as the first victims of budgetary cutbacks, they were forced to reduce their communal solidarity. Certain job seekers thus had to adjust their reservation wages. Some of those unemployed left Yaoundé for towns where demand was less dependant on the purchasing power of government employees (such as Douala), or to take up farming, while others resolved to stay in the capital and seek their fortunes in the informal sector.

Workers in the informal sector were among the least affected in the general decline of incomes. Their average nominal income remained stable, despite the strong inflow of new arrivals from situations of inactivity, unemployment, or from elsewhere in the country. This provides a second indication of a strong post-devaluation substitution of informal production to the detriment of output by the formal sector and of imports. This substitution is driven, in part, by price effects (with the increase in local costs of imported goods following devaluation) but also, and possibly of greater significance, by income effects (with the orientation of household consumption towards basic or lesser-quality goods offered at lower prices).

III - Industrial dynamics

Examination of the industrial structure allowed the identification of structural weaknesses in Cameroon's industrial tissue. These include a heavy concentration in the primary

transformation of raw materials for export and food processing, low labour intensity, low levels of industrial density, a small intermediate goods manufacturing sector, the strong presence of public investment in various branches, the excessive concentration of capital in a small number of enterprises, and the under-representation of intermediate sized companies (the "missing middle").

Having experienced strong growth during the period 1960 to 1985 (averaging 9% per year), Cameroonian industry slumped dramatically, from 1987, under the double impact of declining domestic demand and greater competition from informal markets, notably those dealing in contraband goods coming from Nigeria. Between 1983/1984 and 1990/1991 production declined by 14% for industry as a whole, and by 30% for branches producing consumer goods. Information regarding a cohort of companies already existing in 1983 indicates even greater deterioration in the industrial performance.

Adjustment strategies adopted to counter shrinkage of the domestic market were essentially centred on reducing investment (the investment rate fell from 45% to 17% of added value) and on labour force compression. The latter assumed major proportions in branches of food processing and manufactured goods (with payroll declines of 19% and 38% respectively), and concerned to a lesser extent industries specialised in intermediate goods (down 4%) and in the partial transformation of agricultural produce for export (down 3%). Competitiveness (as measured by unit costs) and the profitability of industrial companies continued to slide, however, due to a broad decline in productivity (a fall of 11% overall) and a sizeable increase in nominal wages (which rose by 38%). Even though salaries declined in real terms, the evolution of industrial producer prices lagged changes in the general price index, causing a 24% decline in the terms of trade of industry. During this crisis period the weight of labour charges rose from 29% to 46% of added value, reducing the gross margins of companies by an equivalent amount.

The impact of devaluation on industry

Information gathered through the industrial census conducted by DIAL and the DSCN allowed simulation of the direct impact of devaluation on costs and factory-gate prices. These estimates, disaggregated to sub-sector levels, showed that in the absence of a significant reduction to margins and/or an increase in productivity, competitiveness gains would be modest for industry as a whole (with the exception of timber-processing activities). The low labour intensity prevailing in many industrial branches explains, in large part, this weak gain in competitiveness.

In this sense, devaluation has opened the way for a revival in industrial activity to recover domestic markets, but this does not, by itself, represent a lasting solution. The latter will require a change to the strategy of price formation, the development of more labour-intensive industries, as well as an increase in productivity and density of the industrial fabric.

IV - Cross-border trade with Nigeria and parallel currency markets

Results from the industrial survey threw into focus the significance of competition coming from the informal sector, in particular that arising from cross-border trade with Nigeria (which remained poorly monitored). Whereas in 1992 only 10% of companies admitted to be suffering the effects of competition from the informal sector, 23% of them claimed to be affected by parallel imports of goods from Nigeria (goods of Nigerian or Asian origin). The significance of fraudulent imports from Nigeria is considerable. More than one third of the output of industrial companies is at stake. The real impact of this competition is far from negligible; those companies most affected

Cross-border Observatories : Cameroon-Nigeria

The purpose of these monitoring centres is to understand the impact of economic policy

disparities between Nigeria and Cameroon, insofar as they affect the economy of Cameroon. The methodology adopted involves the collection and analysis of data regarding the parallel market exchange rate and the nature and prices of the principal goods traded. This information, gathered from trading centres, is complemented by operational analyses of distribution networks and parallel markets.

