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| LOGO ECAM |  | **MEMO**  | **N° 004/06/2020** |
| **Organism** | E.CAM | **Project**  | DAI WEEKLY WEBINAR : **Connecting public and private responses to COVID-19 and its impact on global development** |
| **Date**  | 15/06/20203pm to 4:15pm | **Strengthening MSMEs for Economic Resilience and Sustainable Development** |
| **Author(s)** | Eric ELOUNDOU NGAH  |
| **Project Manager** | Mathilde GASTO-MATHE |

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| **MEMO / DAI WEBINAR** |

Our presentation is divided into three parts:

1. Background of the Cameroonian economy in the COVID-19 context;
2. Response measures to COVID-19 and impact on the Cameroonian economy;
3. Structural solutions envisaged for strengthening the capacities of MSMEs and avenues for public-private partnership.

It should be recalled, before any development, that Law No. 2015/010 of 16 July 2015 amending and supplementing certain provisions of Law No. 2010/001 of 13 April 2010 on the promotion of SMEs in Cameroon, provides that enterprises are categorized as follows:

* Very Small Enterprise (VSE): 5 employees at most and turnover of less than FCFA 15 Million (EUR 22 867);
* Small Enterprise (SE): between 6 and 20 employees and turnover between CFAF 15 and 250 million (EUR 381 123);
* Medium Enterprise (ME) : between 21 and 100 employees and turnover greater than 250 million and less than or equal to FCFA 3 billion (EUR 4.6 million);
* Large Company (LC): More than FCFA 3 billion (EUR 4.6 million) turnover.
1. **Background of the Cameroonian economy in the COVID-19 context**

Cameroon's economic situation, like that of all the countries of Sub-Saharan Africa, was in structural crisis before COVID-19, if we consider the overall objective of sustainable development.

In fact, despite a relatively stable economic growth rate of around 5% in the last decade, the economic fabric of these countries remains deeply fractured, with, on the one hand, a formal sector on which most of the State's economic performance and tax revenues are based, even though it employs barely 10% of the working population; and, on the other hand, an informal sector whose economic performance is beyond the control of the central administration and development partners, even though it employs 90% of the working population.

COVID-19 simply exacerbates this structural crisis by putting the spotlight on the inability of African countries to meet the primary needs of their populations through their own production of goods and services. The prospect of a global economic recession will make the task even more difficult in the face of the challenge of structural transformation of African economies.

In Central Africa, the Authorities are already aware that the economies of the zone would inevitably be affected by the COVID-19 pandemic, and are looking for sustainable solutions to not only limit the impact, but above all to revive the economy in a sustainable manner.

***The monetary policy report for the first half of 2020 published by the Bank of Central African States (BEAC) on 27 April 2020 provides more details, indicating in particular that the optimistic economic growth forecasts announced at the beginning of 2020 are currently being called into question by a series of shocks, including the Coronavirus (COVID-19) pandemic, the fall in hydrocarbon prices following the disagreement between the main producers on production quotas and the instability of the financial markets; with the prospect of a global economic recession, marked in sub-Saharan Africa by a decline in real GDP of 1.6% in 2020, compared to 3.1% in 2019, rising to 4.1% in 2021***.

In the specific case of Cameroon, considered as the economic locomotive of the zone, the situation is equally worrying. The country cannot escape the structural deficiencies of the economic fabric observed elsewhere, nor the divide between the formal and informal sectors. In the face of COVID-19, and under pressure from the private sector and a population that is increasingly demanding in terms of improving its living conditions, the Government's objective is now to speed up the implementation of measures and actions to enable enterprises, particularly small and medium-sized enterprises, to migrate rapidly to the formal sector in order to provide them with all the support they need for the country's industrial transformation.

***Cameroon's formal economic fabric is specifically marked by: i) a significant imbalance between the three production sectors; ii) an extroverted and highly dependent nature of business activities vis-à-vis foreign countries; iii) and a low level of domestic bank credit to the economy***.

