SUSTAINING REFORMS FOR INCLUSIVE GROWTH IN CAMEROON
A Development Policy Review

Florence Charlier and Charles N’Cho-Oguie

THE WORLD BANK
Sustaining Reforms for Inclusive Growth in Cameroon
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Authors

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The DPR core team includes World Bank and country-based team members, namely Armand Atomate (Governance), Mohammed Bekhechi (Environment), Yann Burtin (Telecom), Ananda Covindassami and Alain Ebobissie (Energy), Mourad Ezzine (Education), Miriam Schneidman (Health Sector), Isabelle Huynh (Postal Sector), Jean-François Marteau and Pierre Pozzo di Borgo (Transport), Eleodoro Mayorga (Oil Sector), Carole Megevand and Giuseppe Topa (Forestry Sector), Chantal Reliquet (Urban Sector), Richard Verspyck (Water Sector), Ali Zafar (Regional Integration), and David Tchuinou (Poverty).

The team would like to thank the Government team for the excellent collaboration and valuable advice and inputs provided to complete the report. The DPR report was completed under the leadership of Sector Manager Cadman Mills and Country Director Ali Khadr. The team is particularly grateful to Chief Economist Shanta Devarajan for his guidance throughout the report preparation. The team also thanks Luc Lecuit for his valuable advice; Jean-Pascal Nkou, Fulbert Tchana Tchana, and Arsene Nkama for their assistance in the technical analysis; and Shalendra Sharma for his editorial contribution while finalizing the report. The team thanks Stephen McGroarty, Andrés Meneses, and Dina Towbin at the World Bank Office of the Publisher for their help in producing the volume.
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<td>ADC</td>
<td>Aéroports du Cameroun</td>
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<td>ADP</td>
<td>Aéroport de Paris</td>
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<td>AER</td>
<td>Agence d’Electrification Rurale</td>
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<td>ANAFOR</td>
<td>Agence Nationale d’appui au Développement Forestier</td>
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<td>ARMP</td>
<td>Agence de Régulation des Marchés Publics</td>
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<td>ARSEL</td>
<td>Agence de Régulation du Secteur de l’Electricité</td>
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<td>ART</td>
<td>Agence de Régulation des Télécommunications</td>
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<td>BCEAO</td>
<td>Banque Centrale des États de l’Afrique de l’Ouest</td>
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<td>build own operate</td>
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<td>build operate transfer</td>
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<td>BVMAC</td>
<td>Bourse des Valeurs Mobilières de l’Afrique Centrale</td>
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<td>CFC</td>
<td>Crédit Foncier du Cameroun</td>
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<td>Communauté Économique et Monétaire d’Afrique Centrale</td>
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<td>CEP</td>
<td>Caisse d’Épargne Postale</td>
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<td>CFAA</td>
<td>Country Financial Accountability Assessment</td>
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<tr>
<td>CIMA</td>
<td>Conférence Interafricaine des Marchés d’Assurance</td>
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<tr>
<td>COBAC</td>
<td>Central African Banking Commission</td>
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<td>CPAR</td>
<td>Country Procurement Assessment Review</td>
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<td>DAE</td>
<td>Direction des Affaires Économiques</td>
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<td>DHS</td>
<td>Demographic and Health Survey</td>
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<td>Development Policy Review</td>
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<td>DPT3</td>
<td>diphtheria, pertussis, tetanus (vaccine) 3</td>
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<td>DRC</td>
<td>domestic resource cost</td>
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Abbreviations

DSX  Douala Stock Exchange
ECAM  Enquête Camerounaise auprès des Ménages
ECOWAS  Economic Community of West African States
EFA  Education for All Initiative
EITI  Extractive Industries Transparency Initiative
EU  European Union
FDI  foreign direct investment
FEICOM  Fond Spécial d’Equipement et d’Intervention Intercommunal
GDP  gross domestic product
GICAM  Groupement International du Cameroun
GNI  gross national income
GUCE  Guichet Unique du Commerce Extérieur
HIPC  Heavily Indebted Poor Countries
ICT  information and communication technology
IDA  International Development Association
IFC  International Finance Corporation
IMF  International Monetary Fund
INS  Institut National de la Statistique
IVAC  instituteurs vacataires
MDG  Millennium Development Goal
MDRI  Multilateral Debt Relief Initiative
MINEF  Ministry of Environment and Forestry
MINEFI  Ministry of Economy and Finance
MINEP  Ministry of Environment and Nature Protection
MINEPAT  Ministry of Economic Affairs, Programming, and Regional Development
MINFOF  Ministry of Forestry and Wildlife
MINFOPRA  Ministry of Public Service and Administrative Reforms
MINPLAPDAT  Ministry of Planning, Programming, and Regional Development
MINSANTE  Ministry of Health
MTEF  medium-term expenditure framework
MWh  megawatt
NGO  nongovernmental organization
NPV  net present value
OECD–DAC  Organisation for Economic Co-operation and Development–Development Assistance Committee
OHADA  Organisation pour l’Harmonisation en Afrique du Droit des Affaires
Abbreviations

ONADEF Office National de Développement des Forêts
ONCC Office National du Cacao et du Café
ONCPB Office National de la Commercialisation des Produits de Base
PAMS Poverty Analysis Macroeconomic Simulator
PETS Public Expenditure Tracking Survey
PGT Payeur Général du Trésor
PNDP Programme National de Développement Participatif
PNG Programme National de Gouvernance
PRGF Poverty Reduction and Growth Facility
PRSC Poverty Reduction Support Credit
PRSP Poverty Reduction Strategy Paper
PSRF Programme de Sécurisation des Recettes Forestières
SAC-III Third Structural Adjustment Credit
SGBC Société Générale des Banques au Cameroun
SIGEFI Système Intégré de Gestion des Finances Publiques
SIGIPES Système informatique de gestion intégrée des personnels de l’Etat et de la Solde
SIPAE Système Intégré de Projection des Agrégats Économiques
SME small and medium-size enterprise
SNEC Société Nationale des Eaux du Cameroun
SNH Société Nationale des Hydrocarbures
SOCAPALM Société Camerounaise des Palmeraies
SONARA Société Nationale de Raffinage
SONAPOST Cameroon Postal Corporation
SONEL Société Nationale d’Electricité
SOSUCAM Société Sucrière du Cameroun
UCI Universal Child Immunization
UEMOA Union Économique et Monétaire Ouest Africaine
VAT value added tax
WAEMU West African Economic and Monetary Union
WDI World Development Indicators
WHO World Health Organization

Currency Equivalents
Currency unit  =  CFA franc (CFAF)
US$1.00  =  513.352 CFAF (June 30, 2006)

Government Fiscal Year
January 1–December 31
Executive Summary

When I visit a country, I do not examine whether it has good laws, but whether or not the laws are implemented.
—Montesquieu, De l’esprit des lois

Cameroon has started to reap the fruits of sustained structural reforms after nearly two decades of economic difficulties since the 1980s. Gross domestic product (GDP) growth has stabilized at an average rate of 4.5 percent a year between 1994 and 2003, up from –2.7 percent between 1986 and 1993. As a result of reform, growth now rests on stronger foundations: productivity has improved, a larger share of investment comes from the private sector, and the shares of manufacturing and commerce in GDP have gradually risen.

The Cost of the Unfinished Reform Agenda and the Need to Commit to Reform

Despite these significant achievements, there are signs that resolve to sustain the reform agenda may have slowed since 2004 that may seriously compromise the Poverty Reduction Strategy Paper (PRSP) objectives of rapid economic diversification, accelerated growth, and attainment of the Millennium Development Goals (MDGs). Indeed, implementation of reforms has been uneven and haphazard, leaving key structural problems unresolved and infrastructure services inadequate. As a result, the business environment in Cameroon lags that of comparator countries.

Income poverty has fallen significantly since the mid-1990s. But despite a 13-point drop in the poverty rate between 1996 and 2001, the social and infrastructure sectors remain weak. In the education sector, although primary-school enrollment has risen, the increase has not yet translated into comparable improvement in completion rates, and large disparities remain between the poor and the nonpoor and between rural and urban areas. In the health sector, implementation of the 2001 health strategy has started to yield some improvements, but many health indicators remain below the
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precrisis levels of the 1980s. Moreover, the disparities between rich and poor are wide and growing, partly as a result of the lack of affordability and equitable access to health facilities. The quality of and access to safe water and other essential infrastructure services remain far below what they should be given Cameroon’s level of per capita income and overall potential.

Increasing competitiveness is key to accelerating diversification and boosting growth. Improvements in the investment climate and Cameroon’s overall competitiveness will provide a much-needed impetus for diversification and accelerated growth. Such improvement is critical to unleashing the largely untapped potential of Cameroon’s private sector.

To improve the competitiveness of the economy, the Government needs to resolutely adopt growth-enhancing macroeconomic policies and competitive trade and financial policies within a regional framework to increase scale, spur competition, and reduce costs. Doing so requires developing sector strategies that will lead to good-quality and cost-effective infrastructure services and adopting governance policies that promote a business-friendly legal and regulatory environment.

Improving the efficiency of public action is necessary to implement growth policies and strengthen the social sector. Vastly improved efficiency in public finance management is required to improve outcomes from increased resource allocations in the social sectors and to get Cameroon on track to meet the MDGs. Meeting these challenges will require systemic changes in Cameroon’s governance culture and structure.

Indeed, uneven commitment to reforms, inconsistency, and pervasive bureaucratic inertia distinguish Cameroon from many high-performing developing countries. Lack of resolve and policy inconsistency permeate the bureaucracy, translating into stop-and-go implementation of the reform agenda. The lag between decision and implementation in Cameroon averages eight years for key privatization programs—more than three times the average for Côte d’Ivoire and Senegal. Long lags undermine private financial resource mobilization (especially for large investment projects), as market conditions and risk perceptions change over time. They also put expansion and maintenance investments on hold, compounding capacity problems.

To overcome this inertia, the Government needs to reform public administration and the civil service, create a stable yet dynamic technocracy that can implement the reform agenda, and marshal the requisite political resolve to mobilize the entire administration around an inclusive growth agenda. Specific actions are described below.

The agenda is organized around two main clusters: accelerating growth and strengthening the social sectors to make growth inclusive.
Create a Competitive Environment for Deepening Growth

Improving the business environment requires that the Government adopt and consistently implement sound macroeconomic and public finance management policies as well as competitive trade and financial policies within the regional framework. It also demands improvement in the quality and cost-effectiveness of infrastructure services.

Strengthen Macroeconomic Policies and Public Finance Management

Maintaining macroeconomic stability while pursuing pro-growth and pro-poor budgetary policies are the twin pillars of sound macroeconomic management for growth and poverty reduction. Several issues need to be given the highest priority: boosting revenue without compromising competitiveness or overburdening the poor; achieving a level and composition of spending consistent with the Poverty Reduction Strategy and vastly improving budget execution while increasing transparency and accountability; overhauling the personnel and payroll management system; prudently managing the overall debt; and consolidating the procurement reform.

Fiscal Management and Revenue Mobilization

Donor-supported reforms implemented since 1997 have broadened Cameroon’s tax base and increased its nonoil revenue. As a result, income tax currently contributes one-fifth of public revenue. The introduction of the value-added tax (VAT) in 1999 and fiscal reforms in the forestry sector in 2000 significantly increased tax revenue. Improvements in tax administration, including the introduction of a performance-based tax management system, also contributed to increase revenue collection.

The Government should build on these important accomplishments by accelerating implementation of its second-generation tax reforms. The need to do so is vital in the face of declining oil production, which will eventually lead to a decline in oil revenue, and the expected loss in customs duties once the economic partnership agreement with the European Union becomes effective. Renewed efforts need to be made to implement the new tax policies spelled out in the PRSP in order to gradually increase the share of nonoil revenue. That being said, the Government will need to exercise much discipline and prudence to judiciously choose among the competing objectives of preserving the competitiveness of the economy, enhancing incentives for investment, and avoiding overtaxing consumers.
and the poor. Doing so will require broadening the base for both personal and corporate tax revenues rather than raising tax rates.

Indeed, the 2004 personal income tax policy, which seeks global and uniform taxation of all sources of household income, has reduced the tax burden on the poor. The next step is to raise the corporate income tax share, in particular by increasing revenue mobilization from small and medium-size enterprises. Substantial gains are also possible in forestry tax collection if the Government puts in place vigorous policy measures to combat tax evasion. To compensate for revenues lost as a result of the reduction in tariff rates (part of the trade integration strategy of the Communauté Économique et Monétaire d’Afrique Centrale [CEMAC]), the Government could reduce the vast array of exemptions and, together with other CEMAC members, revisit the VAT system to improve its efficiency and fairness.

Expenditure and Financial Management
Several areas require immediate and renewed attention.

First, budget preparation needs to be improved. In particular, the composition of spending and resource allocation needs to be better aligned with PRSP priorities. This means gradually increasing capital spending and allocating more funds to the productive, social, and infrastructure sectors. Political resolve and participatory budget-preparation processes involving line ministries will be needed if the budget is to become an effective instrument for boosting growth and reducing poverty. In particular, the Government needs to generalize the implementation of a comprehensive medium-term expenditure framework (MTEF). It also needs to promptly adopt and implement the new budget circular, which was designed to synchronize budget preparation and execution with the implementation and monitoring of the PRSP. Doing so is essential if Cameroon is to gradually move toward a results-oriented and performance-based budgeting system. The capacity of sector ministries to prepare portfolios of projects that are ready for execution and of the central ministries to supervise the investment, planning, and execution process must be strengthened. More integration and consistency between the recurrent and the capital budgets is also needed within the PRSP priority sectors, especially in education, health, and infrastructure. For their part, donors must coordinate their assistance more effectively and align it with the PRSP and the national budgeting framework as the MTEF system is generalized.

Second, budget execution and accounting need significant improvement. Results from the Country Financial Accountability Assessment and the 2004
Public Expenditure Tracking Survey in health and education indicate that specific actions are required to accomplish these goals:

- Strengthen the responsibility and accountability of line ministries while improving institutional collaboration between the various ministries and stakeholders to ensure effective implementation of the budget in support of the growth and poverty reduction agenda.
- Enhance the transparency of budget execution, including making more-effective use of the supplementary budget law to revise revenue and expenditure as dictated by unforeseen circumstances.
- Curb long delays in notifying service providers of the availability of funds, in order to increase the absorption rate.
- Improve the execution rate of the investment budget, including reestablishing multiyear program authorization with an annual payment appropriations system for capital expenditure and improving the procurement process.
- Increase community participation—the new accountability agenda—by encouraging, among other things, the formation of health committees and school councils.

Third, the public financial management information system requires further extension and improvement. There is no doubt that since its inception in 2004, the Integrated Financial Management System (Système Intégré de Gestion des Finances Publiques [SIGEFI]) has improved the flow of information and contributed to the timely reporting of the budget. Further steps are needed for the system to yield the full range of expected benefits. The most important step is to link SIGEFI to the MTEF system under development. Doing so would considerably improve the budget preparation process and its alignment with the PRSP. Additional modules are also needed to enable authorizing officers within line ministries to have direct access to the system for real-time monitoring (currently, only financial controllers have direct access to the SIGEFI).

Fourth, Cameroon’s internal and external control system is very weak and urgently needs to be strengthened. The ex ante certification of service delivery should be transferred to spending ministries; ex post auditing tasks could be restructured and merged under the control of a new General Inspectorate that covers all structures and entities that manage public funds. The Government institutionalized the external auditing system in 2006 with the implementation of the Audit Chamber. However, the mandate of the chamber does not conform to the norms established by the International
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Organization of Supreme Audit Institutions. Donors have strongly encouraged the Government to amend the law in order to give the chamber the power to go beyond standard auditing activities and to issue opinions regarding the fairness and effectiveness of the work done by authorizing officers.

Fifth, treasury management has seen some noticeable improvement over the past few years. The Government has consolidated the accounts previously held in commercial banks, providing a single cash position that will facilitate cash management and make the payment system as a whole more efficient.

Personnel and Payroll Management
Management of the payroll remains notoriously weak. The personnel file is not up to date; the flow of information on recruitment, retirements, and transfers between ministries is deficient; and many temporary workers remain on the payroll for years without having been formally recruited or registered as civil servants. Management of the public sector workforce lacks transparency, with staffing decisions and promotions based more on political and regional considerations than need and performance.

Overhaul of the personnel and payroll management system is needed to give more responsibilities to line ministries. The Government has conducted various censuses to establish a single personnel file and it is committed to accelerating the deconcentration of human resource management to line ministries through deployment of the Integration of State Personnel and Salaries (SIGIPES) computer system. The next step will be to move progressively to a system of human resource management based on established positions and line ministries’ staffing needs, as expressed in their sector strategic plans and MTEFs. In parallel and as a first step in moving toward a merit-based system, the Government is conducting a study on salary structure and benefits. The results of the study will help guide the formulation of a broad merit-based human resource management system for Cameroon’s public administration.

Oil Resource Management
Since 2002, the Government has implemented a comprehensive program of legal and institutional reforms of the petroleum sector. Yet a coherent oil and energy sector development strategy is still missing. Such a strategy would help define the missions, roles, and responsibilities of key public agencies and public companies (namely, the national oil company [SNH] and the national oil refinery [SONARA]) and would propose measures for improving their management and overhauling wholesale transport and storage
facilities. A strategic framework would also help the Government implement the Extractive Industries Transparency Initiative (EITI) consistently.

**Debt Management**

Prudent policies and successful negotiations with donors and international creditors helped Cameroon reduce its external debt from 70 percent of GDP in 1995 to 50 percent in 2003, reducing external debt service obligations by an estimated $100 million a year. However, in 2004, when the program with the International Monetary Fund went off-track, the Government could no longer meet its external debt service obligations, which forced it to request a new debt rescheduling plan in 2005. The satisfactory implementation of a new Poverty Reduction and Growth Facility (PRGF) program and a renewed effort by the Government to advance its broad structural reform agenda led to the attainment of the completion point of the Enhanced Heavily Indebted Poor Countries (HIPC) initiative in April 2006. This resulted in a reduction in the net present value of external debt as a share of exports from 153 percent at the end of 2005 to 13 percent at the end of 2006 and a drop in the ratio of the net present value of external debt to exports from 33 percent to 3 percent. Debt service is projected to average 1.5 percent of export of goods and services over 2006–15, a lower figure than that of other countries in the region.

Ensuring debt sustainability in light of steadily decreasing oil revenues is essential to macroeconomic stability. Long-term debt sustainability will require consistent implementation of the Government’s macroeconomic and structural policies to boost nonoil sector growth and fiscal revenue while reducing contingent liabilities.

Indeed, resolute implementation of the reform agenda, including the prompt completion of the privatization and restructuring of key public enterprises, not only would enhance the business environment and provide opportunities for foreign investments, but also would reduce the significant contingent liabilities the Government has accumulated over the past few years as a result of the distressed state of key public enterprises. In particular, swift action is needed to complete the privatization and restructuring of Cameroon Airlines (CAMAIR), Cameroon Postal Services (CAMPOST), and Cameroon Telecommunications (CAMTEL).

Domestic debt management and human resources need to be strengthened, and a more effective information system needs to be developed for tracking the stock of domestic debt and contingent liabilities. The Government also needs to develop a plan for phasing out such items from the budget in a sustainable manner.
A prudent strategy for financing resource gaps is an important complement to the domestic resource mobilization effort needed to support the PRSP. As the largest country and economy in the CEMAC subregion, Cameroon would greatly benefit from the creation of a regional government bond market—which would be fueled by reserves of the small but oil-rich CEMAC countries, such as Equatorial Guinea and Gabon, as governments seek to sterilize part of the rapid increase in oil revenue. It is, therefore, in the interest of Cameroon to hasten the opening of a regional bond market. At the same time, the Government needs to establish a stronger track record of macroeconomic and debt management and to seriously improve governance in order to enhance its creditworthiness and benefit from the new bond market.

Public Procurement Reforms

Public procurement reform has started to yield good results; it needs to be sustained. The centerpiece of reform is the new procurement code introduced in 2004. The new code, whose legal and regulatory framework conforms to international standards, seeks to enhance competition, transparency, and efficiency. A public procurement regulatory agency was created in February 2001 to oversee the implementation of the new procurement system. Since then, procurement committees have been set up in agencies at the national and local levels, and independent observers have been appointed to these committees. Annual audits of public procurement contracts have been conducted since July 2001. The 2005 Country Procurement Assessment Review (CPAR) that the World Bank and the Government conducted, concluded that significant progress had been made since 2000. In response to the CPAR recommendations, the Government adopted a new procurement improvement action plan for 2006–08 and is committed to systematically enforcing sanctions as part of its broad strategy for improving governance.

Deepen Trade and Financial Policies within the Regional Framework

Policies that enhance scale, credibility, and visibility are important especially for small, low-income countries such as Cameroon. Scale is needed to reduce production costs (especially in manufacturing), deepen financial markets (thereby reducing the cost of capital), and provide a large enough pool of good-quality workers and reduce unit labor costs. Deepening regional integration, especially in trade and finance, would help Cameroon
increase its international competitiveness, attract foreign investment, and accelerate diversification.

**Deepen Trade Reforms to Enhance Competitiveness**

Reducing barriers to trade and investment is essential for boosting competition, reducing transaction costs, and accelerating diversification and growth. Cameroon is one of the many countries in Sub-Saharan Africa that has significantly liberalized its trade policies since the 1980s. Deeper reforms are needed to transform nominal reform into effective competitive policy, however.

The Government needs to provide leadership and work closely with its CEMAC partners to implement the agreed-upon trade reform agenda. It should accelerate implementation of the new generation of trade reforms and trade facilitation policies, including the elimination of nontariff barriers, the correction of important dysfunctions in the customs union, and the reduction of administrative barriers along critical transit corridors. Implementation of the single trade-processing window (Guichet Unique) constitutes an important and positive step that has significantly reduced clearance time at the Port of Douala, the main transit corridor for the subregion. Future efforts should concentrate on streamlining the CEMAC common external tariff system and more resolutely and consistently implementing the common trade policy.

**Deepen Financial Markets**

With the restructuring of its banking and insurance sectors, Cameroon has successfully completed the stabilization phase of its financial sector reform agenda. These reforms have deepened the financial market, but much remains to be done to boost competition, reduce the cost of capital, and diversify savings instruments to boost investment. As in most CEMAC countries, the banking structure in Cameroon is dominated by a handful of large banks, which tend to concentrate on short-term lending and trade finance. The challenge is to improve the institutional environment and expand financial services by developing financial products for investment and enhancing access to financial services for the poor, especially those living in rural areas. Toward this end, the reform agenda needs to focus on the following areas:

- Improve the legal environment, strengthen the accounting and audit system, and enhance the efficiency of the payment system.
- Strengthen microfinance institutions.
Restructure the postal financial services.
Develop long-term financial instruments for investment, including in housing.
Deepen the insurance market and reform the social security system.
Operationalize the Douala Stock Exchange and develop a regional government bond market.

**Improve Infrastructure Services**

Improving infrastructure services would enhance the competitiveness of Cameroon’s economy and bolster its efforts to accelerate growth. Improving access to key infrastructure is also essential for connecting the poor and rural areas to growth poles, thus making growth more inclusive.

Cameroon has seen significant improvements in the transport network in recent years, thanks to the implementation of a comprehensive structural reform program supported by the World Bank (the Third Structural Adjustment Credit and the Sub-Saharan Africa Transport Policy Program). The Government has introduced landmark reforms in the sector, including privatizing the railways and commercial port activities and creating a road fund.

Despite these efforts, Cameroon continues to underperform relative to comparator countries in Africa and Asia in the delivery of key public utilities, and the recent slowdown in some reforms risks undermining initial gains. To close this gap, the Government needs to make major improvements in nearly all infrastructure services.

Boosting private participation in infrastructure investment and service delivery is important for improving infrastructure services while easing the strain on public finance. Across subsectors, action is needed in two critical areas. First, public utility companies needs to be privatized more effectively, in particular for telecom and air transport. The Government needs to demonstrate consistency and determination to swiftly implement reform programs. Second, the regulatory framework needs strengthening. Indeed, a strong, independent, and competent regulatory body can mitigate the risk of political interference in the privatization process and provide a focal point for technical expertise and information on markets, pricing, and technology trends, which would accelerate the pace of reform.

*Meeting the Demand for Energy*

The main challenge in energy policy is closing the gap between supply and rapidly increasing demand over the medium run. Energy demand has been
increasing at an estimated rate of 10 percent a year—more than twice the average GDP growth rate. This trend is likely to continue, as a result of population growth, rapid urbanization, economic diversification, and rising per capita income. Meanwhile, capacity has stagnated over the past several years.

To increase the supply of energy, the Government needs to accelerate implementation of the emergency action plan, which a government-appointed energy steering committee developed in early 2004 to cope with the energy crisis. Since 2004, the Government has worked closely with AES–Sonel (the power company) to ensure the construction of a W-diesel plan in Limbe and the adoption of a $400 million financial arrangement for investments in the transport and distribution of electricity. The Government still needs to finalize plans for building a 150 MW gas-fired power plant, which could become operational by 2010.