This task, undertaken by Cameroonian researchers, is part of the on-going work of the Statistics and National Accounting Directorate (Direction de la Statistique et de la Comptabilité Nationale - DSCN). DIAL provides technical assistance to the project in the form of regular field trips and the joint preparation of quarterly summaries, as well as semi-annual and annual reports.

These observatories form part of a network of centres established around the borders of Nigeria (in Benin, Niger, Chad, Cameroon and Nigeria), funded by the French Ministry of Co-operation and the French Development Bank (Caisse Française de Développement - CFD). DIAL participates in the technical support to this regional network alongside national institutions within the countries concerned and other research institutes such as INRA and IRAM.

witnessed a decline in turnover of 42% between 1984/1985 and 1990/1991, whereas firms whose competition came primarily from other local manufacturers or the informal sector suffered a fall of just 12% over the same period.

The survey of informal activities in Yaoundé revealed that they import very little directly. Nevertheless, this does not prevent 13% of the IPU's from trading in imported goods, merchandise which accounts for some 16% of the turnover of the informal sector. Roughly three quarters of these small traders deal in goods coming from countries in the developing world (accounting for 60% of turnover). As such, "South-South" competition, of which industrialists complain, is largely channelled through informal markets. Even though Yaoundé is far from the primary market for contraband goods from Nigeria, 40% of informal sector traders dealing in imported goods sell products coming from Nigeria, corresponding to 31% of the turnover of this group.

DIAL's initial studies on cross-border exchanges focused on the differences between monetary policies and systems applied in the two countries, as well as on operational aspects of trade between Nigeria and Cameroon. Subsequent research looked into the mechanisms setting the parallel exchange rate of the Naira and the CFA franc. It emerged that the Naira/CFA franc exchange rates used in various informal markets throughout the Franc Zone are determined by the parallel markets of Nigeria (more precisely, Lagos); the parallel market for the Naira in Cameroon is, in effect, a seamless extension of the parallel foreign exchange market in Nigeria. Furthermore, determination of the rate depends on purely Nigerian macro-economic factors, rather than on the balance of trade

The computable general equilibrium models developed by DIAL

Two computable general equilibrium models have been developed. The first allows a better appreciation of the **role of the urban informal sector in the Cameroonian economy**; the second is designed to measure **the impact of CFA franc devaluation** (it was used both before and after the event). The calibration of these models has been greatly assisted by various field surveys.

between Nigeria and countries of the Franc Zone.

These facts have important implications for the economic policies of Nigeria's neighbours, and for Cameroon in particular. Depreciation of the Naira strongly affects the industrial competitiveness of these countries compared to Nigeria, weakening their industrial framework as

well as the tax base. As such, factors behind the loss of competitiveness by Cameroonian industries relative to their Nigerian rivals are of an exogenous nature and independent of trade flows between the two countries. What is more, steady devaluation of the Naira coupled with the constant search for CFA francs by Nigerian operators implies that efforts by Franc Zone countries to re-establish monetary parity with the Naira, at a level compatible with balanced trade flows, will require constant review and revision.

As with informal sector activities, cross-border trade between Cameroon and Nigeria has developed at the margin of legality in response to the crisis and disparities in economic policies applied in the two countries. The study of these trade flows illustrates that they do not correspond, on the whole, to a simplistic image of "constructive" commerce, drawing on ethnic solidarity in the building of integrated African economies. Instead, informal cross-border trade puts ethnic groups in opposition rather than uniting them, it undermines the authority of the state and weakens its capacity to mobilise resources, and it seriously handicaps fledgling import-substitution manufacturers. In short, it appears to be a reaction and not a solution to the crisis. Here too, its obvious dynamism notwithstanding, it would doubtless be erroneous to interpret informal cross-border trade as a way out of the crisis, or even as a spontaneous mechanism for integration at a sub-regional level.

V - Modelling the role of the informal economy

To better understand the role of the informal sector within the economy a computable general equilibrium (CGE) model was built, using data gathered during surveys of the informal sector. The model demonstrates the counter-cyclical nature of this sector's output and employment, and shows that real per capita incomes of people active in this sector are little influenced by wage developments within the formal and public sectors. As a matter of fact, the informal sector produces goods of mediocre quality, using skills and qualifications relatively different from those applied to formal sector activities. These two characteristics could explain the counter-cyclical pattern of demand for informal sector products, with corresponding changes in output and employment, as well as the low sensitivity of informal sector incomes to the general economic situation. In Cameroon, the informal sector may be presented more as a refuge, producing inferior quality goods, than a dynamic and entrepreneurial alternative to inefficient formal business.