***Indeed, there is an overpopulation of enterprises in the tertiary sector (84.1%), particularly in the trade sub-sector, which accounts for 51.4% of the total number of enterprises, by a domination of large enterprises (LE) in the structure of declared turnover (estimated at FCFA 13,881 Billion (EUR 21.16 Billion) in 2015, against FCFA 15,614 Billion (EUR 23.80 Billion in 2019), with 66% of the shares, whereas they only represent a population of 0.2%, i.e. 307 enterprises out of 203,287. SMEs, for their part, contribute 34% of total revenues and represent 99.8% in terms of number of companies, including 79.1% micro enterprises (McEs), 19.4% Small Enterprises (SEs) and 1.2% Medium-sized Enterprises (MdEs). (Source: General Census of Enterprises RGE-2016).***

***An analysis of the distribution of SME turnover according to sector of activity shows that the tertiary sector contributes 84.60%, compared with 14.63% for the secondary sector and less than 1% for the primary sector.***

As for the banking sector, it already showed a significant deterioration in its loan portfolio before the COVID-19 crisis, with about FCFA 579 billion (EUR 882.68 million) of outstanding loans during 2019 (13.86% of total loans), mainly due by large and medium-sized enterprises, with the EPs and VSEs financing themselves mainly through informal alternative channels (self-financing, tontines, family support, associations, etc.).

***The overall volume of bank credit to the economy was estimated over the same period at FCFA 4,175 billion (EUR 6.36 billion), of which FCFA 3,525 billion (EUR 5.37 billion) came from credit institutions, FCFA 150 billion (EUR 228.67 million) from financial institutions and FCFA 500 billion (EUR 762.25 million) from microfinance institutions. This level of domestic bank credit is very low compared to Cameroon's gross domestic product (GDP), estimated at FCFA 21,400 billion (EUR 32.62 billion) over the same period, or 19.51% compared to 60 to 100% for emerging countries.***

***The share of credit in relative values of GE and ME type enterprises is estimated at 65.27% in 2019, i.e. FCFA 2,301 billion (EUR 3.51 billion), while they represent only 0.2% and 1.2% of the total number of enterprises respectively; against 5.30%, i.e. FCFA 187 billion (EUR 285.08 million) for micro and small enterprises, while they represent 98.4% of the total population of enterprises.***

The impact of COVID-19 will be to aggravate this already worrying situation to an immeasurable extent and make it even more difficult and costly for MSMEs to access credit.

One of the Government's responses to limit the structural impact of COVID-19 is to accelerate the industrialization process in Cameroon by restructuring the industrial landscape through the new Master Industrialization Plan (MIP) adopted in 2018, after the previous one was abandoned in 1989, at the height of the economic crisis of the 1970s and 1980s. This new plan focuses in particular on:

* Three (03) national industrial sanctuaries: (i) Agro-industry; (ii) Energy; (iii) Digital ;
* Five (05) structuring industrial pillars: (i) Forest/Wood; (ii) Textiles/Containment/Leather; (iii) Mining/Metallurgy/Siderurgy; (iv) Hydrocarbons/Petrochemicals/Refining; (v) Chemistry/Pharmacy;
* Two (02) bases: (i) Infrastructure; (ii) Financing.

This master plan for industrialization has laudable ambitions that are likely to be achieved in the medium and long term, but it remains the expression of a political will without a real operational basis or a coherent, structured and mobilizing action plan for all the actors, recruited outside the economic sphere alone. This is what justifies the orientation of E.CAM's proposals to limit the impact of COVID-19 on enterprises and to revive the Cameroonian economy in a sustainable manner.

1. **Response measures to COVID-19 and impact on the Cameroonian economy**

The employers' movement E.CAM has formulated proposals for a response to limit the impact of COVID-19, taking into account both the structural problems prior to the pandemic and the impact of the pandemic on the world economy and that of Cameroon in particular.