More important, the Government needs to elaborate a long-term energy plan for expanding capacities in a sustained manner. Failure to develop and implement a long-term energy sector strategy has forced Cameroon to adopt costly emergency solutions to a structural and perennial energy crisis. A long-term development plan—that considers the economic as well as the environmental and social impacts of alternative energy projects—is imperative. The Government also needs to do more to create opportunities for interconnecting with neighboring power grids, a practice that is common in West and Southern Africa (the West Africa Power Pool and the Southern Africa Power Pool).

Improving the Transport Sector
Cameroon’s road, air, rail, and maritime sectors face daunting challenges. Meeting them will require determined actions on several fronts, as follows:

- Improve maintenance financing mechanisms and the functioning of the road fund, design long-term financial instruments for extending and rehabilitating roads, and strengthen the administrative capacity to plan maintenance and to contract out services.
- Promote private participation in the air sector and swiftly finalize the privatization of CAMAIR.
- Conclude negotiation of a new concession-financing scheme in the rail sector to ensure the concession’s ability to meet investment requirement.
- Consolidate the progress achieved in the maritime sector by strengthening regulation, the management of the Port of Douala, and trade facilitation policies.
Executive Summary

Developing Water Resources and Improving Management
Despite favorable natural conditions, Cameroon fares poorly in terms of access to and development of water resources. The main culprit is the privatization program, which took more than eight years to reach the decision point, only to be declared unsuccessful. In 2004 the Government decided to restructure the public water company (SNEC) as a public-private partnership. Under the agreement, service delivery has been subcontracted out to a technical partner through a lease contract, while a state-owned asset company retained responsibility for investment in rehabilitation and capacity expansion. Progress in this sector will hinge on the successful implementation of the partnership agreement, expected to be in place in early 2007, and the swiftness and effectiveness with which the Government implements its strategy for improving water quality and access, especially in rural areas.

Enhancing Information and Communications Technologies
The Government needs to take several steps to enhance the density, coverage, and quality of its communication infrastructure. It should deepen market liberalization to boost services, swiftly complete the privatization of the national telecommunications operator (CAMTEL), strengthen the regulatory framework, and promote an effective partnership with key operators to develop capacities and extend services to poor and remote rural areas.

Ways to Strengthen the Social Sector and Enhance Inclusiveness
The Government’s human resource development strategy constitutes the lynchpin of its private sector growth and support strategy. By enhancing Cameroon’s human capital, the strategy seeks to improve the overall competitiveness of the economy and increase employment through integrated strategies targeting poverty pockets in the rural and urban sectors.

Investing in People
The quality of human capital in Cameroon is good by regional standards, but it ranks far below that of emerging economies, such as China, India, and Tunisia. Policies need to be crafted and implemented to improve education and health outcomes and reduce poverty.
Executive Summary

Improving Education Outcomes
The Government’s 1999 decision to abolish school fees for primary education caused gross primary-school enrollment rates to soar from 88 in 1999/2000 to 103 the following year. Building on this outcome, the Government adopted a new comprehensive education sector strategy in 2006 that needs to be resolutely implemented. The strategy addresses the low level of internal efficiency caused by high repetition rates; the high average cost of education, especially at the secondary and higher levels; and deficiencies in the management of teachers, textbook supplies, and classroom construction, which contributes to persistent regional and gender disparities and poor quality. The strategy also seeks to encourage public-private partnerships and foster parent involvement in operating schools and assessing education outcomes.

Improving Basic Health and Containing Contagious Diseases
As in education, improving health outcomes in Cameroon will require more than a sustained increase in the level of public expenditure. Vast improvement in the efficiency of health spending and more effective targeting of priority programs (child and maternal health, communicable diseases) are crucial. Specific policies are also needed to reach the needs of the disadvantaged. Resources and attention needs to be devoted to the following actions:

- Give priority to primary health care and prevention.
- Increase investments in poorer and underserved regions to reduce disparities in access.
- Increase financing of outreach activities for core interventions, in particular, immunizations, antimalaria programs, and HIV/AIDS prevention.
- Build partnerships with nongovernmental organizations (NGOs) to provide a package of core services to vulnerable groups and people living in remote areas.
- Promote human resources policies that provide incentives for serving in remote areas.
- Improve efficiency and accountability through greater participation of communities in the management of health care facilities.
- Reduce the financial burden on poor households.

Strengthening Sector Policies through an Integrated Approach
Sector strategies in rural and urban areas will help ensure that a higher and more diversified rate of economic growth translates into economic opportunities and employment for the poor.
The Rural Sector
Although the rural sector accounts for 20 percent of GDP, 20 percent of exports, 50 percent of the population, and 60 percent of employment in Cameroon, it continues to be home to 80 percent of the country’s poor. The sector continues to perform poorly given Cameroon’s considerable endowments.

The Government has articulated a comprehensive rural sector strategy that seeks to raise productivity and diversify agricultural production. The main thrust of the strategy is to enhance the incentive framework, reinforce human resources and capacities for boosting supply response, strengthen the marketing system, and enhance linkages between agroindustry and trade to spur economic transformation.

In 1994, Cameroon launched an ambitious reform program in the forestry sector, a program that is often viewed as a best practice. However, implementation is challenging, and the authorities need to pay particular attention to the satisfactory implementation of forest management plans, revenue collection, and overall sector governance. This reform needs to be scaled up in order to create conditions in which local communities and the private sector can engage in sustainable management, conservation, and development of forests and other natural resources. The Government needs to pay particular attention to community forests and to fine-tune regulations regarding competitive concession-awarding mechanisms. The Government and development partners have designed a forest and environment sector program to secure, deepen, and scale up this policy agenda.

The Urban Sector
Cameroon is urbanizing rapidly. Unless the urban sector receives immediate and sustained attention, cities will continue to suffer from low-quality public services and will become fertile ground for poverty and insecurity. Inadequate services and congestion in urban areas stem partly from the underfunding of urban infrastructure and the misallocation of resources at the local level. The Government needs to implement its new urban strategy, which aims to improve the living conditions of the urban population and reinforce the economic role of cities. The strategy relies partly on city development contracts, which define a set of targets, actions, means, and shared responsibility based on consultations with all stakeholders. Effective implementation of this strategy will require the development of urban investment financing instruments and improvement in the efficiency of public spending.
Managing and Protecting the Environment

Cameroon is blessed with a wealth of natural resources and biological diversity. But rapid population growth and the resultant need for energy, food, and other commodities have led to deforestation and overall degradation of the environment.

The sustainable use and management of the environment is critical to the country’s future development prospects. The Government needs to act quickly to implement the new legislation on the environment, which promises more-efficient management of all natural resources, including coastal and marine resources. It also needs to strengthen the mandates of environmental protection agencies and enhance community participation.

Ways to Establish Good Governance and Supportive Institutions

Significant and sustained improvement in governance would improve the effectiveness of both the Government and the private sector in all intervention areas. Institutional reforms are needed to improve the delivery of public services, strengthen accountability, and enforce the rule of law. Policies that make information publicly available and allow civil society organizations to hold politicians and policymakers accountable are also likely to improve services, particularly for poor people.

Some progress has already been achieved within the framework of the national governance program. Much remains to be done, however, to enhance transparency and accountability.

Promoting an Effective and Participatory Decision-Making Process

To address these challenges, the Government is developing second-generation institutional reforms. The main components of the new agenda include civil service reform to improve the capacity to implement reforms, decentralization to improve public service delivery, and greater community participation in public affairs.

Streamlining the Central Government’s Decision-Making Process

The Government needs to confront head on the problem of bureaucratic inertia, which has undermined its capacity to effectively execute policies. A new strategy and political resolve are needed to attack the root causes of this pervasive problem, namely, the excessive fragmentation of the administration and the proliferation of overlapping agencies (ministries,
permanent committees, special commissions, and so forth); the pervasive patronage-based promotion and demotion system, which contributes to low morale and ineffectiveness in the civil service; and the indiscriminate low wage policy, which seriously undermines the emergence of a stable and well-motivated technocracy within Cameroon’s administration.

A comprehensive civil service reform program is needed in which hiring is based on clearly defined positions and in which compensation and promotion are related to responsibilities and performance. The Government needs to reduce the coterie of special or permanent committees, implement a plan to strengthen the capacities of regular ministerial and administrative structures, and encourage more-effective networking among them. Implementing this agenda will require a profound change in the ingrained culture of rent-seeking and self-indulgence that has impaired the administration. A new political and cultural mind-set will need to be instilled from the highest level of leadership.

**Decentralization**

Centralized delivery of services has served most of Cameroon’s people poorly. Better-targeted reforms are needed to improve service delivery. To bring services closer to users and to give users increased voice and improved choices, the Government has decided to decentralize service delivery to the community level and deconcentrate the workings of the central government by devolving power to departmental units within line ministries. This strategy would need to be implemented gradually as capacity is strengthened at the local level.

**Community Participation**

Many of the policies mentioned previously are designed to improve capacity to supply effective services. Equally important are organized efforts to bolster demand for good-quality services. Community-driven development seeks to enhance local capacity through targeted actions. Through a participatory process, it helps local communities set up their own development projects and monitor the provision of public services in health centers, schools, and other institutions.

The Government has encouraged civil society participation in public affairs over the past decade, in particular through school councils and health committees. It has also made significant efforts to improve transparency and enhance citizen voice. It now undertakes budget reporting and makes its findings available to the public; publishes an annual report on the extractive industry (currently oil) through the EITI; and makes public administrative and judicial sanctions for violations of the law (for example, procurement
rules and forestry regulations). These are encouraging steps that need to be broadened, deepened, and sustained to improve governance.

**Strengthening the Judicial System**

Historically, judicial mechanisms for checking and constraining the executive branch have been either absent or notoriously weak in Cameroon. Recently, however, progress has been made in strengthening the judicial sector through implementation of the Audit Chamber, adoption of a new penal code, and the recruitment of judges.

The credibility of reforms rests on the sanctions imposed against those abusing their position or involved in unethical or unlawful conducts. The Government has taken some actions to eliminate ghost workers, crack down on corrupt public officers, and publicize these anticorruption efforts. It needs to step up and sustain its drive to combat corruption to improve the business climate and the effectiveness of the administration.

**Medium-Term Prospects for Growth and Poverty Reduction**

Raising the growth rate from 4.5 percent in 2003 to 6–7 percent by 2007 and beyond—the target set in the PRSP to halve poverty by 2015—requires doubling the average annual growth rate over the 1960–2003 period. Baseline projections extrapolated from recent trends indicate that the medium-term growth rate in 2007 and beyond will average 5 percent, falling well short of the PRSP objectives. Simulation results suggest that annual growth of about 7 percent could be achieved if reforms were accelerated, however. They indicate that sustained improvement in human capital and infrastructure services within a more competitive and open trade policies environment could lead to a 2–3 point increase in GDP growth above the baseline scenario. Such improved growth performance could allow Cameroon to reach the MDG of halving the poverty rate by 2015.

Risk assessment conducted using the World Bank 123PRSP model provides reasons for concern over the medium term, however. Inadequate political resolve, inconsistent implementation of reforms, and the persistence of structural and growth-inhibiting rigidities could reduce growth to 2.0–3.5 percent, keeping per capita income stagnant and poverty persistent.

This report provides reasons for guarded optimism. Much will depend on the Government’s political commitment to the reform agenda spelled out in the PRSP. With renewed determination, the Government can create a brighter future for its citizens.
TABLE 1
Key Elements of a Development Agenda

<table>
<thead>
<tr>
<th>Item</th>
<th>Key actions</th>
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</thead>
<tbody>
<tr>
<td><strong>Fiscal management and</strong></td>
<td>• Continue efforts to broaden the tax base and improve tax administration, in particular by increasing collections from small enterprises, broadening the VAT base, and improving recovery of the forestry tax.</td>
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<td><strong>revenue mobilization</strong></td>
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<td><strong>Expenditure and</strong></td>
<td>• Adopt and implement the circular that synchronizes the annual processes of strategy review and budget preparation (based on the MTEF system).</td>
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<tr>
<td><strong>financial management</strong></td>
<td>• Generalize and institutionalize a comprehensive MTEF to all ministries.</td>
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<td></td>
<td>• Strengthen the responsibility and accountability of spending ministries, including repositioning of stock accountants (comptable matière) under line ministries.</td>
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<td></td>
<td>• Enhance the transparency of budget execution, including reducing the use of special procedures and discontinuing the provision of cash advances by the national oil company while using supplementary budget laws as needed.</td>
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<td></td>
<td>• Curb long delays in notifying fund availability.</td>
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<td></td>
<td>• Improve the execution rate of the investment budget, including reestablishing the capital expenditure management system on the basis of multiyear program authorizations combined with annual payment appropriations.</td>
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<td></td>
<td>• Harmonize aid in conformity with the Paris Declaration.</td>
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</table>
• Upgrade the integrated public finance information system (SIGEFI) to include a module on budget preparation linked to the MTEF, and add modules that are accessible to authorizing officers in line ministries in order to permit real-time monitoring of spending (a task currently performed by financial controllers).

• Strengthen internal controls, and operationalize the external audit system.

• Establish effective parliamentary oversight, including in the implementation of supplementary budget laws.

• Improve Treasury management.

Personnel and payroll management

• Establish a unique personnel file for the administration, including clarification of the status of temporary workers.

• Accelerate the deconcentration of human resource management by giving more responsibility to line ministries, including extending the SIGIPES management software to all line ministries.

• Move toward a system of human resource management that is based on established positions and line ministries staffing needs.

Oil resource management

• Define clearly the missions, roles, and responsibilities of key public agencies as well as public companies, the national oil (SNH) and refining companies (SONARA).

• Improve the management and transparency of the national oil and refinery companies, including through steady application of the domestic fuel pricing formula.

• Improve wholesale transport and storage facilities.

• Implement the EITI.

Debt management

• Develop a prudent strategy for financing future resource needs.

• Strengthen public debt management, especially domestic debt.

• Contain fiscal costs of contingent liabilities by reducing losses of state-owned enterprises, privatizing utility companies (SNEC and CAMTEL) and CAMAIR, and limiting guarantees.

Public procurement

• Design and install a computerized system for planning, executing, monitoring, and controlling public contracts, and make it accessible to the public on the Procurement Regulatory Agency (ARMP) Web site.

• Assess annually the performance of the procurement system.

• Enforce sanctions to ensure effective application of the procurement code.

(continued)
**TABLE 1**  
**Key Elements of a Development Agenda (continued)**

<table>
<thead>
<tr>
<th>Item</th>
<th>Key actions</th>
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</thead>
<tbody>
<tr>
<td><strong>Deepen trade reform to enhance competitiveness and deepen financial markets to boost investment.</strong></td>
<td></td>
</tr>
<tr>
<td>Trade reform</td>
<td>• Initiate discussions within CEMAC to lower the common external tariff structure, adopt a maximum rate of 20 percent, and reduce administrative barriers along trade corridors and supply chains.</td>
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<tr>
<td></td>
<td>• Complete the computerization of the single trade-processing window.</td>
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<tr>
<td>Financial reform</td>
<td>• Improve the legal framework for the credit environment in the CEMAC zone, strengthen the accounting and audit system within CEMAC, and enhance the efficiency of the regional payment system.</td>
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<td></td>
<td>• Strengthen microfinance institutions.</td>
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<td></td>
<td>• Restructure the postal financial services.</td>
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<td></td>
<td>• Develop instruments to finance long-term needs.</td>
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<td></td>
<td>• Deepen the insurance market.</td>
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<td></td>
<td>• Reform the social security system.</td>
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<td></td>
<td>• Operationalize the Douala Stock Exchange and develop a regional government bond market.</td>
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<tr>
<td><strong>Improve basic infrastructure service through enhanced access and quality.</strong></td>
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</tr>
<tr>
<td>Cross-cutting issues</td>
<td>• Boost private participation in infrastructure investment and service delivery by finalizing ongoing privatization transactions, ensuring adequate implementation of the contracts, and strengthening the regulatory framework.</td>
</tr>
<tr>
<td>Energy</td>
<td>• Adopt and implement the long-term sector strategy.</td>
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</table>
Water
- Promote private sector participation in the development and management of water resources by implementing the provision of the contract with the private lease contractor, and improve management of the public asset holding company.
- Finalize and implement the water sector strategy.

Telecommunications
- Deepen market liberalization.
- Conclude the privatization of the fixed line company (CAMTEL).
- Promote effective partnership with key operators to develop services in rural areas.

Transport
- Sustain an adequate road maintenance policy.
- Complete the “scission/liquidation” of CAMAIR, and promote private participation in the air transport sector.
- Improve efficiency of existing port capacity.
- Monitor and implement the provisions of the rail concession contract with the private rail operator.

Invest in people.

Education
- Reduce the primary school dropout rate by implementing pedagogic and administrative measures to reduce the repetition rate.
- Reconsider the tradeoff between quantity and quality in higher education through tighter control over the growth of enrollment and an increase of the level of expenditure per student.
- Improve management of teacher appointments and the efficiency of the pedagogical process.
- Introduce transparent procurement of textbooks and classrooms to reduce their cost.
- Address regional disparities through targeted assistance to groups or regions lagging behind national standards, strengthening policies to increase girls’ participation at school in priority education zones.
- Implement the law on private sector education.

(continued)
TABLE 1

Key Elements of a Development Agenda *(continued)*

<table>
<thead>
<tr>
<th>Item</th>
<th>Key actions</th>
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<tbody>
<tr>
<td>Health</td>
<td>• Increase outreach activities for core interventions.</td>
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<td></td>
<td>• Improve targeting by contracting out with NGOs and the private sector to better serve vulnerable groups and people in remote areas.</td>
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<tr>
<td></td>
<td>• Continue to prevent the spread of HIV by implementing the new national strategy.</td>
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<tr>
<td>Cross-cutting issues</td>
<td>• Maintain PRSP spending on education and health, and improve cost-effectiveness policies through targeted measures.</td>
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<tr>
<td></td>
<td>• Fully implement the new statutes for education and health personnel, which include a more realistic benefit package to address the problems of understaffing in rural areas.</td>
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<td></td>
<td>• Strengthen institutional capacities in the social sectors’ line ministries, and expand the involvement of NGOs and civil society organizations in the delivery and monitoring of social services.</td>
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<tr>
<td>Strengthen sector policies through an integrated approach.</td>
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<tr>
<td>Rural sector</td>
<td>• Strengthen the regulatory system, including removing barriers against mobility and the entry of new traders, reconsidering the agricultural tax system, and alleviating marketing constraints (for example, by providing support to groupements d’intérêt coopératifs [GICs], designing a market price information system, and cracking down on illegal road taxes).</td>
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<tr>
<td></td>
<td>• Invest in public goods such as education of farmers, especially women; farm-to-market roads; and irrigation infrastructure.</td>
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<tr>
<td></td>
<td>• Improve the supply response by strengthening service delivery, expanding contract farming and tree-crop development, and reinforcing producers organizations.</td>
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<tr>
<td></td>
<td>• Develop microfinance linked to rural activities.</td>
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</tbody>
</table>
• Consolidate the forestry policy reform agenda.

Urban sector
• Implement the city development contract scheme.
• Improve public spending in the urban sector, including revising the standards and techniques used in the construction of public works.

Environment
• Adopt implementing decrees to operationalize most legal provisions on the environment.
• Strengthen enforcement capacity by building institutional capacity and improving coordination among institutions involved in environmental and natural resources management and conservation.

Establish good governance and supportive institutions.

Streamline the central government decision-making process
• Reduce the number of special and permanent committees.
• Strengthen capacities of regular ministerial and administrative structures.
• Define clear positions and relate promotion and compensation to performance (see recommendations in the personnel management section).

Service delivery improvements
• Accelerate the deconcentration process.
• Implement the legislation on decentralization, as required by the 1996 Constitution.
• Increase local demand for good governance, including through effective implementation of the community-driven development project.

Judicial reform
• Strengthen the functioning of the Audit Chamber and progressively extend its mandate to assess management.
• Implement the action plan derived from the audit of the judicial system, in particular by filling vacancies for judges, gradually providing courts with adequate resources, and applying the new penal code.
• Establish and apply a workable system of supervision and sanctions.

*Source: Authors.*
Introduction

Cameroon faces a challenging policy agenda over the next few years. The Government has been implementing its comprehensive Poverty Reduction Strategy since April 2003. The PRSP set an ambitious agenda for broad-based economic development with specific medium-term targets as well as detailed sector policies and programs for accelerating economic growth, strengthening the social sectors, and halving poverty over the following 10 years.

Despite a strong start, implementation of the PRSP slowed during the 2003–04 presidential election period, when fiscal discipline was relaxed and the restructuring of key public enterprises slowed. This faltering progress translated into much lower fiscal performance relative to program targets, higher government spending to prop up distressed key public enterprises, and the accumulation of domestic arrears. These developments led the International Monetary Fund (IMF) to declare Cameroon’s Poverty Reduction and Growth Facility (PRGF) program off track in the third quarter of 2004, delaying attainment of the Heavily Indebted Poor Countries (HIPC) completion point by nearly two years.

In the aftermath of the December 2004 election, a new government was formed that embarked on an ambitious fiscal and budgetary program to restore macroeconomic stability and accelerate the pace of structural reforms. The new program allowed Cameroon to successfully implement a six-month Staff-Monitored Program with the IMF, which led to the conclusion of a new PRGF program for July 2005–June 2008. The successful conclusion of the first six months of the new program allowed Cameroon to attain the HIPC completion point in April 2006 and to obtain substantial debt relief from the Enhanced HIPC as well as the Multilateral Debt Relief Initiative.

In the aftermath of the election, the Government developed an ambitious medium-term investment program (l’Agenda des Grandes Ambitions du Président) intended to accelerate economic transformation and propel
Cameroon into the group of fast-growing emerging countries. The Government is set to launch preparation of a new PRSP in early 2007. The new generation of the PRSP is expected to center on economic transformation and inclusive growth and to articulate a policy agenda that could pave the way for Cameroon to take off and get back on track to attain the Millennium Development Goals (MDGs) by 2015.

**Macroeconomic Developments**

After nearly a decade of economic difficulties, particularly during the 1985–93 period, Cameroon experienced stronger macroeconomic performance between 1995 and 2003. Indeed, thanks to the consistent implementation of a vast reform program, GDP growth averaged 4.8 percent a year over the 1995–2003 period, up from –2.3 percent over the 1987–94 period. Inflation reached a low of 0.6 percent in 2003, and the fiscal balance rose to 3.8 percent of gross domestic product (GDP).

More-recent trends are raising concern, however. Growth fell well below PRSP targets during the 2003–06 period (averaging 3.3 percent against a target of 5.1 percent). The continued decline in oil production has certainly hurt the economy, but that drop leveled off in 2005 and was more than offset by the increase in oil prices during 2005 and 2006. The main cause of the weak performance since 2004 is the persistence of structural problems, including deficient infrastructure services, which continue to reduce the competitiveness of the nonoil sector and to dampen prospects for accelerated economic transformation, growth, and poverty reduction in Cameroon.

**Changes in Poverty**

Cameroon achieved remarkable gains in poverty reduction during the 1996–2001 period, when the Government resolutely implemented its reform agenda. The second Cameroon Household Survey (*Enquête Camerounaise Auprès des Ménages* [ECAM II]) indicates a 13-point drop in the poverty rate between 1996 and 2001. No household survey has been conducted since the ECAM II, but slower growth in per capita income during 2003–06 has most likely translated into negligible—if any—reductions in poverty. Indeed, results of the participatory consultations conducted in the context of the implementation of the PRSP reveal that the majority of Cameroon’s people do not perceive any meaningful improvement in their living standards.
Progress toward Meeting the MDGs

Data and the results of simulations suggest that given the current pace of economic growth and social development, Cameroon has been off track for meeting the MDGs in 2015. The dire state of the social sectors is partly the unfortunate legacy of the economic crisis of 1986–93. But it also reflects the neglect of these sectors in the reform agenda of the late 1990s.

The continued weakness of the social sectors constitutes a serious impediment to poverty reduction. It also constrains growth and greatly limits the degree to which better economic policies and performance can translate into employment creation, income generation, and effective human development.

Efficiency of Public Spending

More resources alone will not allow Cameroon to surmount these obstacles and reverse the alarming trends in a sustainable manner; considerable improvement in public finance management and increased efficiency of public spending will be needed as well. Indeed, public social spending has increased markedly since the Interim-PRSP in 2000. The modest gains reveal the persistence of a serious lack of efficiency in public expenditure.

The Government has made some efforts to address this critical problem in the past few years, developing a Medium-Term Expenditure Framework (MTEF) system to guide budgetary resource allocations and enhance the budget preparation process for effective execution of the PRSP. However, the budget reform process still has to be fully implemented in order to deal with the many structural problems that hinder effective execution of the budget and constrain the efficiency of public spending.

The Urgent Need for Reform

Given these challenges, there is little room for complacency, business as usual, or stop-and-go execution of the policy agenda. The Government needs to manifest resolve to sustain reforms and expeditiously deal with bottlenecks in order to boost growth and reduce poverty, as envisioned in the PRSP.

The Government needs to make the forthcoming edition of the PRSP the strategic and operational framework for a revamped agenda for rekindling resolve to accelerate and deepen reforms in order to boost economic diversification and inclusive growth.
Purpose and Structure of This Report

This Development Policy Review (DPR) seeks to assist the Government in evaluating past policies and revise its policy agenda for the new PRSP. It provides a comprehensive assessment of Cameroon’s structural, social, and other key sector development policies and priorities; identifies major roadblocks; it suggests priority actions to boost economic growth and hasten the pace of poverty reduction.