The macro-economic effects of devaluation

The impact of CFA franc devaluation and of accompanying measures was assessed with the aid of forecasts made using another CGE model. This predicts GDP real growth of 5% in 1997/1998, a forecast that is in line with IMF projections. Dynamic simulation allowed the characteristics of the growth path until that date to be identified. The Cameroonian economy will pass through a period of recession prior to a recovery of growth. Much the same will be true for consumption and household incomes, for which weak positive growth rates can be expected only towards the end of the forecast period.

While these results might appear modest, they have to be set alongside the outcome that would have come from the pursuit of adjustment policies without change in the CFA franc exchange rate. To this effect, a counter-factual approach comparing the devaluation scenario to one of "non-devaluation" enabled identification of the specific contributions of devaluation to macro-economic performance. The conclusions of this comparative analysis leave little doubt regarding the positive impact of devaluation. The non-devaluation scenario, compared to that following devaluation, shows GDP in 1997/1998 would be 9% lower, household consumption would be smaller by 3%, and the revenues of rural families would be inferior by 16% while those of urban households would be 11% higher. In sum, the continuation of adjustment policies based on "competitive desinflation", instead of the devaluation that took place in January 1994, would have resulted in weaker growth, rising poverty, wider disparities between the cities and the countryside, and lesser gains in competitiveness.

The challenges ahead

Research undertaken in Cameroon has made possible the identification of three primary challenges for the Cameroonian economy and society. These constitute as many subjects for further research.

The decline of oil revenues and the reform of government finances

Faced with the size and irreversible nature of the decline in petroleum receipts, a vigorous reorganisation of the administration appears necessary to improve management of the country and to re-establish budgetary receipts by redirecting the fiscal effort towards domestic revenues. This reorganisation should address, in particular, the serious lack of motivation in the public sector, the very low level of productivity in the provision of public services, the high incidence of tax and customs' duty evasion, and corruption. The capacity to manage public finances, currently at a nadir, must also be restored.

Employment and productivity

The high rate of urban unemployment, particularly among qualified young people, and the severe slump in urban incomes have been only slightly dampened by the mobilisation of women on the labour market and the proliferation of subsistence-level informal activities. At the same time, traditional ties within families and communities are progressively weakening and there is a rise in real poverty. Furthermore, several major companies in the industrial and service sectors have become inefficient and have adopted sweeping job-shedding programmes. A widening gulf has developed between qualified young job-seekers, trained during the period of strong growth, and older generations that may be less-well qualified, but enjoy well-paid jobs in the public sector. This situation calls for a two-pronged plan of action. In the first place, a durable growth strategy should be built on policies designed to accelerate productivity gains in the informal sector, to direct employment creation in this sector towards manufacturing activities, and thereby to improve working conditions and the quality of goods produced. This strategy would notably incorporate the introduction of broad-based measures for investment in human resources. In addition, some of the qualified young unemployed could be integrated into the public service by replacing employees close to retirement. This would make it possible to maintain control over the total wage bill while at the same time improving the productivity of the state sector. These measures should be accompanied by policies aimed at promoting small- and medium-sized enterprise creation, in particular through the extension of credits and improvements to the institutional environment for business.

Diversification of the export base

Gains in competitiveness throughout the Cameroonian economy subsequent to devaluation should be extended beyond decreases in wage costs and increases in sectoral productivity. The shift of employment towards non-sheltered manufacturing activities, improved correspondence between workers' qualifications and required job skills, and the determination of wages and salaries on the basis of performance rather than being fixed by the state, should favour increased integration of the Cameroonian economy into global trade, as well as permit the recovery of domestic markets. Resumption of export growth has already been recorded in some agricultural and industrial sub-sectors. Furthermore, while the composition of imports appears to be changing in favour of intermediate and investment goods, indirect indications show that other possibilities for import substitution are already being explored. However, much remains to be done to boost Cameroon's participation in the global economy. This could be achieved through the promotion of higher value added activities and by developing new labour intensive export-oriented industries.

Notes

1. Ministère de la Coopération (French Ministry of Cooperation), Caisse Française de Développement (French Development Bank), World Bank.
2. The Cameroonian Fiscal Year runs from July 1 to June 30.

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