***With regard to short-term measures, the main proposals are as follows:***

* 1. ***The establishment of a consultation framework that would permit to centralize the results of COVID-19 business impact studies and to inform managers of the useful measures to be taken during and after this crisis period;***
	2. ***The creation of a sovereign guarantee fund with a minimum endowment of FCFA 1,000 billion (EUR 1.52 billion);***
	3. ***The reduction of the tax burden, particularly with regard to the forced collection of taxes and other social contributions, accompanied by an adjustment of the current payment deadlines until December 2020;***
	4. ***The establishment of an assistance mechanism for households covering their consumption needs in terms of food, health, transport, communication, water, electricity, etc.;***

The Government of Cameroon has reacted very cautiously to COVID-19 and its health, economic and financial consequences. Priority was initially given to the health sector, through a series of restrictive measures taken on 17 March 2020, noting the following 13 points in particular:

* + 1. Cameroon's land, air and sea borders shall be closed: all passenger flights from abroad shall be suspended, with the exception of cargo flights and ships carrying daily consumer goods and essential goods and materials, whose stopover times shall be limited and supervised; Cameroonians wishing to return to their country shall be required to contact our various diplomatic representations;
		2. The delivery of entry visas to Cameroon at the various airports is suspended;
		3. All public and private training institutions of different levels of education, from kindergarten to higher education, including vocational training centres and Grandes Ecoles will be closed;
		4. gatherings of more than fifty (50) persons shall be prohibited throughout the national territory;
		5. school and university competitions are postponed, as are the FENASSCO and university games;
		6. the drinking establishments, restaurants and leisure places will be systematically closed from 6 p.m., under the control of the administrative authorities;
		7. A system for regulating consumer flows will be introduced in markets and shopping centres;
		8. Urban and interurban travel will be allowed only in cases of extreme necessity;
		9. bus, taxi and motorcycle taxi drivers are urged to avoid overloading public transport: law enforcement agencies will pay particular attention to this;
		10. Private health facilities, hotels and other accommodation, vehicles and specific equipment necessary for the implementation of the COVID-19 pandemic response plan in Cameroon may be requisitioned as necessary, at the request of the competent authorities;
		11. Public administrations shall give priority to electronic communications and digital tools for meetings likely to bring together more than ten (10) people;
		12. missions abroad by members of the Government and public sector agents shall be suspended;
		13. The population is invited to strictly observe the hygiene measures recommended by the World Health Organization, namely, to wash their hands regularly with soap, avoid close contacts such as shaking hands or kissing, and cover their mouths when sneezing.

These initial health and safety measures were reinforced on April 9, 2020, in response to the rapid increase in the rate of contamination. 7 new measures have thus been taken by the Government, as follows:

* + 1. From Monday 13 April 2020, generalisation of the wearing of masks in public open spaces;
		2. local production of medicines, screening tests, protective masks and hydroalcoholic gels;
		3. The opening of specialized centers in all regions of the country although six out of ten are currently expected by the pandemic;
		4. the intensification of the screening campaign;
		5. intensification of the awareness campaign in the official and local languages;
		6. The continuation of essential activities of the economy;
		7. the systematic sanctioning of any contravention of the restriction measures in force and the containment imposed on those at risk.

Under pressure from private sector organizations and in view of the significant slowdown in economic activities observed during the first 6 weeks of restriction, the Government had to relax the above measures from 30 April 2020. At the end of consultations between the public sector, the private sector and development partners, all parties agreed that Cameroonian enterprises were affected, to varying degrees, by the crisis, particularly as a result of the slowdown in economic activity at the international and national levels and the implementation of the first series of response measures. The sectors most affected by the crisis include the hotel industry, transport, outward-looking businesses, i.e. most large and medium-sized enterprises, but also all small and very small enterprises that are experiencing a drastic slowdown in their activities.