The review was prepared by a World Bank team in collaboration with the Government. It is hoped that this collaborative effort will help all stakeholders gain a common and coherent understanding of the main challenges Cameroon is facing. The carefully articulated policy priorities should help facilitate policy implementation and provide for the monitoring of its overall effectiveness. The DPR is also meant to help the World Bank streamline its country assistance strategy (CAS) in order to more effectively support the Government’s efforts. It provides an invaluable opportunity for the Bank to assess Cameroon’s readiness for a programmatic lending approach. Indeed, the DPR could serve as a prelude to the eventual preparation of a Poverty Reduction Support Credit (PRSC).

The DPR benefitted from important analytical work conducted at the Bank and in Cameroon within the context of the PRSP. That work includes a study of the sources of growth, a comprehensive growth and/poverty modeling experiment, the preparation of a MTEF, various sector assessments prepared by the Bank, and budget tracking and beneficiary assessment surveys in the education and the health sectors.

The DPR comprises five parts. Part I provides a comprehensive assessment of past development outcomes (growth, poverty, and social sector development), highlighting the key impediments to deepening growth and reducing poverty. Part II addresses the critical issue of how to create a competitive environment for accelerating private sector-led growth. Part III deals with developing the social sectors and making growth inclusive. Part IV examines governance and institution-building issues. Part V evaluates the medium-term outlook for growth and poverty reduction and assesses potential risks, based on simulation exercises made using growth- and poverty-modeling instruments.
PART I

Growth and Poverty

Cameroon experienced remarkable growth during most of the 1970s and through the mid-1980s. Boosted by exports of agricultural products and crude oil, GDP grew at an average rate of 7 percent, sustained by a high investment rate of about one-fourth of GDP. By the mid-1980s, macro-instability began to settle into the economy. The high inflation rate and the lack of adjustment of the nominal exchange rate resulted in a significant appreciation of the real exchange rate. Fiscal and trade imbalances developed as agricultural exports fell, external debt began to swell, and domestic savings and investments decreased considerably.

As a result, from 1986 to 1993, Cameroon experienced a period of serious economic depression, which resulted in a 50 percent decline in per capita income. The contraction of the economy, caused by a substantial and prolonged decline in the terms of trade, coupled with an overvaluation of the exchange rate, turned into a severe fiscal crisis. The decline in government revenue led to a large and unprecedented cut in nominal wages; a drastic cut in education, health, and infrastructure expenditures; and the accumulation of external and internal arrears.
The 50 percent nominal devaluation (30 percent real depreciation) of the CFA franc in 1994 accompanied by trade and fiscal reforms within CEMAC represented a turning point in government efforts to restore growth-oriented macroeconomic stability. In mid-1996, a new policy and economic management team was put in place, with renewed determination to tackle the growth-inhibiting structural problems in the economy. After the successful completion of the three-year International Monetary Fund (IMF) Enhanced Structural Adjustment Facility (1997–2000), the government developed a three-year, growth-oriented macroeconomic program for 2000–03, which was supported by the IMF with the Poverty Reduction and Growth facility (PRGF). The implementation of macroeconomic and World Bank-supported sector reform policies (including in the forestry, transportation, and banking sectors) has improved the performance of the economy.

The incidence of poverty fell considerably between 1996 and 2001. But growth has not especially benefited the core poor, and inequality has remained high, hindering poverty reduction efforts. This partly reflects the structure of the economy, which has remained highly dependent on a few export commodities, including oil, and thus especially vulnerable to frequent terms of trade shocks. High volatility also implies large fluctuations in government budgetary resources, which reduce government poverty-related spending, including spending on health, human resources, and infrastructure development.

To address these challenges, accelerate growth, and attack poverty, in 2003 the Government developed a comprehensive Poverty Reduction Strategy Paper (PRSP) based on the results of a broad consultative and participatory process, a detailed analysis of the poverty profile, and a comprehensive analysis of the sources of growth. The strategy sets well-quantified targets that use the Millennium Development Goals (MDGs) as benchmarks, with explicit timetables for achievement.

During the first year of PRSP implementation, economic policy performance deteriorated several months before the October 2004 presidential elections as a result of a lack of fiscal consolidation and the deterioration in the financial position of public enterprises. In 2005 the government implemented stringent budget policies to rapidly correct fiscal slippages and made some efforts to improve alignment of the budget with PRSP priorities.

Overall, macroeconomic developments have been uneven since 2003. The oil sector—the main source of growth over the past few years—has
declined considerably since 1999–2000, and electricity shortages have caused a decrease in industrial production.

Chapter 1 provides an historical overview of GDP growth trends and analyses the sources and determinants of growth that drive the observed long-term trends. Chapter 2 analyzes trends in poverty and social sector outcomes since 2000.
Growth Performance: A Historical Overview

Cameroon’s annual per capita income was $518 during the early 1960s, nearly six times that of China, twice that of Indonesia, and half that of Malaysia (figure 1.1). Forty-five years later, in 2004, its per capita income (in constant 2000 U.S. dollars) was a mere $662 a year—roughly half that of China and a mere fourth that of Malaysia (table 1.1).

Moderate and Volatile Growth since the 1960s

Annual growth in Cameroon lagged that of other countries, averaging just 3.5 percent since the 1960s—half the rate achieved by China (7 percent). Manufacturing’s share of output stagnated at about 10 percent in Cameroon while increasing by a factor of three in China and a factor of four in Indonesia over the same period (table 1.2).

The lack of diversification is manifest in the much larger volatility of growth in Cameroon than in the comparator performers between 1980

FIGURE 1.1
Ratio of per Capita GDP in Cameroon to per Capita GDP in Selected Other Countries, 1970–2004

Source: Authors, based on data from central WDI database.
TABLE 1.1
Ratio of per Capita GDP in Cameroon to per Capita GDP in Selected Countries, 1970–2004

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td><strong>Countries in Sub-Saharan Africa</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cameroon</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Côte d’Ivoire</td>
<td>0.5</td>
<td>1.0</td>
<td>1.2</td>
</tr>
<tr>
<td>Ghana</td>
<td>1.6</td>
<td>3.2</td>
<td>2.4</td>
</tr>
<tr>
<td>Kenya</td>
<td>1.5</td>
<td>1.5</td>
<td>1.6</td>
</tr>
<tr>
<td>Mauritius</td>
<td>—</td>
<td>0.3</td>
<td>0.2</td>
</tr>
<tr>
<td>Nigeria</td>
<td>1.3</td>
<td>1.9</td>
<td>1.6</td>
</tr>
<tr>
<td><strong>Other countries</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>3.7</td>
<td>1.7</td>
<td>0.5</td>
</tr>
<tr>
<td>India</td>
<td>2.2</td>
<td>2.1</td>
<td>1.2</td>
</tr>
<tr>
<td>Indonesia</td>
<td>1.9</td>
<td>1.1</td>
<td>0.7</td>
</tr>
<tr>
<td>Malaysia</td>
<td>0.4</td>
<td>0.3</td>
<td>0.2</td>
</tr>
<tr>
<td>Tunisia</td>
<td>0.5</td>
<td>0.4</td>
<td>0.3</td>
</tr>
</tbody>
</table>

*Source: Authors, based on data from central WDI database.*

*Note: — = Not available. GDP per capita in 2000 US$.*

...and 2000 (as reflected in relatively larger coefficient of variation of 2.1 in Cameroon, compared to 0.3 for China and India, and 0.6 percent for Tunisia over 1980 to 2005) (table 1.2).

These long-term trends obscure significant variations in economic performances over the four decades. Some of this high variance was caused by exogenous factors and luck, but much of it reflected policy choices.

Cameroon’s earlier development policies were unsustainable. The country experienced rapid growth during the first two decades after independence, but that growth was resource intensive rather than productivity driven. Consequently, growth was volatile and unsustainable over the long run. Boosted by exports of agricultural products (coffee, cocoa, and cotton) and crude oil, GDP growth averaged 7.4 percent per year between 1970 and 1985 (table 1.3), accompanied by a relatively high investment...
### Table 1.2
Average Annual GDP Growth and Manufacturing Share of Output in Selected Countries, 1960–2005 (percent)

<table>
<thead>
<tr>
<th>Countries in Sub-Saharan Africa</th>
<th>Average annual GDP growth</th>
<th>Coefficient of variation</th>
<th>Manufacturing share of output</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cameroon</td>
<td>2.1</td>
<td>7.3</td>
<td>4.0</td>
</tr>
<tr>
<td>Côte d’Ivoire</td>
<td>8.7</td>
<td>7.6</td>
<td>–0.2</td>
</tr>
<tr>
<td>Ghana</td>
<td>2.3</td>
<td>1.4</td>
<td>2.0</td>
</tr>
<tr>
<td>Kenya</td>
<td>5.7</td>
<td>7.2</td>
<td>4.2</td>
</tr>
<tr>
<td>Mauritius</td>
<td>—</td>
<td>—</td>
<td>5.9</td>
</tr>
<tr>
<td>Nigeria</td>
<td>2.9</td>
<td>7.0</td>
<td>0.9</td>
</tr>
<tr>
<td>Senegal</td>
<td>1.3</td>
<td>3.0</td>
<td>2.4</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other countries</th>
<th>Average annual GDP growth</th>
<th>Coefficient of variation</th>
<th>Manufacturing share of output</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>3.0</td>
<td>7.4</td>
<td>9.8</td>
</tr>
<tr>
<td>India</td>
<td>4.0</td>
<td>2.9</td>
<td>5.7</td>
</tr>
<tr>
<td>Indonesia</td>
<td>3.7</td>
<td>7.8</td>
<td>6.4</td>
</tr>
<tr>
<td>Malaysia</td>
<td>6.6</td>
<td>7.7</td>
<td>5.9</td>
</tr>
<tr>
<td>Tunisia</td>
<td>5.4</td>
<td>7.2</td>
<td>3.6</td>
</tr>
</tbody>
</table>

Source: Authors, based on data from central WDI database.

— = Not available.
<table>
<thead>
<tr>
<th>TABLE 1.3</th>
<th>Macroeconomic Performance in Cameroon, 1970–2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP per capita</td>
<td>555.8</td>
</tr>
<tr>
<td>Annual growth rate percentage</td>
<td></td>
</tr>
<tr>
<td>GDP</td>
<td>7.4</td>
</tr>
<tr>
<td>Non-oil GDP</td>
<td>7.3</td>
</tr>
<tr>
<td>primary sector</td>
<td>3.2</td>
</tr>
<tr>
<td>secondary sector</td>
<td>6.3</td>
</tr>
<tr>
<td>tertiary sector</td>
<td>17.7</td>
</tr>
<tr>
<td>Inflation (CPI)</td>
<td>10.7</td>
</tr>
<tr>
<td>Real exchange rate</td>
<td></td>
</tr>
<tr>
<td>—</td>
<td>–0.2</td>
</tr>
<tr>
<td>Terms of trade</td>
<td>–0.8</td>
</tr>
<tr>
<td>Percent of GDP</td>
<td></td>
</tr>
<tr>
<td>Export</td>
<td>23.3</td>
</tr>
<tr>
<td>oil export</td>
<td>0.0</td>
</tr>
<tr>
<td>non-oil export</td>
<td>23.3</td>
</tr>
<tr>
<td>Import</td>
<td>25.9</td>
</tr>
<tr>
<td>Trade balance</td>
<td>–2.6</td>
</tr>
<tr>
<td>Investment</td>
<td>20.6</td>
</tr>
<tr>
<td>government</td>
<td>4.5</td>
</tr>
<tr>
<td>private</td>
<td>16.1</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>-------</td>
</tr>
<tr>
<td><strong>Government revenue</strong></td>
<td></td>
</tr>
<tr>
<td>(excluding grants)</td>
<td></td>
</tr>
<tr>
<td>oil</td>
<td></td>
</tr>
<tr>
<td>non-oil</td>
<td></td>
</tr>
<tr>
<td><strong>Government spending</strong></td>
<td></td>
</tr>
<tr>
<td>current</td>
<td></td>
</tr>
<tr>
<td>debt service</td>
<td></td>
</tr>
<tr>
<td>capital</td>
<td></td>
</tr>
<tr>
<td><strong>Overall balance on a</strong></td>
<td></td>
</tr>
<tr>
<td>commitment basis (excluding grants)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.0</td>
</tr>
<tr>
<td>(with grants)</td>
<td></td>
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<tr>
<td></td>
<td>0.5</td>
</tr>
<tr>
<td><strong>Overall balance on a cash</strong></td>
<td></td>
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<tr>
<td>basis (excluding grants)</td>
<td></td>
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<tr>
<td></td>
<td>2.2</td>
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<tr>
<td>(with grants)</td>
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<tr>
<td><strong>Overall balance cash basis</strong></td>
<td></td>
</tr>
<tr>
<td>(with grants)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2.3</td>
</tr>
<tr>
<td><strong>External debt (total)</strong></td>
<td>79.5</td>
</tr>
</tbody>
</table>

Sources: Data for 1970–99 are from the WDI central database. Data for 2000–05 are from Cameroon authorities.

Note: — = Not available.
rate of 25 percent of GDP (1979–85) and heavy government spending, which peaked at 22 percent of GDP in the early 1980s. During this period, Cameroon, like many African countries, pursued an inward-looking import-substitution industrialization strategy that was supported by a restrictive trade policy and massive public spending financed through taxation of the agricultural sector and, by 1978, oil revenue.

A combination of poor policy choices and external conditions led to a severe economic crisis between 1986 and 1993. By the mid-1980s, it had become clear that Cameroon’s strategy was not sustainable, as signs of a Dutch disease abounded (box 1.1). As oil revenue peaked at 46 percent of exports in 1982, domestic absorption soared to 103 percent of GDP, driving up the domestic price of nontradable goods, the overall inflation rate (10 percent over the 1977–85 period), and wages. High unit labor costs, combined with significant appreciation of the real exchange rate, caused a sharp decline in competitiveness. These factors caused a sharp decline in nonoil exports (agriculture and manufactured goods) and a surge in imports. External conditions compounded the situation, as the terms of trade declined 30 percent between 1986 and 1989.

GDP contracted by about one-fourth over the eight-year crisis period, causing per capita income to fall by 40 percent between 1986 and 1993. Current expenditure rose from 11 percent to 19 percent of GDP. The Government’s retrenchment policy caused capital expenditure to plummet, from 12.4 percent of GDP in 1986 to 3.5 percent by 1993. Coupled with the decline in income—and thus private savings—the decrease led to a collapse in the investment rate, which fell from 25 percent in the early 1980s to 14 percent by 1993. Combined with a concomitant contraction in government revenue and insufficient adjustment in current spending, the 8 percent decline in income in 1986 contributed to a sharp deterioration of the fiscal balance, from a surplus to a deficit that tripled from 1986 to 1995. Related increases in external debt services reduced government savings and public investment (table 1.3).

After false starts and missed opportunities in the immediate postdevaluation period, the Government showed increased determination, implementing a series of more-prudent policies, which improved performance in the second half of the 1990s. Indeed, the post-1996 period is the mirror opposite of the 1976–86 era. Although Cameroon experienced worse fortune during this period, the Government implemented better economic policies and posted stronger results. The 1994 (50 percent nominal and 30 percent real) devaluation of the CFA franc and the trade and fiscal reforms within the
Box 1.1
Was Dutch Disease in Cameroon Inevitable?

Experience shows that countries, especially those with weak political institutions, find it difficult to contain spending when revenue increases as a result of a boom in primary commodity exports. Unless sterilized through appropriate fiscal and monetary policy mix, the large inflow of foreign exchange tends to appreciate the local currency while boosting domestic absorption through unrestrained public spending. As a result, terms-of-trade volatility is systematically transmitted to the government budget, fueling inflation and real exchange rate appreciation, raising wages, and hindering the competitiveness of the noncommodity traded sectors (exports as well as import substitutes). Real exchange rate appreciation and the increase in domestic absorption increase imports, eventually throwing the trade balance into deficit. Coupled with the budget deficit that stems from uncontrolled spending, this situation rapidly leads to indebtedness. This phenomenon, known as Dutch disease, tends to exacerbate economic volatility and stymie diversification and sustainable growth.

Is Dutch disease inevitable? An important lesson can be learned by comparing the ways in which Cameroon, Indonesia, and Nigeria managed their oil wealth during the 1980s. All three countries experienced an oil boom during the late 1970s and early 1980s. All three had similar per capita income levels, considerable agriculture resources, and potential for industrialization. Comparing the three experiences suggests that policies can make a big difference.

Indonesia
Better-designed and more-flexible policies helped Indonesia avoid Dutch disease. Indonesian officials determined that the appreciation of the real exchange rate (by 35 percent between 1968 and 1976/77) was detrimental to nonoil growth (World Bank 2003d). To maintain Indonesia’s competitiveness, they therefore devalued the exchange rate in 1978 and 1979, keeping the real exchange rate at roughly the same level as in 1968. Subsequent devaluations were used to keep the real exchange rate more or less constant.

The effects on the real sector are revealing. The U.S. dollar value of nonoil exports grew at a healthy annual rate of 12 percent during the 1980s, while the oil sector’s share of exports fell from 55 percent to 22 percent. That was the dawn of a successful diversification strategy. Equally important, the Indonesian authorities effectively managed the inevitable structural changes in the economy and ensured macroeconomic stability by taking prudent steps to boost productivity in the nontraded goods sector—through both privatization and restructuring—and continuing to diversify the country’s

(continued)
export base. This made Indonesia less vulnerable to boom-bust cycles and other external shocks.

Nigeria
The volume of Nigeria’s oil exports doubled in 1970, and the value of exports increased even more, as oil prices rose from $3 a barrel in 1970 to $39 a barrel in 1980. Massive government spending—including the building of the capital city in Abuja—fueled inflation. This, combined with the fixed nominal parity of the naira, led to an 83 percent appreciation in the real exchange rate between 1970 and 1980 (World Bank 2003d). Failure to adjust both spending and the nominal exchange rate even as oil prices gradually fell led to a further appreciation of the real exchange rate by 74 percent between 1980 and 1984. The result was a surge in imports—including food—and domestic absorption. The loss in competitiveness led to a contraction in agricultural production and exports, greatly undermining prospects for economic diversification and creating the country’s debt overhang. Nigeria made significant adjustments to the exchange rate only in 1986, nine years after Indonesia and five years after oil prices began to fall.

Cameroon
Cameroon’s agricultural commodity boom of the 1970s was followed by an oil boom in 1978. As oil revenue soared from 0 percent to 46 percent of export revenue between 1978 and 1982, domestic absorption rose to 103 percent of GDP, driven by massive government spending. This in turn raised the domestic price of nontradables, the overall inflation rate (10 percent over the 1977–85 period), and wage rates. Consequently, the real exchange rate appreciated rapidly and unit labor costs rose sharply. This deterioration in competitiveness led to a sharp decline in nonoil exports (agriculture and manufactured goods) and a surge in imports, which exacerbated the deterioration of the trade balance and eventually led to the unsustainable indebtedness of the 1980s.

Ignoring warnings about the problems of sustainability of a procyclical budgetary policy and the potential onset of Dutch disease, Cameroonian officials failed to make the necessary policy adjustments (Benjamin, Devarajan, and Weiner 1989). As a result, Cameroon did not recover from the profound economic crisis that ensued until after the currency devaluation of 1994 and the structural reforms of the second half of the 1990s (figure).

Lessons Learned
Poor policy choices and, particularly, the inability to adjust have significantly affected growth, volatility, and poverty reduction. Together with other member
countries of the Bank of Central African States (BEAC), Cameroon adjusted its nominal exchange rate only in 1994—16 years after Indonesia.

The sustained reforms of the late 1990s, prudent budgetary policies, and low inflation did keep the real exchange rate stable and competitive, which helped the nonoil sector.

**Source:** Authors’ compilation, based on data from central WDI database.

Economic and Monetary Community of Central Africa (CEMAC) marked a turning point in the Government’s efforts to restore macroeconomic stability. Nevertheless, implementation of postdevaluation reforms was at first non-committal, and the Government failed to fully capitalize on the window of opportunity opened by the currency devaluation. Only in 1996, after several failed attempts, did the Government decide to put in place a new economic management team with a firm mandate to work with the international community, especially the International Monetary Fund (IMF) and the World
Bank, to tackle the structural problems underpinning the economy. The ambitious reform program included IMF–supported macroeconomic stabilization policies (the 1997–2000 IMF program) as well as Bank-supported sector adjustment programs (Third Structural Adjustment Credit [SAC-III]) encompassing forestry, transportation, banking, and infrastructure.

The strong policy stance eventually paid off. It translated into markedly improved economic performance during the 1996–2000 period (figure 1.2), despite less favorable exogenous conditions—the terms of trade improved, but oil output declined (figure 1.3). Real GDP grew at an average annual rate of 4.8 percent during 1996 to 2000, supported by the solid performance of the nonoil sector and a reinvigorated private sector. The high inflation rate that followed the currency adjustment was progressively reduced from 30 percent to –1 percent over the same period.

Between 2000 and 2003, Cameroon experienced sustained GDP growth at an annual rate of roughly 4.5 percent, despite declining oil output and persistent energy problems. Meanwhile, inflation remained low.

**FIGURE 1.2**
Annual GDP and Nonoil-Related Growth, 1970–2005

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*Source: Authors’ compilation, based on data obtained from Cameroon authorities.*
averaging 2.3 percent a year, while the overall balance on a commitment basis improved considerably (averaging 2.4 percent of GDP between 2000 and 2003), which considerably improved the country’s debt ratios.

Growth has weakened significantly since 2004. Accelerated reforms and determined implementation of the PRSP are therefore needed to improve the business climate and revive growth. In the run-up to the October presidential elections, the Government weakened its fiscal position through large overruns in current spending as well as an accumulation of domestic arrears and a deterioration in the financial situation of public enterprises. These fiscal slippages adversely affected the investment climate and, together with the energy crisis, hindered growth. In December 2005 a new cabinet was formed, which swiftly implemented stringent policies to gradually correct these fiscal slippages. It accelerated the privatization/restructuring process of public enterprises and worked with AES SONEL, the main energy company, to prepare and implement an emergency action plan to address

**FIGURE 1.3**
Annual Change in Oil Revenues, 1970–2005

Source: Authors’ compilation, based on data obtained from Cameroon authorities.
the energy crisis. These efforts allowed Cameroon to reach the HIPC completion point in April 2006.

Despite these achievements, growth performance and prospects remain well below Cameroon’s potential. Indeed, despite a stable macroeconomic framework and a relatively favorable international environment, the business climate in Cameroon remains gloomy and investment sluggish. The private sector appears to be awaiting a clear signal from the Government in regard to its medium-term fiscal policies as well as resolute steps to improve the business environment. The Government needs to address these concerns and shake off the pervasive malaise with a prudent yet ambitious and credible strategy in order to revitalize the economy, boost investment, and accelerate growth.

The Resource-Intensive Nature of Growth

Analysis of the sources and determinants of growth in Cameroon is important for explaining its depth, volatility, and sustainability. This section investigates how production sectors—agriculture, mining, industries, and services—and key production factors—labor and capital—contributed to aggregate GDP growth (figure 1.4).

Sector Contributions to Growth

During the first two decades after independence, agriculture, especially export crops such as coffee and cocoa, dominated the economy, with agriculture accounting for 34 percent of GDP, more than 80 percent of employment, and 20 percent of exports. The discovery of oil in 1978 and the subsequent oil boom of 1978–82 changed this composition dramatically (table 1.4). Oil became the main engine of Cameroon’s economy, with its contribution peaking in 1984, when it accounted for 16 percent of GDP, 71 percent of exports, and 41 percent of government income.

The oil boom also led to the emergence of Dutch disease (described in box 1.1), with rapid increases in domestic prices and wages and appreciation of the real exchange rate. These developments hampered agricultural production and exports, sharply reducing average growth rates from 6 percent in the early 1980s to nearly zero percent over 1986 to 1993, until the January 1994 currency devaluation. The industrial sector experienced a similar decline after the boom of the earlier period. With declining competitiveness, rising wages, and real exchange rate appreciation, industrial
output, which had grown at about 13 percent between 1979 and 1985, declined about –1 percent during the 1986–93 period.

The postdevaluation recovery and growth was driven by a combination of improved performance in the primary sector (where growth averaged 5.6 percent a year over 1994 to 2002), and favorable terms of trade. The main impetus, however, has come from a revitalized nonoil secondary sector, which grew at a robust rate of 6 percent a year, over 1994 to 2002, boosted by the enhanced competitiveness of the postdevaluation period and the tertiary sector. The major contributors were manufacturing, construction and public works, fueled by the Chad-Cameroon oil pipeline construction from 1999 to 2001 (figure 1.5).