In order to limit the impact of COVID-19 on businesses, the Government has partially lifted certain barrier measures to relieve the sectors hard hit by the health crisis, and has adopted tax measures affecting in principle all categories of businesses.

With regard to the first sectoral easing measures, these include:

* + 1. opening after 6 p.m., drinking establishments, restaurants and leisure facilities, with the obligation for customers and users to respect barrier measures, including the wearing of protective masks and social distancing ;
		2. the lifting of the measure reducing the regulatory number of passengers in all public transport by bus and taxi.

With regard to fiscal measures, we can note the following:

* + 1. the suspension for the second quarter of accounting audits, except in the case of suspicious tax behaviour;
		2. the postponement of the deadline for statistical and tax declarations without penalties in the event of payment of the corresponding balance;
		3. the suspension of the application of recovery measures for businesses affected by the crisis, particularly in the tourism and transport sectors;
		4. support for the cash flow of enterprises through the special allocation of FCFA 25 billion (EUR 38.11 million) for the clearance of stocks of value added tax credits awaiting reimbursement;
		5. the postponement to September 30, 2020 of the deadline for the payment of the property tax for the financial year 2020;
		6. the full deductibility for the determination of corporate income tax of donations and gifts granted by companies for the fight against COVID-19 ;
		7. the exemption of the tourist tax for the rest of the year 2020;
		8. the exemption from the flat-rate tax and parking tax for taxis and motorcycle taxis, as well as from the axle tax for the second quarter of 2020;
		9. the exemption for the second quarter of 2020 from the final withholding tax and municipal taxes for the benefit of food resellers.

In the banking sector, the measures taken by the monetary authorities are limited to:

* 1. the provision of additional liquidity to financial institutions ;
	2. mobilization of financial institutions and development partners to increase the States' budgetary resources to deal with the three shocks: health, economic and security;
	3. anticipating the risks inherent in the economic and financial crisis to which enterprises would be exposed;
	4. strengthening the internal control system of financial institutions;
	5. mobilization of national banks with a view to broader financing of enterprises, especially SMEs.

These are mainly precautionary measures to guarantee the stability of the financial system and the currency, without any real impact on the activities of companies or on the supply of credit.

Overall, therefore, it can be said that the measures taken by the Government are essentially a response to cyclical problems.

1. **Structural solutions envisaged for strengthening the capacities of MSMEs and avenues for public-private partnerships**

Two socio-institutional deficiencies seem to justify the lagging economies of sub-Saharan African countries in relation to the rest of the world. These are:

* + 1. firstly, the weak recognition of the human capacity to transform the forces of nature through the rational scientific method and experimentation, in favour of an intuitive and rather irrational method;
		2. and secondly, the absence of a true cult of entrepreneurship in the vision of social and economic development, allowing for a central role for the entrepreneur in all government policies, from education to research, health, safety, food, entertainment, environmental protection, etc.

In order to provide a start to a solution to this situation, the employers' movement E.CAM initiated in 2018, on an experimental basis, the creation in Cameroon of a mutual guarantee company for sub-contracting companies (SCM-EST), with the support of SCB Cameroon, as a partner bank. This first experience has enabled two essential lessons to be drawn for the adaptation of this model to the Cameroonian context:

* the managers of MSMEs do not yet have the managerial maturity to independently coordinate this type of technical and financial assistance mechanism, which is designed to structure enterprises in value chains ;
* the viability of such an organization is only possible in an integrated model, allowing the development of mechanisms for horizontal and vertical inclusion of enterprises, at the technical, operational and financial levels.