These encouraging trends were halted in 2004, with the degradation of the macroeconomic environment and the accumulation of domestic arrears to the private sector. Between 2004 and 2006, the nonoil industrial sector growth averaged 2.4 percent—hampered by energy problems—while aggregate growth averaged a meager 3.1 percent, well below the PRSP target of 5.3 percent.
### TABLE 1.4
Annual GDP Growth and Sectoral Contributions to Growth, 1970–2005

<table>
<thead>
<tr>
<th>Sector per year</th>
<th>Sector contributions to growth</th>
<th>GDP growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture and forestry</td>
<td>1.0 1.5 0.1 1.5 0.7 0.4 0.5</td>
<td>3.2 6.0 0.4 5.6 3.5 4.4 2.7</td>
</tr>
<tr>
<td>Oil</td>
<td>0.1 3.1 −1.3 −0.1 −0.3 −0.4 −0.4</td>
<td>16.1 64.7 −11.9 −1.7 −4.9 −9.1 −9.7</td>
</tr>
<tr>
<td>Manufacturing industries</td>
<td>1.1 1.6 −0.2 0.9 0.5 0.8 0.3</td>
<td>7.0 12.7 −0.8 3.0 2.9 3.8 1.6</td>
</tr>
<tr>
<td>Commercial services</td>
<td>4.9 0.9 −1.3 0.6 2.8 2.4 1.6</td>
<td>17.7 3.6 −5.1 2.4 7.4 6.6 3.4</td>
</tr>
<tr>
<td>Government sectors</td>
<td>0.3 0.5 0.3 0.3 0.4 0.6 0.1</td>
<td>3.9 7.0 3.7 4.1 4.2 6.9 0.6</td>
</tr>
<tr>
<td>GDP</td>
<td>7.5 7.5 −2.4 3.2 4.1 3.8 2.1</td>
<td>7.4 7.3 −2.7 3.5 4.0 3.7 2.0</td>
</tr>
</tbody>
</table>

*Source: Authors’ calculations based on data from central WDI database and data obtained from Cameroon authorities.*
FIGURE 1.5
The Structure of the Economy by Sector

Primary sector 2005

- Food crop agriculture: 6%
- Industrial & export agriculture: 12%
- Stockbreeding, gamekeeping: 8%
- Fisheries, forestry: 7%
- Food crop agriculture: 6%

Secondary sector 2005

- Mining and quarrying: 11%
- Manufacturing: 3%
- Electricity, gas, and water: 28%
- Construction: 28%

Tertiary sector 2005

- Trade, hotel, and restaurant: 46%
- Transport and communications: 17%
- Banking and financial services: 13%
- Other government service: 3%
- Other: 21%

Source: Authors’ compilation based on data obtained from Cameroon authorities.
Factor Contributions to Growth

This section presents an analysis of the contribution of key factors of long-term growth (human and physical capital, infrastructure, and productivity).

Factor Intensity and Productivity

Several estimated growth models were used to analyze the determinants of long-term growth and short-term fluctuations over the past three decades in Cameroon. The empirical investigations led to the cautiously encouraging conclusions:

- Growth in Cameroon was resource intensive in the first two decades after independence; productivity and efficiency played only minor roles.
- Following an intensification of structural reforms and despite less-favorable external conditions, growth rested on stronger long-term foundations of enhanced productivity from 1996 to 2003.
- Since then, growth has slowed somewhat, as the foundations weakened, along with the policy resolve. Growth slowed in both agriculture and nonmining industries, suggesting that deepening structural reforms holds the key to higher and sustained growth for poverty reduction in Cameroon.

Comparing the period of rapid expansion of the 1960s and 1970s to the postdevaluation period of sustained adjustment, it appears that productivity made a larger contribution to growth in the second period than in the first (box 1.2), while factor inputs grew much more rapidly during the first period.

Investment Volume and Efficiency

The evolution of investment in Cameroon is consistent with the pattern of growth. The average investment rate was much higher during the period of rapid expansion (1978–86) than during the postdevaluation adjustment period. This suggests significant improvement in the gross marginal efficiency of capital (the ratio of GDP growth to the investment rate) during the second period.

The collapse in the investment rate during the crisis period is the combined result of sharp cuts in government capital spending, the decline in domestic savings in the wake of the decline in income, and the reduction in net foreign resource inflows (by 11.5 percent per year) following the rapid
Box 1.2
Sources of Growth: What Are the Contributions of Factors and Productivity?

A critical question in assessing the long-term sustainability of growth is how much of past growth can be attributed to the more-intensive use of resources such as labor, capital, land, and so forth (quantity growth) and how much reflects more-effective use of resources, higher productivity, and sound policies and institutions (quality growth). The distinction affects both the intensity and the volatility of growth—and therefore the poverty and social impacts of growth—because factor inputs, especially investment, fluctuate over time while gains from productivity tend to be more stable. What does the evidence indicate with regard to past growth performance in Cameroon, and what policy lessons can be learned from that performance?

Three estimated endogenous growth models were used to untangle the contribution of key factors. The residual from each estimated equation provides an approximation of total factor productivity growth. The first model (Ghura 1997) distinguishes the contributions of private capital, government productive capital, and human capital. This model was estimated using 1960–2003 time-series data. The second model (Canning 1999) distinguishes the effects of physical capital, human capital, and infrastructure (telecom, electricity, and roads). It was estimated for a cross-section of countries. The third model (Charlier and N’cho-Oguie 2006) distinguishes the role of private capital, government capital, and infrastructure on aggregate and sector-based growth (agriculture, manufacturing, and services). It is estimated for Cameroon. The results are consistent with the assessment of growth patterns in Cameroon.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Ghura (1997)</td>
<td>–9.1</td>
<td>17.1</td>
<td>8.0</td>
<td>–5.8</td>
<td>–1.9</td>
<td>–1.9</td>
<td>0.3</td>
<td>4.3</td>
<td>4.6</td>
</tr>
<tr>
<td>Canning (1999)</td>
<td>2.3</td>
<td>5.7</td>
<td>8.0</td>
<td>–4.0</td>
<td>2.1</td>
<td>–1.9</td>
<td>1.4</td>
<td>3.2</td>
<td>4.6</td>
</tr>
<tr>
<td>N’cho-Oguie and Charlier (2006)</td>
<td>0.7</td>
<td>7.3</td>
<td>8.0</td>
<td>–1.5</td>
<td>–0.4</td>
<td>–1.9</td>
<td>0.4</td>
<td>4.2</td>
<td>4.6</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations based on estimated models.

Note: TFP = total factor productivity; GEF = growth explained by factors; OG = observed growth.

(continued)
increase in indebtedness of the country. Even with improved growth and saving performances, the investment rate remained low relative to comparator countries (table 1.5).

This poor performance partly reflects the low levels of public investment, which averaged just 2.3 percent of GDP during the 1990s. But it is also true that aggregate savings continue to be low and foreign resource inflows very weak compared with other countries. The ratio of foreign direct investment (FDI) to GDP, for example, remained low and even contracted mildly in the 1995–98 period relative to 1991–94, and the foreign investment rate remains low relative to comparator countries (table 1.6). The low level of FDI is partly related to problems of governance and the slow pace of execution of the key privatization programs. The analysis indicates that private investment in Cameroon is positively related to, that is, crowds in, both FDI and public productive investment (infrastructure and human capital), underscoring the importance of policies for attracting FDI and enhancing both the volume and the efficiency of productive public investment.

The Role of Competitiveness

The deterioration of competitiveness in the wake of Dutch disease hurt Cameroon’s agricultural sector and crippled its industries during much of the 1970s and 1980s, largely explaining the mediocre performance during this period. Numerous signs indicate improved competitiveness in Cameroon’s economy during the postdevaluation period. The real exchange rate has depreciated considerably since devaluation, and even the recent appreciation of the CFA franc (along with the euro) with respect to the U.S. dollar and the currencies of Cameroon’s competitors has been partly offset by very low domestic inflation, leaving the real exchange rate fairly
### TABLE 1.5
Investment and Capital Efficiency in Selected Countries, 1978–2004

<table>
<thead>
<tr>
<th>Country</th>
<th>Investment rate (percentage of GDP)</th>
<th>Marginal efficiency of capital (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Countries in Sub-Saharan Africa</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cameroon</td>
<td>22.3</td>
<td>16.9</td>
</tr>
<tr>
<td>Côte d’Ivoire</td>
<td>15.7</td>
<td>12.1</td>
</tr>
<tr>
<td>Ghana</td>
<td>10.5</td>
<td>23.1</td>
</tr>
<tr>
<td>Nigeria</td>
<td>18.6</td>
<td>20.8</td>
</tr>
<tr>
<td>Senegal</td>
<td>12.9</td>
<td>18.9</td>
</tr>
<tr>
<td><strong>Other countries</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>36.2</td>
<td>36.1</td>
</tr>
<tr>
<td>Indonesia</td>
<td>28.7</td>
<td>22.7</td>
</tr>
<tr>
<td>Malaysia</td>
<td>30.2</td>
<td>29.7</td>
</tr>
<tr>
<td>Tunisia</td>
<td>29.4</td>
<td>25.9</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations, based on data from central WDI database.

### TABLE 1.6
Average Annual GDP Growth, per Capita GDP, Foreign Direct Investment, and Aggregate Domestic Savings in Selected Countries, 1975–2004

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Countries in Sub-Saharan Africa</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cameroon</td>
<td>3.8</td>
<td>662.10</td>
<td>1.4</td>
<td>16.6</td>
</tr>
<tr>
<td>Côte d’Ivoire</td>
<td>1.6</td>
<td>574.10</td>
<td>1.4</td>
<td>20.5</td>
</tr>
<tr>
<td>Ghana</td>
<td>2.9</td>
<td>278.50</td>
<td>1.1</td>
<td>8.0</td>
</tr>
<tr>
<td>Nigeria</td>
<td>2.6</td>
<td>401.60</td>
<td>2.7</td>
<td>39.7</td>
</tr>
<tr>
<td>Senegal</td>
<td>3.2</td>
<td>460.80</td>
<td>0.6</td>
<td>10.6</td>
</tr>
<tr>
<td><strong>Other countries</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>9.1</td>
<td>1,323.10</td>
<td>3.2</td>
<td>41.2</td>
</tr>
<tr>
<td>Indonesia</td>
<td>5.6</td>
<td>906.20</td>
<td>1.6</td>
<td>26.7</td>
</tr>
<tr>
<td>Malaysia</td>
<td>6.2</td>
<td>4,289.70</td>
<td>4.5</td>
<td>43.9</td>
</tr>
<tr>
<td>Mauritius</td>
<td>5.2</td>
<td>4,289.40</td>
<td>1.1</td>
<td>23.3</td>
</tr>
<tr>
<td>Tunisia</td>
<td>4.6</td>
<td>2,336.50</td>
<td>2.2</td>
<td>21.4</td>
</tr>
</tbody>
</table>

Source: Authors’ compilation based on data from central WDI database.
stable and competitive. Although structural problems persist in energy, telecom, and transport, the cost of infrastructure services fell somewhat during the late 1990s. However, many business cost items in Cameroon remain high relative to comparator countries, (table 1.7 and box 4.1). The cost of registering a business, for example, is almost 17 times higher in Cameroon than in Tunisia, and the cost of enforcing a contract is two times higher. Improving the competitiveness of the economy is imperative for increasing diversification and boosting growth.

Analysis of domestic resource cost (DRC) by sector indicates that many of Cameroon's agricultural and industrial activities are borderline competitive. These sectors could be boosted by appropriate policies to enhance competitiveness.¹

Cameroon is DRC–competitive for food crops that are increasingly the subject of subregional trade (plantain and poultry) and cash crops, such as cocoa and even coffee (table 1.8). But high marketing costs (transportation, handling, warehousing, and losses), which represent 30–40 percent of producer prices, greatly reduce producers’ margin, creating disincentives for production (table 1.9).² Transportation costs, which depend on the distance and the season (rainy or dry), account for a significant part of marketing costs (figure 1.6).³

Cameroonian manufacturing has a number of DRC–competitive sectors, such as wood products and beverages, and a much larger group of marginally competitive branches, including textiles, food products, and aluminum (table 1.10). This analysis suggests that improvements in infrastructure services, especially transport, could greatly enhance the competitiveness of these sectors and provide a much-needed impetus for diversification and higher growth.

Analysis of the sources of long-term growth gives reason for cautious optimism regarding Cameroon’s growth prospects. Thanks to enhanced productivity and efficiency, the country achieved some degree of quality growth in the past decade. This indicates the potential for closing the growth gap by deepening structural reforms and improving infrastructure and governance to enhance competitiveness and improve overall economic efficiency. At the same time, enhanced savings from debt relief, prudent structural policies, and improved resource allocation toward education, health, and infrastructure would hasten the pace of private infrastructure and human capital formation. Cumulatively, investments in these sectors will provide further impetus for long-term growth.
## TABLE 1.7
Cost of Doing Business in Selected Countries

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Cameroon</th>
<th>China</th>
<th>Côte d’Ivoire</th>
<th>Ghana</th>
<th>India</th>
<th>Nigeria</th>
<th>Tunisia</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Business indicators</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost to register a business (percentage of GNI per capita, 2006)</td>
<td>152.2</td>
<td>9.3</td>
<td>134.1</td>
<td>49.6</td>
<td>73.7</td>
<td>54.4</td>
<td>9.3</td>
</tr>
<tr>
<td>Cost to enforce a contract (percentage of GNI per capita, 2006)</td>
<td>36.4</td>
<td>26.8</td>
<td>29.5</td>
<td>13.0</td>
<td>35.7</td>
<td>27.0</td>
<td>17.3</td>
</tr>
<tr>
<td><strong>Infrastructure indicators</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electric power consumption (Kwh per capita, 2003)</td>
<td>178.1</td>
<td>1,378.5</td>
<td>174.3</td>
<td>247.6</td>
<td>435.3</td>
<td>106.8</td>
<td>1,118.1</td>
</tr>
<tr>
<td>Telephone mainlines (per 1,000 people, 2004)</td>
<td>7</td>
<td>241</td>
<td>20</td>
<td>14</td>
<td>41</td>
<td>8</td>
<td>121</td>
</tr>
<tr>
<td>Road network as percentage of total surface (1,000 kilometers, 2002)</td>
<td>17</td>
<td>19</td>
<td>16</td>
<td>20</td>
<td>—</td>
<td>21</td>
<td>12</td>
</tr>
</tbody>
</table>

**Sources:** Authors, based on data from central WDI database, Doing Business 2006 and Cameroon INS. Road, telephone, and electricity are based on WDI 2006, and INS for Cameroon; business indicators and taxes are based on Doing Business 2006 (online data).

**Note:** — = Not available. GNI = gross national income.
### TABLE 1.8
**Domestic Resource Cost of Various Crops**

<table>
<thead>
<tr>
<th>Item</th>
<th>Domestic resource cost</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Basic food crops</strong></td>
<td></td>
</tr>
<tr>
<td>Plantain</td>
<td>0.58</td>
</tr>
<tr>
<td>Corn</td>
<td>0.50</td>
</tr>
<tr>
<td><strong>Aviculture</strong></td>
<td></td>
</tr>
<tr>
<td>Intensive or semi-intensive aviculture,</td>
<td>0.65</td>
</tr>
<tr>
<td>including production of provender</td>
<td></td>
</tr>
<tr>
<td>Intensive or semi-intensive aviculture</td>
<td>1.10</td>
</tr>
<tr>
<td>with purchase of provender</td>
<td></td>
</tr>
<tr>
<td>Traditional aviculture</td>
<td>0.95</td>
</tr>
<tr>
<td>Improved traditional aviculture</td>
<td>0.80</td>
</tr>
<tr>
<td>Intensive egg production</td>
<td>0.70</td>
</tr>
<tr>
<td><strong>Export crops</strong></td>
<td></td>
</tr>
<tr>
<td>Cocoa</td>
<td></td>
</tr>
<tr>
<td>Ebolowa</td>
<td>0.20</td>
</tr>
<tr>
<td>Southwest</td>
<td>0.20</td>
</tr>
<tr>
<td>Mbam-Lékié</td>
<td>0.20</td>
</tr>
<tr>
<td><strong>Coffee</strong></td>
<td></td>
</tr>
<tr>
<td>Robusta</td>
<td>0.90</td>
</tr>
<tr>
<td>Arabica 1</td>
<td>0.60</td>
</tr>
<tr>
<td>Arabica 2</td>
<td>0.40</td>
</tr>
</tbody>
</table>

*Source: Gergely 2002.*

*Note: Domestic resource cost indicates the cost of the domestic resources used to produce the equivalent of one unit of foreign exchange.*

### TABLE 1.9
**Marketing Costs of Plantains, Corn, and Potatoes**

<table>
<thead>
<tr>
<th>Item</th>
<th>Plantains</th>
<th>Corn</th>
<th>Potatoes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketing cost as percentage of total cost</td>
<td>31</td>
<td>44</td>
<td>43</td>
</tr>
<tr>
<td>Transport cost as percentage of marketing cost</td>
<td>10.2</td>
<td>10.1</td>
<td>19.5</td>
</tr>
<tr>
<td>(Sales price less producer price) as percentage of producer price</td>
<td>140</td>
<td>104</td>
<td>200</td>
</tr>
<tr>
<td>Intermediaries’ margin as percentage of producer price</td>
<td>96</td>
<td>26</td>
<td>126</td>
</tr>
</tbody>
</table>

*Source: Gergely 2002.*

*Note: Estimates for plantains and corn are based on dry season costs.*
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Competitive</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wood products</td>
<td>0.97</td>
<td>11.66</td>
<td>8.79</td>
<td>60,117</td>
</tr>
<tr>
<td>Beverages</td>
<td>0.88</td>
<td>16.49</td>
<td>3.41</td>
<td>−42,251</td>
</tr>
<tr>
<td>Marginally competitive</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Textiles</td>
<td>1.30</td>
<td>10.13</td>
<td>5.25</td>
<td>53,396</td>
</tr>
<tr>
<td>Food products</td>
<td>1.45</td>
<td>2.94</td>
<td>0.66</td>
<td>4,283</td>
</tr>
<tr>
<td>Rubber</td>
<td>1.28</td>
<td>12.05</td>
<td>35.89</td>
<td>49,171</td>
</tr>
<tr>
<td>Chemicals</td>
<td>1.47</td>
<td>4.42</td>
<td>1.78</td>
<td>−12,635</td>
</tr>
<tr>
<td>Building materials</td>
<td>1.41</td>
<td>6.06</td>
<td>0.82</td>
<td>−10,469</td>
</tr>
<tr>
<td>Aluminum</td>
<td>1.16</td>
<td>12.73</td>
<td>1.75</td>
<td>68,680</td>
</tr>
<tr>
<td>Noncompetitive</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cigarette manufacturing</td>
<td>2.80</td>
<td>2.33</td>
<td>0.73</td>
<td>1,072</td>
</tr>
<tr>
<td>Other manufacturing industries</td>
<td>1.56</td>
<td>1.45</td>
<td>0.52</td>
<td>1,723</td>
</tr>
<tr>
<td>Grossly noncompetitive</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mechanical appliances (negative free trade value-added)</td>
<td>&lt;0.00</td>
<td>1.37</td>
<td>0.55</td>
<td>−3,581</td>
</tr>
</tbody>
</table>

Notes

1. The DRC measures the opportunity cost of producing or saving foreign exchange in terms of real resources. It is calculated by dividing the economic value of domestic resource inputs by the international economic value added. DRC values of less than 1 indicate an efficient use of resources. At this level the cost of the foreign exchange earned or saved through domestic production is less than the international cost. Keeping in mind the effect of dynamic links and the fact that some subsectors that are noncompetitive in the short term could become competitive in the medium term with appropriate cross-sector policies, a second group of potentially competitive subsectors has been identified. These subsectors have DRC values of 1.0–1.5. Subsectors with DRC values of more than 1.5 are considered noncompetitive. Negative DRCs indicate a very inefficient use of resources, corresponding to situations in which free trade value added is negative.

2. For some products, such as potatoes, the intermediaries’ profit margin is more than 100 percent of producer prices.

3. The average cost per kilometer is CFAF 202 for a small truck and CFAF 239 for a large truck. The destination market is Douala for plantains and Yaoundé for corn and potatoes.

Source: Republic of Cameroon 2003b.
Recent trends in poverty and social development reveal a mixed picture. Cameroon has achieved a remarkable reduction in income poverty since growth resumed in the mid-1990s. Were it not for the slowdown of 2004–06, it could have been on track to meet the Millennium Development Goal (MDG) of halving income poverty by 2015. In contrast, the social sector—especially education and health—is only slowly recovering from the economic crisis (1986–93) followed by years of inadequate attention and ineffective public policies (1994–98). Despite recent improvements, particularly since the advent of the PRSP, Cameroon remains off track to meet the social sector MDGs.

While the social sector is itself a key dimension of poverty, its weakness also constitutes an impediment to more-rapid poverty reduction in two other important respects. First, a weak social sector diminishes the stock of human capital, raising costs, reducing competitiveness, and hindering long-term growth. Second, by limiting the extent to which the poor can participate in the growth process, a weak social sector prevents growth from being more inclusive. Social sector development is a key determinant of the degree to which economic policies translate into employment creation, income generation, and poverty reduction.

The Decline in Income Poverty and the Persistence of Inequality

Improved growth performance since 1996 has translated into a significant reduction in income poverty in Cameroon. Results from the last two Cameroon Household Surveys (ECAM I and II) indicate that the incidence of income poverty in Cameroon fell by a remarkable 13 points—from 53.3 percent to 40.2 percent between 1996 and 2001 (table 2.1). Analysis of the sources of poverty reduction indicates that most of the gain (11 of 13 points) can be attributed to sustained per capita income growth, which
averaged roughly 2 percent a year, with the remaining 2 points stemming from the slightly improved distribution of income. The depth of poverty followed a similar trend (table 2.2) during this period. The distance between the average income of poor households and the poverty line also declined, shrinking from 19.1 percent of the poverty line in 1996 to 14.1 percent in 2001.

Surprisingly, although growth was stronger in the rural sector (4.4 percent) than in the urban service sector (3.0 percent), the incidence of urban poverty fell by 19.3 percentage points (from 41.4 to 22.1 percent), whereas rural poverty fell by just 9.7 points (from 59.6 to 49.9 percent) (table 2.1). The more-muted response in the rural sector may be attributed to structural problems, especially the lack of access to basic infrastructure services.

The survey results also show that socioeconomic variables have a significant effect on the profile of poverty in Cameroon. The incidence of income poverty is particularly high for farmers and informal workers.

| TABLE 2.1 |
| Decomposition of the Change in Poverty Incidence: Growth and Redistribution Effects, 1996 and 2001 |
| percent |

<table>
<thead>
<tr>
<th>Area</th>
<th>Incidence of poverty</th>
<th>Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1996</td>
<td>2001</td>
</tr>
<tr>
<td>Urban</td>
<td>41.4</td>
<td>22.1</td>
</tr>
<tr>
<td>Rural</td>
<td>59.6</td>
<td>49.9</td>
</tr>
<tr>
<td>Total</td>
<td>53.3</td>
<td>40.2</td>
</tr>
</tbody>
</table>

Source: INS, as reported in ECAM I and ECAM II reports (Republic of Cameroon 1997, 2002).

| TABLE 2.2 |
| Depth of Poverty, 1996 and 2001 |
| percent |

<table>
<thead>
<tr>
<th>Area</th>
<th>1996</th>
<th>2001</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urban</td>
<td>14.7</td>
<td>6.3</td>
<td>–8.2</td>
</tr>
<tr>
<td>Rural</td>
<td>21.5</td>
<td>18.3</td>
<td>–3.2</td>
</tr>
<tr>
<td>Total</td>
<td>19.1</td>
<td>14.1</td>
<td>–5.0</td>
</tr>
</tbody>
</table>

Source: INS, as reported in ECAM I and ECAM II reports (Republic of Cameroon 1997, 2002).
Note: See note 4 at the end of this chapter.
(table 2.3). Naturally, this result is driven by an important underlying factor, namely education. Indeed, among people with no formal education, one household in two is poor. This poverty incidence declines as the household head’s level of education rises: in both 1996 and 2001, the higher the level of education, the greater the chances of earning income and escaping from poverty (table 2.4).

**TABLE 2.3**

Incidence of Poverty by Occupation of Household Head, 2001

<table>
<thead>
<tr>
<th>Occupational status</th>
<th>Incidence of poverty</th>
<th>Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public sector worker</td>
<td>16.7</td>
<td>4.5</td>
</tr>
<tr>
<td>Formal private sector worker</td>
<td>14.1</td>
<td>4.1</td>
</tr>
<tr>
<td>Farmer</td>
<td>56.9</td>
<td>68.6</td>
</tr>
<tr>
<td>Informal worker</td>
<td>31.7</td>
<td>14.3</td>
</tr>
<tr>
<td>Unemployed</td>
<td>25.0</td>
<td>2.9</td>
</tr>
<tr>
<td>Not in workforce</td>
<td>35.5</td>
<td>5.7</td>
</tr>
<tr>
<td>Total</td>
<td>40.2</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: INS, as reported in ECAM I and ECAM II reports (Republic of Cameroon 1997, 2002).

**TABLE 2.4**

Incidence of Poverty by Gender and Education of Household Head, 1996 and 2001

<table>
<thead>
<tr>
<th>Item</th>
<th>1996</th>
<th>2001</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>By gender of household head</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>54.2</td>
<td>40.6</td>
<td>–13.6</td>
</tr>
<tr>
<td>Female</td>
<td>45.8</td>
<td>38.7</td>
<td>–7.1</td>
</tr>
<tr>
<td>Total</td>
<td>53.3</td>
<td>40.2</td>
<td>–13.1</td>
</tr>
<tr>
<td>By level of education of household head</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No diploma</td>
<td>59.6</td>
<td>50.1</td>
<td>–9.5</td>
</tr>
<tr>
<td>Primary</td>
<td>60.4</td>
<td>47.8</td>
<td>–12.6</td>
</tr>
<tr>
<td>Lower-secondary</td>
<td>47.8</td>
<td>31.2</td>
<td>–16.6</td>
</tr>
<tr>
<td>Upper-secondary</td>
<td>33.9</td>
<td>17.6</td>
<td>–16.3</td>
</tr>
<tr>
<td>Tertiary</td>
<td>7.6</td>
<td>7.7</td>
<td>0.1</td>
</tr>
<tr>
<td>Total</td>
<td>53.3</td>
<td>40.2</td>
<td>–13.1</td>
</tr>
</tbody>
</table>

Source: INS, as reported in ECAM I and ECAM II reports (Republic of Cameroon 1997, 2002).
Further data analysis shows that the poverty rate rises with the age of the household head, regardless of place of residence. The poverty rate also rises with household size: poor households have an average of 6.6 members, while the average for nonpoor households is 4.2.

The rate of rural poverty varies across agroecological zones. The incidence is highest in the forest zone and the high plateaus, although both areas witnessed declines in poverty between 1996 and 2001. In contrast, poverty slightly increased in the savanna zone (especially in the North and Extreme-North provinces), where the incidence rose by 1.3 percentage points between 1996 and 2001 (table 2.5).

Income distribution improved only moderately between 1996 and 2001, with the Gini coefficient falling from 0.44 percent to 0.41 percent, about the average level for Sub-Saharan Africa. The income ratio of the wealthiest 20 percent to the poorest 20 percent of the population remained stable, at a relatively high ratio of 8. This modest improvement explains why the distribution effect was far weaker than the growth effect.

However, it is encouraging that Cameroon experienced both higher growth and slightly improved income distribution during the period of sustained reforms. This accomplishment stands out in the region and represents an achievement on which Cameroon can build.

### Weakness of the Social Sectors

Despite improvements in growth and income poverty, the social sector remains weak, impeding more-rapid and more-inclusive growth.

---

**TABLE 2.5**

Incidence of Poverty by Region, 1996 and 2001

<table>
<thead>
<tr>
<th>Region</th>
<th>1996</th>
<th>2001</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urban</td>
<td>41.4</td>
<td>22.1</td>
<td>–19.3</td>
</tr>
<tr>
<td>Douala</td>
<td>37.3</td>
<td>18.5</td>
<td>–18.8</td>
</tr>
<tr>
<td>Yaoundé</td>
<td>49.0</td>
<td>18.3</td>
<td>–30.7</td>
</tr>
<tr>
<td>Other cities</td>
<td>36.3</td>
<td>26.2</td>
<td>–10.1</td>
</tr>
<tr>
<td>Rural</td>
<td>59.6</td>
<td>49.9</td>
<td>–9.7</td>
</tr>
<tr>
<td>Forest</td>
<td>72.5</td>
<td>55.4</td>
<td>–17.1</td>
</tr>
<tr>
<td>High plateau</td>
<td>62.9</td>
<td>50.7</td>
<td>–12.2</td>
</tr>
<tr>
<td>Savanna</td>
<td>44.4</td>
<td>45.7</td>
<td>1.3</td>
</tr>
<tr>
<td>Total</td>
<td>53.3</td>
<td>40.2</td>
<td>–13.1</td>
</tr>
</tbody>
</table>

Source: INS, as reported in ECAM I and ECAM II reports (Republic of Cameroon 1997, 2002).
Indicators of human development deteriorated considerably during the crisis years, because the Government cut current as well as capital budgets for basic health, education, and infrastructure. Improvements in macroeconomic performance during 1996 to 2000 did not translate into comparable improvements in social sector outcomes, because the sector’s budget share continued to decline during the adjustment period.

Nonetheless, since the implementation of the Interim-PRSP in 2000, the social sector has received an increased share of the budget. Growing evidence suggests, however, that the pervasive problems associated with poor execution of the budget—especially the capital budget—and inefficiency in public service delivery have prevented the increased volume of resources allocated to these sectors from yielding the expected results.

**Education**

The decline in budgetary allocations coupled with ineffective management created a variety of problems for the sector. They include a shortage of physical facilities (because of the halt to classroom instruction), an increase in the pupil-to-teacher ratio (because of the teacher hiring freeze), and shortages of teaching materials and other school supplies (Republic of Cameroon 2003a).

**Primary Education**

Basic education outcomes have improved in recent years, but disparities and poor policy choices have undermined more-rapid progress. The rate of primary school enrollment was 91.6 percent in the early 1970s, a rate that compared favorably with that of comparator countries. Enrollment declined sharply during the crisis period, however, recovering only slowly during the postdevaluation period, in line with moderate increases in income and education budget shares (table 2.6).

Enrollment rates rose rapidly during the PRSP period from 2000 to 2003 (table 2.7). This improvement partly reflected the increase in budgetary outlays for basic education, higher revenues, and increased government attention. The major reason behind the improvement, however, was a series of bold policy choices, in particular the Government’s 1999 decision to eliminate primary school fees, which boosted access to primary school from 85.7 percent in 1999 to 105.4 percent in 2002 and raised enrollment by as much as eight points. Higher enrollment has not translated into a comparable improvement in completion, however, a weakness that can be traced to critical policy issues, especially the artificially high repetition rate and the correspondingly high drop-out rate in primary school.
TABLE 2.6
Gross Enrollment Rate, by Level of Education, 1990–2003

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary education</td>
<td>96.3</td>
<td>81.2</td>
<td>81.6</td>
<td>83.4</td>
<td>85.7</td>
<td>87.7</td>
<td>102.8</td>
<td>104.7</td>
<td>105.4</td>
</tr>
<tr>
<td>General secondary education</td>
<td>22.6</td>
<td>22.6</td>
<td>22.0</td>
<td>22.0</td>
<td>21.5</td>
<td>22.9</td>
<td>23.6</td>
<td>23.6</td>
<td>25.5</td>
</tr>
<tr>
<td>Technical secondary education</td>
<td>5.0</td>
<td>5.1</td>
<td>4.9</td>
<td>4.9</td>
<td>5.2</td>
<td>5.9</td>
<td>5.9</td>
<td>5.0</td>
<td>4.9</td>
</tr>
<tr>
<td>Higher education (students per 100,000 inhabitants)</td>
<td>254</td>
<td>287</td>
<td>283</td>
<td>354</td>
<td>423</td>
<td>439</td>
<td>454</td>
<td>504</td>
<td>510</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cameroon</td>
<td>29.2</td>
<td>25.8</td>
<td>56.6</td>
<td>62.4</td>
<td>101.1</td>
<td>116.7</td>
</tr>
<tr>
<td>Côte d’Ivoire</td>
<td>24.3</td>
<td>17.6</td>
<td>43.7</td>
<td>—</td>
<td>67.1</td>
<td>71.8</td>
</tr>
<tr>
<td>Ghana</td>
<td>2.9</td>
<td>5.8</td>
<td>62.6</td>
<td>72.1</td>
<td>75.3</td>
<td>88.4</td>
</tr>
<tr>
<td>Kenya</td>
<td>—</td>
<td>5.8</td>
<td>63.1</td>
<td>95.0</td>
<td>95.0</td>
<td>112.2</td>
</tr>
<tr>
<td>Mauritius</td>
<td>4.6</td>
<td>4.8</td>
<td>135.5</td>
<td>97.5</td>
<td>109.2</td>
<td>102.2</td>
</tr>
<tr>
<td>Nigeria</td>
<td>—</td>
<td>2.9</td>
<td>72.2</td>
<td>80.4</td>
<td>91.4</td>
<td>102.9</td>
</tr>
<tr>
<td>Senegal</td>
<td>—</td>
<td>11.9</td>
<td>—</td>
<td>50.5</td>
<td>58.9</td>
<td>78.4</td>
</tr>
<tr>
<td>Countries in Sub-Saharan Africa</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>6.1</td>
<td>0.3</td>
<td>99.0</td>
<td>—</td>
<td>125.2</td>
<td>112.8</td>
</tr>
<tr>
<td>India</td>
<td>—</td>
<td>3.4</td>
<td>69.5</td>
<td>89.9</td>
<td>97.2</td>
<td>119.3</td>
</tr>
<tr>
<td>Indonesia</td>
<td>9.7</td>
<td>4.6</td>
<td>91.6</td>
<td>101.1</td>
<td>115.2</td>
<td>117.3</td>
</tr>
<tr>
<td>Malaysia</td>
<td>—</td>
<td>—</td>
<td>90.7</td>
<td>91.6</td>
<td>93.7</td>
<td>95.8</td>
</tr>
<tr>
<td>Tunisia</td>
<td>19.8</td>
<td>8.5</td>
<td>75.5</td>
<td>99.5</td>
<td>113.3</td>
<td>109.5</td>
</tr>
</tbody>
</table>

Source: Authors’ compilation based on data from central World Development Indicators (WDI) database.
— = Not available.
Good progress in raising the overall primary enrollment rate masks important disparities across regions as well as between the poor and non-poor. While net primary enrollment rates increased markedly between 1996 and 2001 for the nonpoor (rising from 75 percent to 83 percent) and urban residents (rising from 81 percent to 91 percent), they decreased significantly for the poor (falling from 77 percent to 74 percent) and remained stagnant in rural areas (shifting only slightly, from 74.5 percent to 73.5 percent) (table 2.8). These trends indicate widening rather than narrowing gaps across social groups and regions. This issue deserves increased attention and appropriate adjustment in the Government’s education sector strategy if Cameroon is to meet the MDG challenge of achieving universal primary education by 2015 and strengthening the foundations for more-intensive and inclusive growth.

Secondary Education
The situation in secondary schools is also troubling. Although Cameroon compares favorably with comparator countries in regard to basic education, the performance gap in secondary school enrollment is far less

<table>
<thead>
<tr>
<th>TABLE 2.8</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Primary Enrollment Rates and Total Public and Private Education Expenditures in Urban and Rural Areas, 1996 and 2001</strong></td>
</tr>
<tr>
<td>Item</td>
</tr>
<tr>
<td>---</td>
</tr>
<tr>
<td>Net enrollment rate (percent)</td>
</tr>
<tr>
<td>Poor</td>
</tr>
<tr>
<td>Nonpoor</td>
</tr>
<tr>
<td>Total</td>
</tr>
<tr>
<td>Average education expenditure per student (CFA francs)</td>
</tr>
<tr>
<td>Poor</td>
</tr>
<tr>
<td>Nonpoor</td>
</tr>
<tr>
<td>Total</td>
</tr>
<tr>
<td>Share of education spending in total spending (percent)</td>
</tr>
<tr>
<td>Poor</td>
</tr>
<tr>
<td>Nonpoor</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

*Source: INS, as reported in Republic of Cameroon 2002.*
favorable. In particular, although real government spending per student in Cameroon is no less than in the other comparator countries, enrollment rates are much lower (table 2.9). The difference in outcomes is the result of unfortunate policy choices that translate into a low primary-school completion rate, a low transition rate from primary to secondary school, and a low retention rate within the secondary-school system.

Studies have established the importance of secondary education to human capital accumulation, economic growth, and employment creation (Mingat and Tan 1996; Aghion and Cohen 2004). Enhancing secondary education outcomes is also critical to strengthening the foundations for rapid economic growth and employment creation, which can accelerate the pace of poverty reduction. Improved budget allocation to the education sector will not be sufficient to improve education sector outcomes. A few bold and judicious policy choices are needed (see chapter 6).

TABLE 2.9
Gross Secondary-School Enrollment Rate and Total Public Spending on Education in Selected Countries, 1970–2000

<table>
<thead>
<tr>
<th>Country</th>
<th>Gross secondary-school enrollment (percentage)</th>
<th>Total public spending on education (percentage of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Countries in Sub-Saharan Africa</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cameroon</td>
<td>8.1 18.3 28.0 25.0</td>
<td>3.3 3.2 3.2 3.2</td>
</tr>
<tr>
<td>Côte d’Ivoire</td>
<td>9.1 18.6 22.0 —</td>
<td>5.2 6.9 — 4.6</td>
</tr>
<tr>
<td>Ghana</td>
<td>14.1 40.7 36.4 35.6</td>
<td>4.2 3.1 3.2 —</td>
</tr>
<tr>
<td>Kenya</td>
<td>9.1 19.6 24.1 30.6</td>
<td>4.8 6.5 6.7 6.3</td>
</tr>
<tr>
<td>Mauritius</td>
<td>30.7 50.0 52.9 76.5</td>
<td>— 5.5 3.8 3.7</td>
</tr>
<tr>
<td>Nigeria</td>
<td>5.2 18.0 24.9 —</td>
<td>— — 0.9 —</td>
</tr>
<tr>
<td>Senegal</td>
<td>9.3 11.3 16.2 17.3</td>
<td>3.7 — 3.9 3.2</td>
</tr>
<tr>
<td><strong>Other countries</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>24.3 45.9 48.7 68.2</td>
<td>1.3 2.5 2.3 —</td>
</tr>
<tr>
<td>India</td>
<td>24.2 29.9 44.4 48.5</td>
<td>2.5 2.8 3.7 4.1</td>
</tr>
<tr>
<td>Indonesia</td>
<td>16.1 29.0 44.0 56.8</td>
<td>2.6 1.6 1.0 1.5</td>
</tr>
<tr>
<td>Malaysia</td>
<td>34.2 47.7 56.3 69.3</td>
<td>4.0 5.7 5.1 6.2</td>
</tr>
<tr>
<td>Tunisia</td>
<td>22.7 27.0 44.9 77.6</td>
<td>6.8 5.2 6.0 6.8</td>
</tr>
</tbody>
</table>

Source: Authors’ compilation based on data from central WDI database.
— = Not available.
Health

Like education, health is an important element not only for the quality of life but also for the productivity of the country’s human resources. The continued decline in performance is the result of inadequate public attention to the health sector during the first phase of the postdevaluation reforms and problems associated with both the targeting and the efficiency in delivery of health services thereafter. The adoption and gradual implementation of a health strategy in 2001 has started to yield some improvements (table 2.10).

**Key Health Sector Performance Indicators**

Health indicators deteriorated during the 1980s and the 1990s, with Cameroon underperforming countries with equivalent growth and per capita income. During this time, the rates of infant mortality and chronic malnutrition rose sharply, while the rate of professionally assisted childbirth declined. There has also been a resurgence of diseases that were once on the verge of disappearance, such as tuberculosis, which is often found in combination with the rising incidence of HIV/AIDS.

**Child Mortality.** Mortality rates among infants and children in Cameroon increased substantially during the 1990s while declining in Sub-Saharan Africa as a whole (table 2.10). Over the 1991–98 period, the mortality rate

### TABLE 2.10

**Selected Public Health Indicators, 1991–2004**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Under-5 mortality rate (per 1,000 live births)</td>
<td>144</td>
<td>155</td>
<td>144</td>
<td>11</td>
<td>−11</td>
</tr>
<tr>
<td>Chronic malnutrition rate (percent)</td>
<td>23</td>
<td>29</td>
<td>30</td>
<td>−6</td>
<td>−1</td>
</tr>
<tr>
<td>Underweight (percent)</td>
<td>16</td>
<td>22</td>
<td>19</td>
<td>−6</td>
<td>—</td>
</tr>
<tr>
<td>Maternal mortality rate (per 100,000 live births)</td>
<td>430</td>
<td>454</td>
<td>669</td>
<td>−24</td>
<td>−239</td>
</tr>
<tr>
<td>Assisted childbirth rate (percent)</td>
<td>63.8</td>
<td>58.2</td>
<td>61.8</td>
<td>−5.6</td>
<td>3.6</td>
</tr>
<tr>
<td>DPT3 vaccination rate (percent) (age group 12-23 months)</td>
<td>48.0</td>
<td>50.5</td>
<td>62.7</td>
<td>14.0</td>
<td>0.2</td>
</tr>
<tr>
<td>HIV/AIDS prevalence (percent)</td>
<td>2.0</td>
<td>7.2</td>
<td>5.5</td>
<td>−5.2</td>
<td>1.7</td>
</tr>
</tbody>
</table>

for children under five rose from 144 to 151. The 2004 Demographic and Health Survey (DHS) indicates some improvement, with the under-five mortality rate standing at 144.

**Immunization.** Between 1980 and 1990, coverage increased steeply partly due to campaigns in the second half of the 1980s to reach the universal child immunization (UCI) goal. However, the period between 1991 and 1998 saw a marked decline in immunization coverage due to a shortage of vaccines and a rupture in the cold chain as well as the economic crisis. Consequently, the percentage of fully vaccinated children dropped from 41 to 36 percent. This decline largely reflected the drop in immunization coverage among the poorest 20 percent of households. Coverage levels started to increase in the second half of the 1990s; this can be attributed to a stabilizing economy and a decentralization of the health system. In 2001, the Government launched a broad immunization program. The 2004 DHS indicates that the program resulted in a marked increased in the immunization rate; for example, DPT3 coverage rose beyond 60 percent in 2004 (figure 2.1). Disparities in coverage also seem to have narrowed during this period (figure 2.3). While in 1998, coverage rates for children in the highest wealth quintile were 2.2 times higher than in the lowest; by 2004 this differential had narrowed to 1.5.

**FIGURE 2.1**
Child Immunization Rates in Cameroon, 1991–2004

Note: Figures are for children 12–23 months.
**Malnutrition.** Malnutrition is one of the major risk factors for sickness and death among children under five. The 1991–98 period witnessed an increase in chronic child malnutrition in Cameroon, and the 2004 DHS indicates that the situation did not improve between 1998 and 2004. This trend is confirmed by the negative trends in the three main indicators of malnutrition, namely, stunting (size-for-age, a measure of inadequate food intake over time), wasting (weight-for-size, a measure of malnutrition because of short-term food deprivation or infection), and underweight (weight-for-age, a composite indicator of stunting and wasting) (figure 2.2).

**Maternal Health.** Maternal mortality is relatively high in Cameroon, estimated at 669 per 100,000 live births in the 2004 DHS. While overall use of maternal health services is relatively high, large disparities are apparent across groups and regions (figure 2.3). Wide and growing disparities between rich and poor reflect lack of affordability, inequitable access to health facilities, and cultural preferences. Use of prenatal care and assisted deliveries stagnated between 1991 and 1998. The 2004 DHS suggests modest improvements in coverage of both measures. Prenatal coverage rose from about 78.8 percent in 1998 to

---

**FIGURE 2.2**

Incidence of Stunting, Wasting, and Underweight in Cameroon, 1991–2004

![Figure 2.2 Incidence of Stunting, Wasting, and Underweight in Cameroon, 1991–2004](image)

83.4 percent in 2004, with important increases in the relatively disadvantaged regions of Adamaoua, the Far North, and the North. The incidence of assisted deliveries rose from 54.0 percent in 1998 to 61.8 percent in 2004.

**Communicable Diseases.** The HIV/AIDS epidemic, combined with the resurgence of tuberculosis and malaria, runs the risk of exacerbating weak health outcomes. Malaria remains the main cause of sickness in Cameroon, accounting for up to 50 percent of outpatient consultations, 23 percent of hospitalizations, and 40 percent of household health spending. The HIV/AIDS prevalence rate was estimated at about 5.5 percent in the 2004 DHS. The disease disproportionately affects people in their prime years (15–34), with a particularly devastating impact on women and the skilled workers.\(^{10}\) It thus constrains human capital development and hence economic growth.

One encouraging trend is the rise in the use of modern contraceptives since 1998. Although the rate of use remains low, use nearly doubled in four years (from 7 percent in 1998 to 13 percent in 2004), with condoms the preferred method. The boost in condom use appears to be related mainly to preventing transmission of HIV/AIDS (rather than preventing pregnancy), suggesting that awareness campaigns about the risks of infection are beginning to have an impact on attitudes and behaviors.
Key Health Sector Development Policy Issues
Public health spending fell far short of needs during the 1980s and 1990s. Indicators of the availability of health services suggest that much remains to be done in terms of training and recruiting medical and paramedical personnel and constructing and equipping health centers.

Inadequate Access and Quality, Especially in Disadvantaged Regions. The economic crisis led to serious disinvestments in health. As a result, physical access is insufficient (only 54 percent of the population live within five kilometers of a health center) and highly variable across provinces (table 2.11). Given the hilly terrain in many parts of Cameroon, only 24 percent of health centers are within one hour’s walking distance, and another 15 percent are within two hours’ walking distance. The vast majority—61 percent—are at least three hours away by foot.

Inadequate human resources, low productivity, and skewed distribution in assignment of personnel have left many provinces—especially Adamaoua, the North, and the Far-North—lagging others, particularly in terms of availability of nurses, who are critical in providing child and maternal health care. Similar patterns of shortages are endemic for drugs and basic medical equipment. Drug availability in public facilities is highly uneven across provinces, with differences greater among district hospitals

<table>
<thead>
<tr>
<th>Province</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Littoral</td>
<td>78</td>
</tr>
<tr>
<td>West</td>
<td>75</td>
</tr>
<tr>
<td>South-West</td>
<td>65</td>
</tr>
<tr>
<td>North</td>
<td>51</td>
</tr>
<tr>
<td>Far-North</td>
<td>50</td>
</tr>
<tr>
<td>North-West</td>
<td>50</td>
</tr>
<tr>
<td>Centre</td>
<td>45</td>
</tr>
<tr>
<td>South</td>
<td>45</td>
</tr>
<tr>
<td>Adamaoua</td>
<td>44</td>
</tr>
<tr>
<td>East</td>
<td>40</td>
</tr>
</tbody>
</table>

Source: Authors’ compilation based on Ministry of Health data.
than provincial hospitals. By contrast, private health facilities, which tend to be concentrated in relatively well-off urban areas, tend to have less-frequent drug shortages.

**Low Public Health Care Spending and High Out-of-Pocket Costs.** The economic crisis of the mid-1980s and 1990s resulted in a drastic decline in per capita income and public government expenditure on health, which plunged the health sector into a severe crisis. Public spending as a percentage of the total government budget dropped to 4 percent by the end of the 1990s—far below the norm of 10 percent recommended by the World Health Organization (WHO).

Between 1990 and 1998, health spending in Cameroon reached 5 percent of GDP, only 1 percent of which was public spending. This placed Cameroon close to the average for Sub-Saharan African countries with similar per capita levels of gross national income (GNI) in terms of overall per capita spending on health care, albeit at the lower end in terms of public spending.

The low level of public spending means that a large share of health spending falls on individuals. Because out-of-pocket payments tend to be regressive, this means that the poor are disproportionately taxed by high health care cost. Moreover, public spending on health care is heavily skewed in favor of major urban areas. The Government is aware of these inequities and has begun to address them in a resolute manner (see chapter 6).

**Deterioration of Basic Infrastructure Services**

Basic infrastructure services—drinking water, roads, and electricity—deteriorated markedly during the crisis years. Persisting structural problems and inadequate attention during the recovery period from 1996 to 2000 have meant that the increased budget allocation in the sector during the past few years has not translated into parallel improvements in services (table 2.12).

In some subsectors—water, electricity, and telecom—structural reforms have yet to be completed. The privatization of the national water company, SNEC, and the national telecom company, Cameroon Telecommunications (CAMTEL), have not been completed, and the privatization of the national electricity company, AES SONEL, has failed to increase capacity as rapidly as expected. Inadequate supplies of water and particularly electricity have seriously hindered economic diversification and undermined sustained growth. Rural road networks have seen some
improvements over the past few years, but they too fall far short of what is needed to effectively connect the rural population to the wider economy and society.

The Agenda of the First PRSP

The PRSP sets out an ambitious medium-term agenda for keeping Cameroon on track toward the MDGs. One set of policies is geared toward accelerating economic diversification and raising the average growth rate from 5 percent to 7 percent in the next few years, with the goal of cutting poverty in half by 2015. Raising the average growth rate to 7 percent—that is, nearly doubling the long-term rate of the past four decades—constitutes a major challenge. Analysis and recent trends suggest that doing so will require quality growth, driven by competitiveness and productivity within

### TABLE 2.12
Access to Drinking Water, Electricity, and Other Basic Infrastructure Services, 1996 and 2001

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Drinking water (percent)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poor</td>
<td>56.6</td>
<td>22.4</td>
<td>71.5</td>
<td>28.2</td>
</tr>
<tr>
<td>Nonpoor</td>
<td>81.0</td>
<td>28.4</td>
<td>88.3</td>
<td>33.4</td>
</tr>
<tr>
<td>Total</td>
<td>73.6</td>
<td>25.5</td>
<td>86.2</td>
<td>31.3</td>
</tr>
<tr>
<td>Electricity (percent)</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poor</td>
<td>61.4</td>
<td>9.6</td>
<td>68.2</td>
<td>14.9</td>
</tr>
<tr>
<td>Nonpoor</td>
<td>82.9</td>
<td>13.6</td>
<td>91.0</td>
<td>29.0</td>
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<tr>
<td>Total</td>
<td>76.3</td>
<td>11.7</td>
<td>88.2</td>
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<tr>
<td>Time to nearest paved road (minutes)</td>
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<td></td>
</tr>
<tr>
<td>Poor</td>
<td>—</td>
<td>—</td>
<td>8.4</td>
<td>75.1</td>
</tr>
<tr>
<td>Nonpoor</td>
<td>—</td>
<td>—</td>
<td>6.0</td>
<td>62.0</td>
</tr>
<tr>
<td>Total</td>
<td>—</td>
<td>—</td>
<td>6.3</td>
<td>67.1</td>
</tr>
<tr>
<td>Fixed telephone (percent)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poor</td>
<td>—</td>
<td>—</td>
<td>6.2</td>
<td>0.4</td>
</tr>
<tr>
<td>Nonpoor</td>
<td>—</td>
<td>—</td>
<td>51.6</td>
<td>2.5</td>
</tr>
<tr>
<td>Total</td>
<td>—</td>
<td>—</td>
<td>46.0</td>
<td>1.6</td>
</tr>
</tbody>
</table>

Source: Authors’ compilation based on data from Cameroon authorities, as cited in Republic of Cameroon 1997 and 2002.
— = Not available.
a more-responsive business environment, rather than the resource-intensive growth of the 1970s and early 1980s.