***In response to the consequences of COVID-19, E.CAM initiated rather than planned, its programme for the creation of a mutual guarantee company for MSMEs in Cameroon which, unlike the SCM-EST, will bring together enterprises from several value chains. This initiative is part of the establishment of an automated platform for technical and financial assistance to MSMEs and is based on four pillars:***

* + 1. ***At the macroeconomic level: the structuring of MSMEs into value chains ;***
		2. ***At the micro-economic level: the upgrading of MSMEs and the training of managers;***
		3. ***At the operational level: the establishment of a mutual guarantee company for MSMEs ;***
		4. ***At the financial level: the creation of a guarantee fund in which MSMEs also take part.***

***With a view to setting up this platform, E.CAM has undertaken to support the initiative by activating two important levers at its level:***

* 1. ***the provision of an expert system, allowing the registration, the structuring by sector, the diagnosis and the evaluation of the financing needs of the MSMEs;***
	2. ***the creation of the mutual guarantee company for MSMEs in Cameroon (SCM-SME), through which enterprises would themselves take part in the guarantee fund, which should be domiciled at the Cameroonian Bank for SMEs (BC-PME), and receive additional allocations from the State and other development partners.***

***Development partners, such as the European Union (EU), the African Development Bank (ADB), the Development Bank of Central African States (BDEAC) or the International Finance Corporation (IFC) will be able to intervene at three levels:***

* + 1. ***technical assistance to MSMEs through the training of managers and staff, the upgrading of enterprises through the certification of processes and products and services ;***
		2. ***technical assistance to intermediary organizations for the establishment of value chains, supply and marketing networks for goods and services;***
		3. ***support for the mutual guarantee fund to facilitate access to financing.***

The interest of the mutual guarantee company is that it offers MSMEs a comprehensive set of solutions that respond in an inclusive and interactive manner to all the problems that hinder their development. These include difficulties related to the formal creation of a business, the establishment of a basic organization and an internal control system, access to a system of continuing training and coaching for managers and their employees, access to a solvent market for the sale of their goods and services, mastery of production and marketing systems, access to financing, etc.

For greater efficiency and in the light of the experience gained so far, both within E.CAM and through other government initiatives, the model chosen for the implementation of the mutual guarantee company corresponds to a national umbrella structure, composed of several Commitment Committees and Supervisory Boards per sector and, depending on the number of companies, per Region. This model makes it possible to ensure a better coordination of value chain support programmes and to limit the structural costs related to the operation of the mutual guarantee company, by using the same information system and keeping at the top a deliberative and executive body common to all sectors.

The main activity of the mutual guarantee company focuses on MSME bonding with financial institutions and involves in particular: structuring MSMEs by sector, organizing supply and marketing channels within and between sectors, pooling credit applications and guarantees, managing relations with financial institutions and other technical partners, etc.

The process of structuring the sectors begins as soon as business leaders join the mutual guarantee company and also takes into account their continuing education and close monitoring of their activities. In fact, at least once every six months, MSME leaders take part in training sessions - business meetings - organized by sector. These meetings are punctuated by mandatory quarterly activity reports, drawn up with the assistance of the Financial Analysts, on themes inherent to the operation of the companies: closing of the annual accounts, mid-year assessment, preparation of the provisional financial situation for the current financial year, adoption of the budget for the following financial year.

This calendar also sets the pace for relations with financial institutions and development partners, who are then regularly informed of the situation of the enterprises and can anticipate financing decisions in their favour. The structuring of enterprises into value chains or sectors makes it possible to develop two complementary financing mechanisms:

* Financing external to the chain (by financial institutions for example): to finance the best organized enterprises with relatively high levels of annual turnover, above FCFA 250 Million (EUR 381 000) ;
* Financing internal to the chain (by medium and large enterprises offering supplier credits, advances to on order, compensation for goods and services, etc.): to support smaller entities.

E.CAM is the main actor for the implementation of the mutual guarantee company, assisted by its technical and financial partners. All the documentation and materials necessary for the implementation of this initiative are already prepared. The process of setting up the mutual guarantee company will be launched as soon as the collaboration agreement is signed, scheduled for June 2020, between E.CAM, the Agency for the Promotion of SMEs, the Cameroonian Bank for SMEs, the National Social Security Fund and the General Directorate of Taxes.

**Eric ELOUNDOU NGAH**

**Administrator E.CAM**