Another set of goals and policies is designed to strengthen the social sector and to ensure that growth is inclusive and translates into job creation and real improvements in living standards. The corresponding PRSP targets and MDGs—achieving universal primary education by 2011, reducing infant and maternal mortality rates by two-thirds from their current level, containing or reversing the spread of HIV/AIDS, and improving access to safe water and basic infrastructure services by 2015—remain challenging.

Preliminary costing exercises conducted by government staff indicate that the budgetary cost of staying on the MDG path is unsustainable given current policy choices and related public sector inefficiencies. Therefore, achieving the PRSP social objectives will require not only sustained growth rates but also far more-effective public policies, including much sharper targeting of expenditure and improved delivery of public services.

A sustainable course of action will require considerable improvement in competitiveness and the efficiency of resources rather than the extensive use of resources. As the PRSP acknowledges, Cameroon enjoys important strategic assets, including a stable political environment, much improved macroeconomic conditions, a diversified natural resource base, and an enviable position as a development pole next to Nigeria in the heart of the oil-rich CEMAC countries. However, unless decisively confronted and swiftly corrected, insufficient competitiveness and inefficient public spending will continue to hamper efforts to achieve Cameroon’s tremendous potential and to bolster growth for sustainable poverty reduction and social development.

Notes
2. The poverty assessment study was conducted on the basis of comparability-adjusted data from ECAM I (1996) and ECAM II (2001). The main difficulty was constructing comparable aggregates between the two years, given the differences in the questionnaires, the survey methodologies, and the sampling schemes. Several correction factors were considered. Twelve welfare measurement indicators were calculated based on these factors. A sensitivity analysis of
dynamic comparisons (national, urban, rural) and interregional comparisons (urban versus rural) was performed for these 12 indicators. The results show that regardless of the level of the welfare indicator used, poverty declined between 1996 and 2001.

3. The incidence of poverty (headcount index) is the share of the population whose income or consumption is below the poverty line—that is, the share of the population that cannot afford to buy a basket of basic goods.

4. The depth of poverty (poverty gap) provides information about how far households are from the poverty line. This measure captures the mean aggregate income of consumption shortfall relative to the poverty line across the whole population. The poverty gap can be used as a measure of the minimum amount of resources necessary to eradicate poverty—that is, the amount one would have to transfer to the poor under perfect targeting to pull all of them out of poverty.

5. In 1996, it required an average annual supplementary transfer of CFAF 35,426 to lift an individual out of poverty, much more than the CFAF 26,154 required in 2001.


7. It is important to note, however, that 3 out of 4 households are headed by men and that nearly 8 out of 10 poor people live in households headed by men.

8. A child is fully vaccinated whenever he receives injections for tuberculosis (BCG), measles, and 3 shots for (DPT3) and polio (POL3) before 12 months.

9. In 1998, roughly 60 percent of women from the poorest 20 percent of the population and 100 percent of women from the richest 20 percent received antenatal care from a trained person. These inequalities are also reflected in assisted deliveries at birth: 29 percent of women from the poorest quintile and 90 percent of women from the richest quintile were attended by a medically trained person.

10. The incidence of HIV is substantially higher among females (6.8 percent) than males (4.1 percent), with the largest disparities occurring between the ages of 20 and 29, highlighting the extreme vulnerability of younger women.

11. Sharp differences in per capita health expenditures exist across income groups, with the poorest 10 percent of the population spending only US$5.40 in 2001 and the richest 10 percent spending about US$90.40 (1996 prices).

12. At the time this report was written, the water company had been privatized but the privatization of the telecom company remained stalled.
Cameroon’s Poverty Reduction Strategy comprises two pillars. The first is a dynamic private sector with the potential to drive economic growth and distribute the fruits of growth equitably. The second is a consolidated and cohesive social sector with the capacity to support growth and empower citizens, especially the poor, to participate in the growth process. These pillars complement one another, ensuring that growth is accelerated and translated into meaningful improvements in the standard of living of the vast majority of Cameroon’s people. Improving the investment climate and the overall competitiveness of the economy are high priorities because such improvement is critical for unleashing the potential of Cameroon’s private sector.
An Investment Climate Assessment of Cameroon conducted by the World Bank in 2006, in collaboration with the Groupement Interpatronal du Cameroun (GICAM), revealed severe impediments to private sector development (boxes II.1 and II.2). According to the private entrepreneurs surveyed by this perception-based study, the most important obstacles included corruption, poor infrastructure services, the weak regulatory framework, the weak judiciary system, an unfavorable tax system, and poor financial services.

To improve the business environment, several requirements must be met:

- Growth-enhancing macroeconomic policies must be adopted and public finance management must be strengthened.

### Box II.1
#### 2006 Investment Climate Assessment

According to the 2006 Investment Climate Assessment, Cameroon’s investment climate is not favorable to the private sector. The most important factors include the following:

- **Corruption.** Corruption represents a serious concern for more than half of the entrepreneurs in the formal sector and 40 percent of the entrepreneurs in the informal sector.
- **Infrastructure.** Two-thirds of manufacturers identify energy-related problems as severe. The estimated opportunity cost of energy shortages amounted to about 5 percent of turnover in 2005. One-third of manufacturers report inadequate transport infrastructure as a severe constraint.
- **Regulatory constraints.** Among entrepreneurs surveyed, 60–85 percent complain that taxes are too high and are assessed on too narrow a tax base; 77–92 percent do not trust the judiciary system, believing that the application of regulations and laws are random. Respondents report spending 12–15 percent of their time dealing with administrative issues.
- **Dysfunctional factor market.** Entrepreneurs complain about the rigid legislation governing the formal labor market (particularly regarding laying off workers), a weak information system, and a narrow formal financial sector characterized by low access and high credit cost.

• Competitive trade and financial policies must be adopted.
• Cost-effective infrastructure services must be provided.
• More effective governance—an administration that can get things done—is needed to create and promote a business-friendly legal and regulatory environment for the private sector and ensure adequate delivery of social services.

Chapter 3 reviews macroeconomic and public finance management policies. Chapter 4 looks at trade and financial policies within the regional framework. Chapter 5 assesses infrastructure policies related to energy, transport, water, and telecommunications, including a review of the privatization process and regulatory framework.

Box II.2
2006 Investment Climate Profile

Top 10 constraints perceived by entrepreneurs

(continued)
### Bureaucracy

Senior management time spent in dealing with requirements of government regulation (percent)  

<table>
<thead>
<tr>
<th>Region</th>
<th>Income</th>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
<th>Exporter</th>
<th>Non-exporter</th>
<th>Domestic</th>
<th>Foreign</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cameroon</td>
<td>12.80</td>
<td>5.66</td>
<td>6.35</td>
<td>13.57</td>
<td>14.30</td>
<td>9.02</td>
<td>11.07</td>
<td>13.18</td>
</tr>
</tbody>
</table>

Consistency/predictability of officials interpretations of regulations affecting the firm  

<table>
<thead>
<tr>
<th>Region</th>
<th>Income</th>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
<th>Exporter</th>
<th>Non-exporter</th>
<th>Domestic</th>
<th>Foreign</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cameroon</td>
<td>17.06</td>
<td>52.20</td>
<td>57.50</td>
<td>16.87</td>
<td>13.73</td>
<td>22.22</td>
<td>15.00</td>
<td>17.83</td>
</tr>
</tbody>
</table>

### Corruption

Unofficial payments for typical firm to get things done (percent of sales)  

<table>
<thead>
<tr>
<th>Region</th>
<th>Income</th>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
<th>Exporter</th>
<th>Non-exporter</th>
<th>Domestic</th>
<th>Foreign</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cameroon</td>
<td>2.58</td>
<td>2.23</td>
<td>0.86</td>
<td>2.91</td>
<td>3.08</td>
<td>1.26</td>
<td>1.96</td>
<td>2.81</td>
</tr>
</tbody>
</table>

Firms expected to give gifts in meetings with tax inspectors (percent)  

<table>
<thead>
<tr>
<th>Region</th>
<th>Income</th>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
<th>Exporter</th>
<th>Non-exporter</th>
<th>Domestic</th>
<th>Foreign</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cameroon</td>
<td>64.66</td>
<td>18.25</td>
<td>11.84</td>
<td>65.71</td>
<td>75.00</td>
<td>48.48</td>
<td>52.78</td>
<td>70.00</td>
</tr>
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</table>

Value of gift expected to secure government contract (percent of contract)  

<table>
<thead>
<tr>
<th>Region</th>
<th>Income</th>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
<th>Exporter</th>
<th>Non-exporter</th>
<th>Domestic</th>
<th>Foreign</th>
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<tbody>
<tr>
<td>Cameroon</td>
<td>7.28</td>
<td>3.13</td>
<td>0.96</td>
<td>8.39</td>
<td>6.00</td>
<td>5.88</td>
<td>3.63</td>
<td>8.58</td>
</tr>
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</table>

### Courts

Confidence level in the judiciary system (percent)  

<table>
<thead>
<tr>
<th>Region</th>
<th>Income</th>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
<th>Exporter</th>
<th>Non-exporter</th>
<th>Domestic</th>
<th>Foreign</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cameroon</td>
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<td>63.06</td>
<td>66.93</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

### Crime

Security costs (percent of sales)  

<table>
<thead>
<tr>
<th>Region</th>
<th>Income</th>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
<th>Exporter</th>
<th>Non-exporter</th>
<th>Domestic</th>
<th>Foreign</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cameroon</td>
<td>0.98</td>
<td>1.27</td>
<td>1.02</td>
<td>1.24</td>
<td>1.23</td>
<td>0.42</td>
<td>0.62</td>
<td>1.15</td>
</tr>
</tbody>
</table>

Losses due to theft, robbery, vandalism, and arson against the firm (percent of sales)  

<table>
<thead>
<tr>
<th>Region</th>
<th>Income</th>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
<th>Exporter</th>
<th>Non-exporter</th>
<th>Domestic</th>
<th>Foreign</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cameroon</td>
<td>3.00</td>
<td>0.67</td>
<td>0.76</td>
<td>2.06</td>
<td>4.97</td>
<td>1.06</td>
<td>2.87</td>
<td>3.06</td>
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</table>

### Informality

Sales amount reported by a typical firm for tax purposes (percent)  

<table>
<thead>
<tr>
<th>Region</th>
<th>Income</th>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
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<th>Non-exporter</th>
<th>Domestic</th>
<th>Foreign</th>
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</thead>
<tbody>
<tr>
<td>Cameroon</td>
<td>88.94</td>
<td>62.94</td>
<td>72.26</td>
<td>82.43</td>
<td>92.56</td>
<td>99.32</td>
<td>96.67</td>
<td>86.90</td>
</tr>
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### Finance

Internal finance for investment (percent)  

<table>
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<tr>
<th>Region</th>
<th>Income</th>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
<th>Exporter</th>
<th>Non-exporter</th>
<th>Domestic</th>
<th>Foreign</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cameroon</td>
<td>67.88</td>
<td>77.36</td>
<td>74.31</td>
<td>72.34</td>
<td>61.18</td>
<td>67.75</td>
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<td>70.29</td>
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Bank finance for investment (percent)  

<table>
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<th>Income</th>
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<th>Medium</th>
<th>Large</th>
<th>Exporter</th>
<th>Non-exporter</th>
<th>Domestic</th>
<th>Foreign</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cameroon</td>
<td>12.39</td>
<td>11.58</td>
<td>13.82</td>
<td>6.47</td>
<td>12.37</td>
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</table>

Informal finance for investment (percent)  

<table>
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<th>Medium</th>
<th>Large</th>
<th>Exporter</th>
<th>Non-exporter</th>
<th>Domestic</th>
<th>Foreign</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cameroon</td>
<td>6.35</td>
<td>3.61</td>
<td>2.29</td>
<td>7.98</td>
<td>9.21</td>
<td>0.00</td>
<td>1.43</td>
<td>8.38</td>
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(continued)
Creating a Competitive Environment for Deepening Growth

<table>
<thead>
<tr>
<th></th>
<th>Macro dimension</th>
<th>Micro dimension</th>
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<td></td>
<td>Cameroon Region</td>
<td>Income Small</td>
</tr>
<tr>
<td>(percent)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Value of collateral needed</td>
<td>130.98 152.27 158.80</td>
<td>148.89 127.18 127.33</td>
</tr>
<tr>
<td>for a loan (percent of the</td>
<td></td>
<td></td>
</tr>
<tr>
<td>loan amount)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans requiring collateral</td>
<td>90.16 84.00 79.36</td>
<td>81.82 96.55 85.71</td>
</tr>
<tr>
<td>(percent)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual financial statement</td>
<td>94.74 53.63 68.34</td>
<td>90.36 98.08 100.00</td>
</tr>
<tr>
<td>reviewed by external</td>
<td></td>
<td></td>
</tr>
<tr>
<td>auditor (percent)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Infrastructure</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Delay in obtaining an</td>
<td>58.00 28.75 20.04</td>
<td>— 78.14 — — 59.18 62.64 —</td>
</tr>
<tr>
<td>electrical connection</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(days)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of electrical</td>
<td>12.94 12.93 4.90</td>
<td>15.09 12.12 11.61</td>
</tr>
<tr>
<td>outages (days)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Value lost due to electrical</td>
<td>4.09 7.61 3.06</td>
<td>4.20 3.96 4.15</td>
</tr>
<tr>
<td>outages (percent of sales)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Delay in obtaining a</td>
<td>73.11 32.91 27.19</td>
<td>— 75.56 51.00 68.44</td>
</tr>
<tr>
<td>mainline telephone</td>
<td></td>
<td></td>
</tr>
<tr>
<td>connection (days)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cargo lost in transit</td>
<td>n.a. 1.37 1.29</td>
<td>n.a. n.a. n.a.</td>
</tr>
<tr>
<td>(percent of value)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Firms using the Web in</td>
<td>13.95 18.24 25.03</td>
<td>4.76 19.23 27.78</td>
</tr>
<tr>
<td>interaction with clients/</td>
<td></td>
<td></td>
</tr>
<tr>
<td>suppliers (percent)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Innovation</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ISO certification</td>
<td>16.37 13.72 16.94</td>
<td>9.64 17.31 30.56</td>
</tr>
<tr>
<td>ownership (percent)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>New production technology</td>
<td>35.29 45.97 38.40</td>
<td>31.71 34.62 44.44</td>
</tr>
<tr>
<td>(percent)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Jobs</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Firms offering format</td>
<td>35.50 32.62 29.61</td>
<td>22.22 46.15 50.00</td>
</tr>
<tr>
<td>training (percent)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Permanent skilled</td>
<td>8.06 17.95 14.39</td>
<td>9.36 6.58 8.76</td>
</tr>
<tr>
<td>workers receiving</td>
<td></td>
<td></td>
</tr>
<tr>
<td>training (percent)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Tax administration</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average time firms spent</td>
<td>4.89 3.05 1.89</td>
<td>4.80 5.00 4.92</td>
</tr>
<tr>
<td>in meetings with tax</td>
<td></td>
<td></td>
</tr>
<tr>
<td>officials (days)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(continued)
(continued)

<table>
<thead>
<tr>
<th>Trade</th>
<th>Macro dimension</th>
<th>Micro dimension</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average time to clear direct exports through customs (days)</td>
<td>4.42 4.33 4.00</td>
<td>— 4.44 4.73 4.17 5.29 5.31 3.78</td>
</tr>
<tr>
<td>Longest time to clear direct exports through customs (days)</td>
<td>8.58 13.41 6.85</td>
<td>— 8.11 9.50 7.38 12.71 10.54 7.17</td>
</tr>
<tr>
<td>Average time to claim imports from customs (days)</td>
<td>8.42 10.70 7.21</td>
<td>9.67 8.13 8.26 9.52 7.37 9.37 7.45</td>
</tr>
<tr>
<td>Longest time to claim imports from customs (days)</td>
<td>21.98 16.31 14.12</td>
<td>19.11 24.20 20.97 20.83 23.03 27.18 15.90</td>
</tr>
<tr>
<td>Firms that export directly (percent)</td>
<td>28.92 11.33 18.38</td>
<td>8.54 26.92 77.78 100.00 6.92 14.84 73.17</td>
</tr>
</tbody>
</table>

Source: Enterprise Surveys.

Note: Statistics with fewer than five firms are displayed with a “—” to maintain confidentiality and should be distinguished from “n.a.” which represents missing values. More data are available at http://www.enterprisesurveys.org/.
Macroeconomic policies have had a significant effect on growth and volatility in Cameroon, as discussed in chapter 1. The unsustainable policies of the 1970s led to high inflation and real exchange rate appreciation, with debilitating consequences for competitiveness and growth in agriculture and industry. These adverse developments may have delayed for decades Cameroon’s chance for rapid economic transformation and accelerated growth. Also, inadequate expenditure adjustment during the 1980s led to large deficits and massive indebtedness, contracting savings and crippling investment and growth.

By contrast, the improved macroeconomic and fiscal policies of the past decade moderated inflation, reduced the deficit, increased savings, and contributed to sustained growth (see table 1.3), helping improve the country’s risk rating (figure 3.1) and the investment climate. The challenge now is to continue improving the business environment to create more-favorable conditions for attracting foreign investment and accelerating transformation and growth.

The major risks to macroeconomic stability in Cameroon remain the fiscal situation; the conditions of key public enterprises; and the implications for public debt, contingent liabilities, and foreign and private investment. The importance of fiscal discipline is well illustrated in the HIPC completion point episode when important fiscal slippages delay attainment of the completion point for more than a year (box 3.1). There is a fear that increased spending related to the first years of the PRSP implementation and inadequate revenue mobilization will create larger, unsustainable fiscal deficits. With restricted access to central bank financing as the new rule of the Central Bank of the Central African States (BEAC) progressively takes effect and restricted recourse to nonconcessional external borrowing as part of HIPC debt sustainability conditions, there is a real risk that a larger
Box 3.1
The Costs of Untimely Relaxation of Structural Reform: How Cameroon Missed the HIPC Completion Point

How Cameroon missed the HIPC completion point in 2004 underscores the importance of sustaining reform consistently. During the presidential campaign of 2004, economic management deteriorated considerably. The Government not only slowed the pace of key structural reforms (including restructuring of public enterprises), but also relaxed fiscal and budgetary policies and management.

As a result, although growth and inflation performance remained good, important slippages occurred in fiscal and budgetary performance, including lower-than-targeted nonoil fiscal revenue and higher-than-programmed spending on distressed public enterprises. Not surprisingly, the overall fiscal balance—excluding grants—deteriorated, to –0.2 percent of GDP in 2004, as fiscal performance weakened. Nonoil revenue fell to 11 percent of GDP in 2004.

The decline in government revenues reflected weak performance of value added tax (VAT) and excises taxes and larger-than-expected revenue losses from the new personal income tax reform implemented in January 2004. Domestically financed public investment declined by 0.3 percent of GDP in 2003, while noninterest current expenditures rose by 1 percent. Meanwhile, the weakening of expenditure control led to an increase in off-budget spending and arrears and

(continued)
a deterioration of the Treasury situation which led to a drawing down of cash resources as well as an accumulation of domestic and external arrears. Available cash resources dropped sharply, well below the program targets, with the Government meeting only about 30 percent of its nonbank domestic debt obligations and transfers from the Treasury to the HIPC account.a

In addition, the slow pace of implementation of structural reforms led to a deterioration in the financial situation of the largest public enterprises, which increased actual and contingent fiscal liabilities. The deterioration reflected weak management as well as growing payment arrears of the Government. Cameroon Airlines (CAMAIR), the national airline, was kept afloat with sizable budget support but appeared to be bankrupt. Government arrears to the fixed-line telephone company, CAMTEL, undermined its ability to operate effectively in a highly competitive market. The local refinery, SONARA, incurred substantial losses in 2004, caused in part by the decision to first slow and then suspend the mechanism for adjusting domestic fuel prices to changes in international oil prices. The postal savings bank continued to face a liquidity crisis and required significant cash injections from the Government to meet strong demand for cash withdrawals.

These developments led the IMF to declare the PRGF program off track, delaying the HIPC completion point by two years. The more than five-year lapse between decision point and completion point and the continued delay in attainment of the completion point came at a considerable opportunity cost to Cameroon. Critical resources from the French Debt Reduction-Development Contract (C2D–Contrat de désendettement-développement) were lost, and the delay in full debt relief at completion point seriously constrained the Government’s ability to boost spending as required to meet the PRSP and MDG targets.

Source: Authors.

a. The BEAC account fell well short of the debt relief the Government received.

deficit will lead to increased borrowing from the domestic financial market. This problem could raise the cost of funds, potentially crowding out private investment and dampening growth. Therefore, effective revenue mobilization and efficient expenditure management are indispensable to maintain growth-supportive macroeconomic policies. This chapter reviews important trends and policies in these areas.

Maintaining Macroeconomic Stability within an Enhanced Regional Framework

There is growing realization among policymakers in the region that greater coordination of macroeconomic policies and the linkages generated by key
intraregional projects such as the Chad–Cameroon pipeline and the fiber optic submarine cable, which provides connectivity to Europe and Asia, are beneficial to all countries in the subregion. For landlocked countries in particular, such as the Central African Republic and Chad, the benefits of regional integration are particularly great, because the transactions costs of doing business can be reduced only through regional cooperation.

The momentum toward regional integration accelerated greatly in the 1990s, especially with the ratification of the CEMAC Treaty in 1999 and the consequent strengthening of the monetary and customs union. Since 1999 and 2000, an effective system of macroeconomic convergence and multilateral surveillance and the creation of a rich institutional architecture have provided a framework for deepening regional integration. An Executive Secretariat has been established in Bangui to monitor implementation of the regional arrangements, and a judiciary court has been set up in N’Djamena to deal with related legal issues.

BEAC, the regional central bank, has pursued a tight monetary policy, enhancing macroeconomic stability. The cooperation agreements linking France to the two CFA monetary unions have remained unchanged since the advent of the euro. Convertibility of the CFA franc is still guaranteed through an overdraft facility with the French Treasury, and free capital mobility is guaranteed throughout the zone. But payments outside the zone (beyond set thresholds) still require central bank authorization, and the union still has to gradually phase out statutory central bank financing of government deficits.

Regional integration has also contributed to deepening macroeconomic and fiscal reforms in CEMAC countries by providing lock-ins and joint commitment mechanisms that led to sustained reform and effective macroeconomic policy coordination. One such mechanism is the Macroeconomic Convergence and Stability Pact adopted in 2000, which provides a set of convergence criteria designed to enhance macroeconomic stability and guide fiscal policies.

Cameroon has been rigorous in implementing the pact, standing as a role model for other countries in the subregion. As the natural economic center of the zone, Cameroon has significant influence over the economies of neighboring countries. Thanks to its relatively tight fiscal policies and BEAC’s prudent monetary policy, Cameroon’s performance in terms of the main convergence criteria has been good, especially during the 2001–05 period. Indeed, the last convergence committee report, in September 2006,
commended Cameroon for reaching all of the main convergence criteria in 2005 (table 3.1).

Despite these successes, regional integration in Central Africa faces a number of critical challenges. First, narrowly perceived national interests have tended to dominate broader national and regional concerns. The resulting lack of strong political commitment and leadership by the two key member states (Cameroon and Gabon) has translated into a significant gap between formal agreements and actual implementation. It has also impaired the ability of regional organizations such as the CEMAC Secretariat and BEAC to effectively carry out their missions.

Second, the subregion remains vulnerable to terms-of-trade shocks and volatility in oil prices. A downturn in oil prices creates fiscal slippages in many of the oil economies in the region while creating adverse terms of trade shocks on the net oil importers, making it more difficult to meet the macro-economic convergence criteria.

Cameroon has more to gain from deeper integration than the other countries in the subregion. Its agriculture, industry, and trade flourish partly as a result of the subregional market. It is therefore in the highest interest of Cameroon to spearhead the regional integration agenda and to foster cooperation with its large western neighbor (Nigeria) and the Economic Community of West African States (ECOWAS) countries.

### TABLE 3.1
Convergence Criteria Performance of CEMAC Countries, 2005

<table>
<thead>
<tr>
<th>Country</th>
<th>Primary balance/GDP (percent)a</th>
<th>External debt/GDP (percent)b</th>
<th>Arrears (external) (CFAF billion)</th>
<th>Inflation (percent)d</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cameroon</td>
<td>5.0</td>
<td>38.9</td>
<td>0.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Central African Republic</td>
<td>−4.6</td>
<td>84.4</td>
<td>16.9</td>
<td>2.9</td>
</tr>
<tr>
<td>Chad</td>
<td>−0.2</td>
<td>27.7</td>
<td>2.9</td>
<td>7.9</td>
</tr>
<tr>
<td>Congo, Rep. of</td>
<td>17.5</td>
<td>118.8</td>
<td>3.6</td>
<td>2.8</td>
</tr>
<tr>
<td>Equatorial Guinea</td>
<td>21.3</td>
<td>3.9</td>
<td>0.0</td>
<td>5.0</td>
</tr>
<tr>
<td>Gabon</td>
<td>12.2</td>
<td>38.7</td>
<td>0.0</td>
<td>−0.2</td>
</tr>
</tbody>
</table>

Source: CEMAC 2006.

a. Primary balance was to be zero or positive by 2004.
b. Total public debt was not to exceed 70 percent of GDP by 2004.
c. Accumulated external and internal arrears were to be eliminated by 2004.
d. Annual rate of inflation was not to exceed 3 percent.
Fiscal Management and Revenue Mobilization

Revenue was volatile before 1994. The revenue-to-GDP ratio decreased from 21 percent of GDP before the 1986–93 crisis to almost 12 percent at the height of the crisis in 1993. The downward trend in revenue from 1984 to 1994 and the resulting gap between revenues and expenditures was the major cause of the unsustainable indebtedness and liquidity crunch. This problem is responsible for deepening the economic crisis in Cameroon between 1984 and 1994. However, the crisis also provided the initial impetus for the establishment of a stabilization plan for public finances and the negotiation in 1988 of the first Structural Adjustment Program (SAP) with the World Bank and the International Monetary Fund (IMF).

Bold reforms implemented since 1997 have helped improve nonoil revenue and broadened the tax base (figure 3.2). Thanks in large part to the comprehensive donor-supported reform programs of the postdevaluation period (1997–2003), the revenue-to-GDP ratio rebounded from 12 percent in 1993 to 19 percent in 2000–05. Since the reform period, fiscal policy has become more oriented toward strengthening public finances and raising the nonoil revenue-to-GDP ratio by widening the tax base. A number of measures have been adopted in the areas of tax policy and tax administration to enhance recovery.

FIGURE 3.2
Total Government Revenue, Oil Revenue, and Nonoil Revenue, 1999–2005

Source: Authors’ compilation based on SIPAE data obtained from Cameroon authorities.
Tax Policy: An Overview

The Government has made some efforts to widen the income tax base by increasing the number of households under the tax net and engaging in a relatively aggressive corporate tax collection effort. As a result, Cameroon’s income tax contributed more than one-fifth of nonoil government revenue in 2005. This figure is higher than the average for Sub-Saharan Africa.

As part of the reform process, in January 1999 a value added tax (VAT) was introduced to replace the old turnover tax. Although complex to administer, the VAT has served the main objective of widening the tax net and boosting revenue (figure 3.3).

The fiscal reforms in the important forestry sector adopted in the July 2000 Finance Law have yielded substantial dividends, including quintupling forestry tax revenue between 1995 and 2003. They have deeply transformed the forestry tax structure and increased its contribution to Government revenue (figure 3.4). In particular, the new system has increased area-based forest royalties by a factor of 40.

Key aspects of the reform include the following:

- Adoption of a public bidding system with well-established floor prices as a transparent mechanism for awarding forest concessions
- New modalities for taxation of raw and processed timber
- An area-based forest tax (*redevance forestière annuelle*) and a tax based on the value of the timber harvested (*taxe d’abattage*)
- A sawmill entry fee (17.5 percent) for wood processed in free economic zones (*points francs industriels*)
- The mandatory and immediate payment of performance guarantees for forest concession holders
- Establishment of a system that allows for competitive allocation of export quotas for limited quantities of unprocessed wood
- Establishment of an equalization fund for improving equity in the distribution of fiscal revenues to local communities

A new revenue-sharing scheme is also in place (box 3.2). It ensures that roughly 50 percent of the proceeds from forest taxes go to the central government, 40 percent to local councils, and 10 percent to local communities. Given that the area-based tax generates about 36 percent of the total forest fees, the Government’s decision can be seen as a strong move toward local development in areas neighboring forest concessions.
FIGURE 3.3
Sources of Nonoil Government Revenue, 2005

![Pie chart showing sources of nonoil government revenue, 2005:]

- Nontax revenues: 11%
- Taxes on international trade: 17%
- Direct taxes: 22%
- Taxes on goods and services: 50%

Source: Authors’ compilation based on data obtained from Cameroon authorities.

FIGURE 3.4
Composition of Forestry Tax Revenue, 1991 and 2003

![Bar chart showing composition of forestry tax revenue, 1991 and 2003:]

Source: Authors’ compilation based on 2004 data obtained from Cameroon authorities.
**Box 3.2**

**Are Forest Tax Revenues Benefitting Local Communities?**

Between 2000 and mid-2004, the Government transferred more than $50 million to councils and community organizations. These transfers represent the primary source of income for communities living in forest areas. To foster transparency and local accountability, the transfer of funds to councils is published quarterly in the press.

Improving the use of the community tax to meet local needs contributes to local development. However, there is still limited transparency regarding the full use of these resources by local elites. A 2003 audit revealed that only a small fraction of the resources collected were spent on education (schools and housing for teachers), water supply for villages, and local dispensaries. The bulk of the fund was used mainly to build infrastructure in the areas close to the headquarters of the councils, with very little going to the countryside. Evidence show that a small fraction went on to finance roofs for private homes, sports facilities, and church infrastructure, or revenue-generating projects.

Although some positive developments have been recorded, the discrepancy between the amount allocated to local development and the results achieved in the field suggests that this transfer does not contribute significantly to local development. It is, therefore, critical to help communities plan, implement, and monitor activities carried out at the council level and in the villages. Emphasis should be placed on transparency, with information on the transfer of resources to villages (when, how much, and to whom) provided in order to build accountability and trust.

(Source: Authors)

With larger shares of domestic taxes and less dependence on volatile trade taxes and oil revenues, the composition of revenue is more favorable now than it was before 1994 (table 3.2). Historically, Cameroon has depended on oil revenues and trade taxes. A combination of direct taxes on exports and imports, coupled with nontax revenue from parastatal marketing boards and oil revenue, were the mainstay of the economy in the 1970s and 1980s.

Since structural changes, including the liberalization of the trade regime and reforms in the tax system, were made, the share of these two sources has diminished progressively. As a result, the revenue share of taxes on goods and services nearly doubled between 1992 and 2005 (increasing from 20 to 38 percent of total government revenue) while the share of trade taxes dropped by 10 points between 1989 and 2005 (declining from 23 to 12 percent). The reduction in both taxes has made Cameroon’s revenue less vulnerable to downturns in the terms of trade and the nominal exchange rate.
and better able to cope with medium- to long-term expenditure plans. Also, the reduction and phasing out of export taxes has reduced the antiexport bias in the trade regime, improving the overall competitiveness of the economy. More important, the larger share of domestic taxes relative to trade taxes has improved the structure of Government revenue in the direction of more stability, which is critical for fiscal sustainability in the face of steady and growing expenditures to support the PRSP.

**Tax Administration: An Overview**

The authorities have launched a comprehensive program to enhance the efficiency of the tax administration system since 1998. Key program elements include the following:

- An objective and performance-based management system under which staff receive incentives for meeting tax collection targets
- An enhanced tax auditing system that improves relations with and assistance to taxpayers (publication of a taxation procedures manual specifying taxpayers’ rights and obligations; simplification of tax forms; creation of an information system, including a Web site and a telephone center)
- The reorganization of tax centers along functional lines, making them one-stop tax offices that can service the full range of tax-collection activities (assessment, control, collection, and dispute resolution)
- Improved staff training in partnership with the National School of Administration and Magistracy (ENAM)

### TABLE 3.2

**Taxes on International Trade in Selected Countries, 1985–2004**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cameroon</td>
<td>16.7</td>
<td>17.1</td>
<td>19.5</td>
<td>11.0</td>
<td>12.0</td>
</tr>
<tr>
<td>Côte d’Ivoire</td>
<td>33.6</td>
<td>26.2</td>
<td>38.9</td>
<td>31.6</td>
<td>46.0</td>
</tr>
<tr>
<td>Kenya</td>
<td>14.7</td>
<td>6.1</td>
<td>30.6</td>
<td>32.1</td>
<td>30.0</td>
</tr>
<tr>
<td>China</td>
<td>8.2</td>
<td>4.3</td>
<td>4.4</td>
<td>5.5</td>
<td>8.0</td>
</tr>
<tr>
<td>Indonesia</td>
<td>3.8</td>
<td>4.9</td>
<td>4.5</td>
<td>3.4</td>
<td>3.0</td>
</tr>
<tr>
<td>Mauritius</td>
<td>51.7</td>
<td>49.6</td>
<td>39.8</td>
<td>30.4</td>
<td>20.0</td>
</tr>
<tr>
<td>Tunisia</td>
<td>18.0</td>
<td>18.1</td>
<td>16.0</td>
<td>9.9</td>
<td>7.0</td>
</tr>
</tbody>
</table>

*Source: Authors’ compilation based on data from the WDI central database.*
A forestry tax revenue enhancement program, established in June 1999, continues to operate under the joint responsibility of the Ministry of Economy and Finance and the Ministry of Forestry. The program was restructured in 2001 to streamline and centralize the payments of forest-related VAT and income taxes.

The Fiscal Agenda under PRSP I (2004–06)

Cameroon’s tax performance is good relative to other countries in Sub-Saharan Africa, but much remains to be done, however, to catch up with the strong performers outside the region (table 3.3). There is little room for complacency, as part of Cameroon’s relatively strong performance rests on its favorable resource endowment (forestry and oil) and a strategic coastal location that allows it to reap the benefits of being a subregional hub and transit corridor for oil-rich countries such as Chad and the Democratic Republic of Congo. Boosting tax revenue is thus essential for fiscal sustainability, as other sources of income are likely to contract in the medium term.

The Government recognized the importance of accelerating implementation of a new revenue mobilization program in 2004–06. The PRSP provides a summary of the second generation of reforms in tax administration and policy intended to boost revenue. Meeting this challenge demands careful consideration of the tradeoffs required to meet two competing goals: preserving the competitiveness of the economy and enhancing incentives for investment on the one hand and avoiding overtaxing consumers and the poor on the other hand.

<table>
<thead>
<tr>
<th>Country</th>
<th>2001</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cameroon</td>
<td>17.7</td>
<td>17.9</td>
</tr>
<tr>
<td>Côte d’Ivoire</td>
<td>16.3</td>
<td>14.9</td>
</tr>
<tr>
<td>India</td>
<td>9.9</td>
<td>10.2</td>
</tr>
<tr>
<td>Indonesia</td>
<td>13.5</td>
<td>12.3</td>
</tr>
<tr>
<td>Mauritius</td>
<td>17.3</td>
<td>17.8</td>
</tr>
<tr>
<td>Senegal</td>
<td>17.0</td>
<td>—</td>
</tr>
<tr>
<td>Tunisia</td>
<td>26.0</td>
<td>20.7</td>
</tr>
<tr>
<td>Uganda</td>
<td>10.8</td>
<td>11.9</td>
</tr>
</tbody>
</table>

Sources: Authors’ compilation based on data from the WDI central database and data obtained from Cameroon authorities.

— = Not available.
Continued expansion of corporate as well as individual tax bases without increasing nominal rates is one way to mobilize resources without overburdening the private sector or overtaxing the poor. This is a key element of the Government’s new reform agenda. As part of this agenda, the Government created a special unit—the Directorate for Large Companies—in charge of tax administration for companies with gross annual income of more than CFA 1 billion. The unit is empowered to manage tax collection, audit large companies, and resolve disputes involving such companies. Nearly 80 percent of domestic tax revenue is estimated to originate from the 500 largest companies in Cameroon. Paying special attention to large enterprises is therefore a cost-effective revenue mobilization strategy.

The reform also includes specific actions for enhancing tax collection from small enterprises, which account for 5 percent of domestic tax revenue. The Government has developed a database of small enterprises in order to facilitate assessment of business activities and revenue collection. It intends to set up tax centers for small enterprises by the end of 2008. Centers for medium-size companies are expected to be functioning in the main cities, especially Douala and Yaoundé, by 2007. The tax directorate is planning to set gradual objectives to tax centers in order to enhance tax collection from this class of income earners.

Part of the agenda also calls for better coordination between the Forestry Tax Revenue Enhancement Program (part of the Programme de Sécurisation des Recettes Forestières [PSRF]) within the Ministry of Economy and Finance and the Ministry of Forestry and Wildlife (MINFOF), which is needed to combat fiscal evasion more effectively. Despite recent improvements, substantially higher collections are still possible if the Government puts in place a few vigorous policy measures to combat tax evasion. To this effect, the PSRF needs to work closely with MINFOF to implement an integrated forest data management system that includes computerized log tracking (a system of bar codes and checkpoints along the main road axis to improve control) and tracking of related payments of forest fees, taxes, and export duties. Implementation of a computerized information management system for the forestry sector would facilitate information sharing between the two ministries and enhance overall oversight of forest tax revenue.

A critical element of the agenda relates to the personal income tax policy implemented in January 2004, which seeks global and uniform taxation of household income from all sources. Simulation results indicate that the new law may actually benefit poor households by lightening their tax burden (box 3.3). There are also indications, however, that the reform will have
Box 3.3
A New Income Tax that Favors Poor Wage Earners

The new income tax is global, unique, simplified, and neutral with respect to different categories of revenues. According to the law, every taxpayer benefits from a deductible (abattement) of CFAF 500,000. In addition, wage earners benefit from a 20 percent deductible (abattement), and fees paid to the Caisse Nationale de Prévoyance Sociale are deductible. The progressive income tax system has rates of 10 percent (for incomes below CFAF 2 million), 15 percent (for incomes of CFAF 2–3 million), 25 percent (for incomes of CFAF 3–5 million), and 35 percent (for incomes of more than CFAF 5 million).

Preliminary analyses on a sample of taxpayers conducted by the IMF in collaboration with the Cameroonian authorities indicate that the new tax system reduces taxes for wage earners with incomes below CFAF 1.5 million. About 98.3 percent of public wage earners earn less than CFAF 2 million. The reform is projected to reduce their income tax rate by nearly 1 percentage point (from 6.3 percent to 5.5 percent).

The impact of the reform on private sector wage earners was estimated on a narrow sample (less than 7 percent of private wage earners and 6 percent of total private wages). Preliminary results indicate that roughly half of private wage earners receive annual incomes of more than CFAF 2 million. The average income tax rate of individuals in the 10 percent range was expected to decrease, while that of income earners in the 25 percent range was expected to increase from 9.3 percent to 10.2 percent.


a negative impact on government revenue, at least during the first two to three years of implementation. To prevent revenue from declining, the IMF recommended that the Government place a ceiling on the 20 percent tax reduction (abattement) for taxpayers whose income exceeds CFAF 5 million. The Government should carefully review this proposal and swiftly move to implement a refined version of the new personal income tax scheme.

The Government also needs to review the VAT system in order to more effectively reconcile the competing objectives of enhancing resource mobilization and efficiency while reducing possible adverse poverty and social impacts. Undoubtedly, the successful and progressive replacement of trade taxes by domestic taxes on income and final consumption leads to fewer distortions and is generally favorable to overall competitiveness and efficiency in resource allocation. It could, however, also have adverse distributional consequences, because it may shift the tax burden onto consumers, especially the poor, who spend a larger share of income on basic consumption.
Several measures could mitigate these adverse distributional consequences. First, while overall rates are being lowered as part of the CEMAC trade integration strategy, the Government could mitigate revenue losses by reducing the large array of exemptions, thereby reducing the pressure on domestic taxation.

Second, while the authorities are refining and harmonizing the VAT system within the CEMAC framework, a number of critical questions have to be revisited with regard to the efficiency and fairness of the system, particularly its impact on poverty. Consideration should be given to a two-rate VAT system, with a lower rate applying to mass consumption items, such as food, education, and medical supplies. Although a uniform tax rate would be much simpler to administer and less distorting, such a system is also more vulnerable to exemptions, as various constituencies lobby for tax relief. The multiplicity of exemptions results in significant revenue leakages in the VAT system and opens the door to abuse of the tax system.

Third, a uniform VAT system may have a negative impact on small, generally poor, and mostly informal producers, including farmers, who are not subject to the VAT system. Because they do not pay VAT, these small producers have no way to write off the VAT paid on inputs (such as fertilizers, seeds, and pesticides). This may adversely affect net incomes, especially when prices are set externally as in the case of export crops.

The Challenge Beyond 2006

The Government is confronting a major challenge: how to gradually increase domestic nonoil revenue to offset the expected decline in oil and forestry revenue as well as taxes on international trade without impairing the investment climate. Revenue is highly dependent on exhaustible resources, such as oil. The capacity of the forestry sector to generate public revenues will inevitably decrease over time, as all forestry management units are assigned and the implementation of sustainable forest management plan slows the pace of timber harvesting.

Trade taxes are also likely to fall in the medium run. Together with other CEMAC member states, the Government has entered into negotiations with the European Union (EU) on an Economic Partnership Agreement to ensure reciprocal preferential arrangements, in line with the new World Trade Organization (WTO) rules. If one assumes that such an agreement holds, Cameroon and other CEMAC countries would lose trade taxes on imports from EU countries, further eroding revenue. Also, Cameroon and its CEMAC partners may want to deepen trade liberalization consistent with multilateral
principles to increase global competitiveness. This change would entail a reduction in the average external tariff for all trading partners.

Should those developments occur, the Government will need to offset the loss in revenue by gradually increasing domestic taxes. Doing so would prove extremely difficult to accomplish without increasing taxes on investors, consumers, and the poor. The VAT in Cameroon and other CEMAC countries is already higher than in Ghana (12.5 percent), Nigeria (5 percent), and the WAEMU countries (18 percent). Corporate taxes are also higher than comparator countries; any increase would worsen the business climate and impair revenue mobilization by pushing many operators into the informal sector.

Given the complexity of the issue, the Government urgently needs to revise its medium-term fiscal plan to make the plan consistent with its regional obligations and to improve the business climate while fighting poverty. In the process, it needs to exert enlightened leadership within the CEMAC subregion in order to develop consensual policies that enhance competitiveness, strengthen the business environment, and thus accelerate economic diversification, growth, and poverty reduction. A more predictable medium-term fiscal strategy would spur investment, because it would allow investors to better assess business conditions and risks.

Expenditure and Financial Management

Between 1960 and 1986, expenditure trends expanded in parallel with economic growth. During the 1986–93 crisis period, dramatic expenditure cuts were necessary to adjust to the sudden collapse of commodity prices and government revenue during the mid–1980s. Total expenditure as a percentage of GDP fell sharply, from 23.2 percent in 1987 to 13.9 percent by 1994.

Past budget retrenchments overwhelmingly fell on capital and social sector spending. Indeed, during the 1986–93 crisis, the Government resorted to cutting nonwage expenditure in health and education and vital capital expenditure, because political constraints made it difficult to reduce the size of the civil service. As economic conditions deteriorated, these cuts proved insufficient, eventually leading the Government to indiscriminately cut wages for civil servants on the eve of devaluation. The effect was to reduce the wages of white-collar workers in the public sector relative to other sectors (table 3.4). The range of wages is much wider in the private sector than in the public sector, with the maximum private wage four times as great as the average public-sector wage.
Real wages were further reduced by the currency devaluation in 1994 and the resultant inflation of 1994 and 1995. The erosion contributed to low morale, corruption, and inefficiencies in the public sector. Indeed, failure to downsize the administration—which led to indiscriminate wage cuts—is the root cause of the lack of efficiency that has long plagued Cameroon’s civil service and hence constrained budget execution. This issue needs to be addressed as part of a comprehensive civil service reform in order to enhance the efficiency of public spending and execution of public policies.

During the postdevaluation reform period, expenditure rebounded. By 2001 it had reached 17 percent of GDP (Table 1.3).

Important public financial management reforms undertaken in recent years have resulted in systemic improvements (box 3.4). Cameroon’s ratings in the HIPC Tracking and Assessment and Action Plan (HIPC AAP) rose from satisfactory in 4 out of 15 areas in 2001 to satisfactory in 7 out of 16 areas in 2004 (World Bank 2001b, 2004a).

### TABLE 3.4
Average Wages in the Public, Parapublic, and Private (Formal) Sectors, 2001

<table>
<thead>
<tr>
<th>Sector and type of worker</th>
<th>Monthly average wage (CFAF)</th>
<th>Coefficient of variation</th>
<th>Annual average wage as percentage of per capita GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Public</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>White-collar (cadres)</td>
<td>141,558</td>
<td>0.6</td>
<td>3.8</td>
</tr>
<tr>
<td>Nonmanagerial</td>
<td>92,727</td>
<td>2.06</td>
<td>2.5</td>
</tr>
<tr>
<td>Unskilled</td>
<td>49,521</td>
<td>0.74</td>
<td>1.3</td>
</tr>
<tr>
<td>Total</td>
<td>110,798</td>
<td>1.34</td>
<td>2.9</td>
</tr>
<tr>
<td><strong>Parapublic</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>White-collar (cadres)</td>
<td>219,485</td>
<td>1.0</td>
<td>5.8</td>
</tr>
<tr>
<td>Nonmanagerial</td>
<td>52,879</td>
<td>0.76</td>
<td>1.4</td>
</tr>
<tr>
<td>Unskilled</td>
<td>36,432</td>
<td>0.70</td>
<td>1.0</td>
</tr>
<tr>
<td>Total</td>
<td>68,067</td>
<td>1.53</td>
<td>1.8</td>
</tr>
<tr>
<td><strong>Private (formal)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>White-collar (cadres)</td>
<td>172,908</td>
<td>2.11</td>
<td>4.6</td>
</tr>
<tr>
<td>Nonmanagerial</td>
<td>55,293</td>
<td>0.95</td>
<td>1.5</td>
</tr>
<tr>
<td>Unskilled</td>
<td>31,712</td>
<td>0.63</td>
<td>0.8</td>
</tr>
<tr>
<td>Total</td>
<td>70,672</td>
<td>2.8</td>
<td>1.9</td>
</tr>
</tbody>
</table>

*Source:* Authors, based on data from ECAM II (Republic of Cameroon 2002).

*Note:* Cadres are defined as workers in the A1, A2, and 10th categories and higher.
Box 3.4
Progress in Public Finance Management since the HIPC Decision Point

Cameroon has made significant progress in improving public finance management. Both budget formulation and budget execution and reporting have improved.

Budget Preparation

- The budget is more comprehensive than it was, because it incorporates central government operations and the road fund and integrates into the budget framework spending that used to be financed directly through the national oil company.
- The budget preparation process involves prebudget and budget conferences to strengthen involvement of line ministries and allow detailed discussions of their proposals before they are approved.
- The budget nomenclature adopted in 2003 allows expenditure classification on an administrative, economic, and detailed functional basis. The functional nomenclature permits the tracking of expenditures devoted to reducing poverty. The new nomenclature is detailed and comprehensive but lacks program coding, which is a hindrance to results-based budgeting. Additional work will be needed to simplify the framework and provide for program classification.
- Sector strategies and Medium-Term Expenditure Frameworks (MTEFs) have been developed, with World Bank support, for the ministries of education, health, rural development, and public works to support budget preparation and align the budget with its strategic priorities. The preparation of sector strategies and MTEFs for a number of other ministries (including justice, telecommunications, and social development) is underway.
- Budget allocations to the priority sectors identified in the PRSP, particularly education, health, and infrastructure, have been progressively increased since 2000 (table 3.4).

Budget Execution and Reporting

- Introduction of an integrated public finance information system (SIGEFI) has improved the tracking of the flow of resources through the budget execution chain, facilitated the preparation of budget execution reports and the regular reconciliation of receipts and payments, and improved the transparency of budget management.
- Budget execution management has improved, as a result of the computerization of budget transactions; the discontinuation (as of January (continued)
Box 3.4 (continued)

2006) of special procedures that bypass the expenditure chain; the payment of the domestic debt and arrears according to a multiyear payment plan adopted in 2000; and the regular payment by the Government of its quarterly bills to public utilities and the monitoring of public enterprises, including their external debts.

- Procurement reforms have included the decentralization of procurement responsibility by individual ministries, with oversight by a regulatory agency and specialized procurement commissions; the appointment of independent observers in the deliberation of all public procurement committees; annual independent audits of contracts that are not subject to prior review; and the posting of prices for services provided by the Government, to reduce the scope for corruption.

- Payroll management is being decentralized in order to make line ministries accountable to the daily management of their personnel. This program is now operational at several pilot ministries (primary and secondary education, health, finance, and civil service). A computer management information system (SIGIPES) has been introduced to facilitate and coordinate this decentralization. In 2005, the Government updated its personnel file, which led to the elimination of about 3,000 so-called ghost employees. The authorities are tightening the security of the payroll management system against fraud and mismanagement while extending this decentralization process to other ministries.

- Treasury and debt management have been improved. The majority of government accounts held in commercial banks have been closed and their balances transferred to the single treasury account at the BEAC. Procedures have been adopted to centralize cash management through the creation of a permanent committee in charge of managing the Treasury. An independent audit of domestic debt was undertaken, and a new debt service schedule for 2006 and beyond is being implemented.

- An internal control system exists but remains weak, partly because of the lack of clarity of the mandates of the various control units and some difficulties caused by the transition from manual to computerized information systems.

- The quality and timeliness of fiscal reporting have improved. Monthly fiscal data are now available within one month of the reporting period and are consistent on a commitment and cash basis. Since mid-2005, the Government has been publishing monthly budget execution monitoring (continued)
Despite improvements, many challenges remain if Cameroon expects to achieve the PRSP priority sector targets without weakening the macroeconomic foundations for sustained growth. Public expenditure management faces four interrelated challenges:

- Set a desirable and sustainable aggregate-spending growth path that is consistent with Cameroon’s capacity to mobilize resources and adequate to meet the overall needs of the PRSP.
- Ensure that the allocation of the budget across sectors and spending ministries is consistent with PRSP priorities over the medium run.
- Improve budget execution and ensuring that resources are properly targeted and credit used effectively.
- Improve the efficiency of government spending and improving service delivery, especially in PRSP priority sectors.

**Budget Preparation**

Budget preparation needs to conform to the PRSP process and ensure that allocations reflect PRSP priorities. The budget constitutes the key instrument the Government has at its disposal to effectively implement its poverty reduction strategy. Therefore, the expenditure framework, as well as the process of preparing and executing the budget, must conform to the PRSP. The Government has projected an aggregate spending trend of about 17 percent of GDP over the medium term. Although this trend appears sustainable, the composition of total spending needs to be better aligned with PRSP priorities. This approach implies gradually shifting expenditure from current to capital spending, as well as focusing on the social and infrastructure sectors.

Recent trends since the inception of the interim PRSP have been encouraging. Capital spending, for example, rose from 1.9 percent of GDP in 1999 to 2.3 percent in 2005, while social sector and infrastructure spending rose from 34.6 percent of total spending in 1999 to 46.4 percent in 2005 (see table 3.5).
## TABLE 3.5
Government Expenditure by Sector, as a Percentage of GDP and Total Government Expenditure, 1999–2005

<table>
<thead>
<tr>
<th>Sector</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>1.8</td>
<td>18.1</td>
<td>2.1</td>
<td>18.0</td>
<td>2.5</td>
<td>21.3</td>
<td>2.7</td>
</tr>
<tr>
<td>Health</td>
<td>0.5</td>
<td>5.6</td>
<td>0.5</td>
<td>5.3</td>
<td>0.6</td>
<td>6.1</td>
<td>0.7</td>
</tr>
<tr>
<td>Production infrastructure</td>
<td>0.9</td>
<td>10.9</td>
<td>0.9</td>
<td>9.9</td>
<td>0.9</td>
<td>10.2</td>
<td>0.9</td>
</tr>
<tr>
<td>Other ministries and institutions</td>
<td>1.5</td>
<td>17.8</td>
<td>1.6</td>
<td>15.8</td>
<td>1.7</td>
<td>16.2</td>
<td>1.8</td>
</tr>
<tr>
<td>Total ministerial budget</td>
<td>7.1</td>
<td>74.9</td>
<td>7.5</td>
<td>66.8</td>
<td>7.9</td>
<td>71.4</td>
<td>8.5</td>
</tr>
</tbody>
</table>

Source: Authors’ compilation based on data obtained from Cameroon authorities.
— = Not available.

Note: These expenditures exclude foreign-financed capital expenditures, as well as transfers and other common expenditures. Pctg = Percentage.
These trends are in the right direction and are consistent with trends in comparable countries. They need to be sustained if Cameroon is to reach its PRSP spending objectives.

**Operationalizing the MTEF as the Cornerstone of Budget Preparation**

The budget needs to be aligned with the PRSP to improve allocative efficiency. The Government has made strides in this area, especially by implementing a comprehensive Medium-Term Expenditure Framework (MTEF) to guide the intersectoral allocation of budgetary resources. With support from the World Bank, the Government has developed a set of instruments, including a central MTEF and priority sector modules that are interconnected and linked to the Government’s macroeconomic projections and policy simulation model. The central MTEF is used to allocate budgetary resources to line ministries according to set guidelines, including PRSP spending targets by sectors, program financing needs by sectors and ministries, and past sector performance in budget execution and expenditure efficiency. The Government intends to continue the development of the MTEF and to extend it to cover all spending ministries.

Mere development of technical instruments will hardly suffice to improve budget preparation, however. Political resolve, discipline, and a more-participatory budget preparation process—involving line ministries—will be needed if the budget is to become an effective instrument for implementing Cameroon’s PRSP.

The central MTEF is operational. It was used to determine budget envelopes in 2007 and to inform the budget discussions during the preconference and the actual budget conferences.

A new circular, prepared jointly by the Ministry of Planning, Programming and Regional Development (MINPLAPDAT) and the Ministry of Economy and Finance (MINEFI), seeks to synchronize the annual PRSP execution and review process with that of budget preparation and execution. This new strategic framework for budget preparation represents a milestone achievement and is expected to enhance collaboration among MINEFI, MINPLAPDAT, and sector ministries. Budget preparation would give more voice to line ministries and ensure that priority sector programs and projects are adequately financed and can be effectively executed. Specifically, the new circular includes a calendar and directives for

- Preparing and validating the macroeconomic framework so that it reflects strategic choices, priorities, and the effects of sector policies and budgetary allocations on growth and poverty;
• Preparing and validating the central MTEF and communicating budget envelopes to line ministries;
• Organizing budget discussions around sector program financing needs as well as actual performance; and
• Preparing and validating annual reports on sector strategies and the annual PRSP progress report.

The circular, which has been endorsed by key stakeholders, has yet to be signed. Swift implementation of this new procedure, which would lead to the effective institutionalization of the MTEF system, is urgently needed. The Government needs to have this new procedure formally in place and assist ministries in using it. Failure to do so would postpone implementation of this critical component of the public finance reform agenda, impairing progress toward results-based budgeting and programmatic lending.

Implementing the New Budget Nomenclature
Cameroon has adopted a new budget nomenclature that permits classification of budget expenditures by institutional destinations (line ministries), as well as by broad economic and strategic functions (education, health and social development, production and infrastructure, governance, security, and so forth). This nomenclature makes it possible to follow spending trends not only by line ministries but also by broad strategic missions and domains of government interventions. It facilitates the use of the budget for targeted support to sector strategies and programs. In particular, the possibility of tracing expenditure by sector as well as by geographic destination allows for more-effective expenditure tracking and considerably facilitates the monitoring of the decentralization process in the delivery of public services. These improvements will lead to increased traceability of spending, transparency in the budgetary process, and efficiency in public spending.

This improvement, along with the above-mentioned development, will also pave the way for the progressive move toward a performance-based budgeting system, because they allow sectors to make links between strategic targets and budget envelopes at the preparatory stage and between observed outcomes and executed budget in the postexecution stage. Nevertheless, there is still a need to build a program dimension in the budget classification to facilitate the alignment of the PRSP budget.

Budget Execution
Budget execution and accounting need significant improvement, especially in regard to the capital budget. To gain a better understanding of the process
and the impediments to effective budget execution, the Government ordered a Public Expenditure Tracking Survey (PETS) in 2003, using the health and education sectors as pilot cases. By tracing government spending in these areas, a PETS estimates how spending trickles down from the central level to targeted beneficiaries; identifies the main factors that determine the impact and efficiency of spending; and proposes specific policy measures for improvement.

The findings of the PETS in the social sectors confirmed those of the 2002 World Bank Country Financial Accountability Assessment (box 3.5). The main lesson is that actions are required on several fronts, including considerably strengthening the responsibility and accountability of line ministries and providing timely notification of the availability of funds to spending ministries, as well as service providers; enhancing the transparency of budget execution; and improving the execution rate of the investment budget.

Box 3.5
Budget Tracking Survey in the Health Sector

The survey reveals that central to improved delivery in health services in Cameroon is accessibility, transparency, and the timely availability of budgetary resources for the smooth implementation of critical programs. In particular, long delays between the promulgation of the State Finance Law and the availability of the resources to the frontline service providers have adversely affected the absorption capacity of service providers, hindered the smooth execution of investment programs, and reduced the quality of public expenditure.

Pervasive information problems reduce the efficiency of the budget allocation process. First, some health centers receive no resources from the Ministry of Health (MINSANTE) to cover recurrent nonwage expenditure. The survey results show that as much as 25 percent of health facilities surveyed had not been identified in the State Finance Law. Therefore, they did not receive any funds from the central government. Second, facilities that are listed in the Government budget often receive no clear information from the MINEFI with regards to their authorized expenditure envelop.

Abnormally long delays in the notification of expenditure authorizations hamper activities of health service providers and the efficiency of public expenditure. In Cameroon, there is no formal notification from the MINEFI to the “budget holders,” including the head of a province or district administrative agency. As a result, health care facility managers often learn about fund authorization only through word of mouth. This delay usually happens—the earliest in
February, but often as late as May of the fiscal year. This is further compounded by the regional disparities in the date for the availability of fund. These delays not only translate into difficulties for the absorption of available resources by health facilities, but also adversely affect activities and health outcomes. Surprisingly, this is not fully reflected in the execution rates of the recurrent expenditure budgets. These execution rates, however, hide underlying problems in the quality of the expenditure. Because they receive their resources after long delays, budget holders are inclined to precipitate spending before the end of the fiscal year—which adversely affecting the quality of spending. As a result, they often find themselves hostages of the local suppliers who have mastered the budget game and are apt in the perverse art of overpricing materials and side-contracting.

Poor governance entails a high cost to the Government. This invariably translates into large losses estimated at one-fourth of the budget. The tracking exercise did not uncover serious leakage problems in the sense of intended beneficiaries receiving less than stated in the Finance Law. Effective leakage is estimated at 2 percent. However, overpricing arises as local suppliers anticipate delays and uncertainties into converting their bills in cash at the regional treasury; price the eventuality of side payments incurred at the treasury level to receive their payments; and know the budget holder has limited, if any, room to maneuver. Side contracts between the head of the facility and the supplier also emerge quite often. Indeed, to circumvent the rigidity of the budget, which is organized into specific credit lines, a budget holder is tempted to reallocate among the credit lines by asking the supplier to deliver cash for

### Box 3.5 (continued)

<table>
<thead>
<tr>
<th>Health center</th>
<th>2001/2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>HD</td>
<td>77.7</td>
<td>74.9</td>
</tr>
<tr>
<td>CMA</td>
<td>70.4</td>
<td>67.3</td>
</tr>
<tr>
<td>CSI</td>
<td>66.9</td>
<td>71</td>
</tr>
<tr>
<td>Total</td>
<td>71.3</td>
<td>71.4</td>
</tr>
</tbody>
</table>

**External services**

<table>
<thead>
<tr>
<th></th>
<th>2001/2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>DPSP</td>
<td>69</td>
<td>63</td>
</tr>
<tr>
<td>SSD</td>
<td>78.3</td>
<td>78</td>
</tr>
<tr>
<td>Total</td>
<td>77.1</td>
<td>76.1</td>
</tr>
</tbody>
</table>

**Sources:** Public Expenditure Tracking Survey (PETS) 2004, Republic of Cameroon 2004b.

**Note:** HD: Hôpital de District; CMA: Centre Médicaux d’Arrondissement; CSI: Centre de Santé Intégré; DPSP: Délégation Provinciale de la Santé Publique; SSD: Service de Santé de District.
instance on the “fuel and gas” line. This obviously comes at a cost. As a result, although the execution rates are close to 100 percent, the budget holders evaluate the worth of their budgets between 67 percent and 75 percent of their face value.

Poor recordkeeping at the peripheral level leads to a complete lack of accountability. Facilities do not keep track of their expenses and are not sanctioned to do so in the absence of ex post controls. As a result, the MINSANTE may know the theoretical execution level of its budget, but cannot gauge whether the budget has been executed as planned. This becomes a major difficulty during the PETS since the lack of information makes it difficult to assess the extent to which facilities, in executing their budget, diverged from the MINSANTE plans. For example, such situation may arise if the head of facility spends the maintenance credit line on furniture or medical consumables, or just cashes the money by signing a side contract with a local supplier.

Asymmetries of information are worse for the investment budget. In 2003 the investment budget was managed by the former Ministry of Economic Affairs, Programming, and Regional Development (MINEPAT) which selected the projects to be financed and elaborated a journal des projets for each sector. In 2003 the investment budget for the health sector was

<table>
<thead>
<tr>
<th>Budget Execution Difficulties Encountered by Health Centers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of difficulty</td>
</tr>
<tr>
<td>Delay in reception of carton</td>
</tr>
<tr>
<td>Misuse of budgetary lines by authorizing officer</td>
</tr>
<tr>
<td>Conflicts with the financial controllers</td>
</tr>
<tr>
<td>Involuntary transfer of resources toward another line</td>
</tr>
<tr>
<td>Lack of liquidity</td>
</tr>
<tr>
<td>Insufficient appropriation</td>
</tr>
<tr>
<td>Problems with the providers</td>
</tr>
<tr>
<td>High taxes</td>
</tr>
<tr>
<td>Access problem (isolation)</td>
</tr>
<tr>
<td>Other</td>
</tr>
</tbody>
</table>

set at CFA 17.5 billion, of which only CFA 6.8 billion were earmarked for specific projects. However, this information was not promptly made available to those in-charge of these projects. The remainder of the investment budget was executed during the fiscal year by the Minister of Health on projects selected on an ad hoc basis. No information seemed to be available at the end of the fiscal year on the revised journal des projets, which would document all financed projects.

Numerous bottlenecks are present in the implementation of the projects at the local level. The bulk of the investment budget is executed from the central government without informing the periphery. For those projects administered at the local level, the head of the facilities encounters numerous difficulties: frequent delays in the notification of availability of resources to finance a specific project and lack of involvement and voice in the procurement process. The locally nominated officials, called the elite, usually head the commission and most of the powers in the attribution of the projects rest in their hands. Such an environment is a fertile ground for spawning bad-quality projects.

Source: Republic of Cameroon 2004b, INS. Survey on Budget Tracking and Beneficiary Assessment in the Health and Education Sector.

a. Within the newly formed government in 2005, the MINEFI is now responsible for the preparation and monitoring of the execution of the investment budget.

Providing Prompt Notification of the Availability of Funds
Immediately after the promulgation of the finance law each year, budget holders should receive all relevant information and documents regarding allocated credits, as stated in the expenditure authorization. MINEFI should ensure that sufficient funds are available in the provincial or departmental treasury accounts in order to meet spending needs. Doing so would undoubtedly strengthen the hand of budget holders in bargaining with local suppliers, accelerate budget execution, and improve expenditure efficiency. The Government intended to conduct a pilot experiment in 2007 to accelerate the processing of expenditure commitments as soon as the budget is in place. It intends to decentralize the issuance of the budget documents (cartons) to the financial controllers departments of the ministries of public works and primary and secondary education.

Strengthening the Responsibility and Accountability of Spending Ministries
The major reason that the rate of budget execution is low and budgeted resources are misallocated is that spending ministries are not sufficiently
involved in the execution phase of the budget. To address this critical problem, the Government prepared a new Organic Law on budget acts to be presented to the Parliament in 2007. This new Public Finance Act would constitute a timely revision of the February 7, 1962, decree, which has framed financial management for decades.

The law will provide a more up-to-date legal and institutional framework for public finance management. It will reinforce the legal framework in order to strengthen the empowerment and accountability of line ministries in the public finance management system. Under this system, line ministers will be solely responsible for committing and authorizing spending from lines that have been appropriated in the ministerial budget. The law will update and reinforce public finance legislation by simplifying the accounting system to improve transparency, improving the management of appropriations, streamlining public finance procedures, improving the accountability of public managers, and moving toward a results-based strategic management and budgeting system. This reform is long overdue. The main challenge is to resolutely implement it, phasing in the new procedures while strengthening the capacities of line ministries to assume more fiscal responsibilities and financial accountability. A well-crafted action plan is required, with due attention paid to the transition period.

For the new organic law to work, there must be a clear separation of responsibilities between the authorizing officer—who should systematically commit resources, certify services rendered, and authorize payment during the administrative phase—and the public accountant—who is in charge of auditing spending during the accounting phase. The current system needs to be amended to respect this critical principle. In particular, the Government needs to implement two key changes in the chain of operations related to budget execution (box 3.6).

First, the status and position of store accountants (comptable matière), who are in charge of certifying the delivery of services, will have to be reviewed and human resources redeployed. Under the current system, store accountants are under the authority of the Ministry of Finance. Physical controls are essential and need to be transferred to the spending ministries responsible for budget execution. Adoption of regulation that transfers full responsibility to authorizing officers and redeploy store accounting staff is crucial to increase the accountability of spending ministers.

Second, authorizing officers need to be able to manage their budgetary allocations and handle their management accounting. In this regard, the Government needs to speed the planned extension of DEPMI, the computer software
Box 3.6
The Expenditure Chain

Under the common law procedure, implementation of budget expenditure takes place in several phases.

Administrative phase (level of the authorizing officer [ordonnateur])

- **Commitment**: The state becomes legally and financially committed to a future obligation according to the following procedure:
  - The authorizing officer issues a commitment order in support of a pro forma invoice (or a tender if the expenditure exceeds CFAF 50 million).
  - The commitment order is transmitted to a financial controller to obtain the visa.
  - The financial controller reserves credits, after verifying the existence of the budgetary appropriation, the accreditation of the accounting officer, the exact cost, the availability of credits, and the presence of supporting documents, and transmits the information to the Budget Directorate.
  - The Budget Directorate issues a confirmation of credit, which is transmitted to the authorizing officer.
  - The authorizing officer confirms the order with the supplier.
  - The supplier provides the goods or services.

- **Liquidation**: Debt contracted is validated and amount due determined.
  - The authorizing officer controls advances using supporting documents.
  - The store accountant (comptable matière) verifies that goods or services are provided if the expenditure is less than CFAF 200,000. (If the amount is greater, a commission verifies that the goods or services were provided.)

- **Payment order (ordonnancement)**: The authorizing officer instructs the public accountant (Treasury) to pay the amount due.
  - The authorizing officer transmits the file to the Budget Directorate.
  - The Treasury (Payeur Général du Trésor [PGT]) checks the regularity of expenditure (based on availability of credit, absence of opposition, clear appropriation of expenditure, presence of supporting documents, exact amount) and issues the visa.\(^1\)
  - The Budget Directorate issues a payment order following approval by the PGT.

Accounting phase (level of public accountant)

**Payment**: The PGT issues payment after agents provide verification that item meets all requirements. As the Treasury intervened at the payment order

(continued)
stage, its role at this stage consists only of registering the payment order and issuing the payment.

Sources: Country Financial Accountability Assessment; World Bank 2002b.
a. The PGT pays all expenditures issued by central ministries, with the exception of the decentralized credits, which are paid by provincial treasuries. This administrative control of expenditures violates the principle of separation between the administrative and accounting phases.

Enhancing the Transparency of Budget Execution

The Government has intensified efforts to enhance transparency in budget execution by reducing the use of special procedures (procédures dérogatoires). Efforts have been made to integrate all spending in the budget, follow the regular procedure from commitment to final payment, and strictly limit extrabudgetary interventions to truly exceptional circumstances. The regular procedure is to be reinforced for all ministries; payments will be made only for expenditures for which there is a clear budget line and for which funds have been committed, executed, and authorized by line ministries according to the regular procedure. As part of this reform, since January 2006 the Government has discontinued all cash advances (interventions directes) made outside the Treasury by the national oil company that did not follow normal budgetary spending procedures.

The Government seems committed to restricting the use of simplified, “fast-track” spending procedures and to monitoring such expenditures more effectively. This is an important step for improving the reliability and the exhaustiveness of government accounts. Indeed, past Government practices in supervising ex ante and monitoring ex post cash-based spending through the régies d’avance were notoriously lax.

The Government has made strides in reporting on budget execution. The fiscal reporting system has seen important improvements over the past few years, with monthly fiscal reports produced that include tables of budget execution on a cash, as well as a commitment, basis and detailed breakdowns
of spending by economic nature and spending ministry. The Government also publishes a quarterly report on budget execution. This report has been appearing within two months of the end of each quarter. In line with its goal of enhancing ministerial responsibility and accountability in budget execution, the Government is moving toward requiring all spending ministries to prepare an annual report on budget execution. This report would be a key component of the annual progress report on the implementation of sector strategies and priority programs. A few ministries briefly experimented with this practice during the 2003–04 period, but it was rapidly abandoned, partly because of the lack of explicit guidelines and partly because ministries were under no obligation to implement it. The new draft circular on budget execution (prepared in 2006) requires ministries to prepare annual reports as part of the monitoring system for the implementation of sector strategies and the execution of programs, budgets, and the PRSP.8

The Government also needs to make more-effective use of supplementary budget laws when necessary to revise revenue and expenditure but only to adjust for unanticipated changes in economic conditions and performances. The 1962 public finance decree provides the Government with a clear legal framework for doing so. The judicious use of supplementary budget laws will allow for timely, open, and fruitful discussions on economic conditions and the budget, which are likely to improve transparency and ensure broader participation of stakeholders in budget decisions as the fiscal year unfolds. No doubt this usage will strengthen the integrity of the budgetary system and will help all stakeholders gain a better understanding of the economic context and underpinnings of the budget.

Improving the Execution Rate of The Investment Budget

The low execution rate of the investment budget reduces the efficacy of public spending. Part of the problem stems from line ministries’ low level of participation in budget execution. But it also reflects deficient planning capacities at the sector level.

One critical issue is that many so-called investment projects listed in the public investment databank (journal des projets) are at an embryonic stage and not ready for programming and implementation. Indeed, many such projects have not been subjected to standard technical, economic, or social appraisals. Consequently, even if one assumes a timely notification of appropriation, such projects cannot be programmed and executed in a timely manner. To address this problem, the Government needs to strengthen its capacities for speedy appraisal of important investment
projects. MINPLAPDAT needs to develop a program for strengthening the capacity to assess and validate projects before they become candidates for budgeting. The Government is implementing an EU–supported capacity strengthening program to help MINPLAPDAT and line ministries appraise, program, and monitor investment projects.

Other factors also contribute to the poor execution of the investment budget. One has to do with the mismatch between the multiyear time structure of many projects and the annual nature of the budget. This translates into stop-and-go execution of projects and frequently forces the execution of key investments to be stopped at year end until funds are appropriated and made available during the first quarter of the following year. The annual budgeting process also leads to the slicing up of important multiyear work programs into annual tranches, which complicates budget programming, execution, and monitoring.

Institutionalizing the three-year MTEF system would help address this issue by providing a coherent framework for programming and budgeting multiyear projects. But this alone will not suffice. The Government needs to take a few bold additional actions to address the problem. The most important step would be to reestablish multiyear program authorizations with an annual payment appropriations system for capital expenditure. This would provide a lock-in mechanism for both line ministries and suppliers of services, smoothing execution of multiyear projects and programs while committing actual payments on an annual basis.

The considerable delays in the execution of the investment budget are not caused solely by technical and procedural problems. Governance issues are also to blame. Studies, including the PETS, indicate that delays in committing capital expenditure and the “misallocation” of funds are often the results of corrupt practices that have gone unpunished for many years. The Government is resolute about addressing this problem, and sanctions are increasingly being imposed on reported cases of corrupt practices, especially in the awarding and the execution of public contracts. More-specific recommendations regarding procurement policies are suggested in the last part of this chapter.

Donor assistance also needs to be more effectively coordinated, planned, and aligned with the PRSP (and thus with the national budgeting framework). A sizable part of Cameroon’s capital budget is financed by external resources. Even when such resources are clearly programmed over the medium term, external resource inflows have remained uncertain and volatile, subject to the vicissitudes of donors’ concerns and priorities. Administering a complex and disparate body of donor-supported
projects—with multiple procurement procedures and different accounting standards and disbursement modalities—is difficult. For the Government to more effectively smooth expenditure during the fiscal year, support multiyear programs, and align the budget with the priorities of the PRSP, it is essential that donor support be more predictable and programmable. Donors are aware of this challenge and determined to work closely with the Government to address the issue, especially as the Government strengthens and generalizes the MTEF system.

*Improving Institutional Collaboration*

The joint preparation of a new circular and budget calendar by MINEFI and MINPLAPDAT constitutes a milestone in the Government’s effort to promote collaboration between central and line ministries in budget preparation, execution, and monitoring. This achievement must now be accompanied with rekindled resolve and commitment by all parties to work together to develop synergies and partnership in order to use the budget to support the Government’s growth and poverty reduction strategy. Cultivating such a partnership is the primary responsibility of the PRSP Monitoring Committee and its key ministries (MINEFI and MINPLAPDAT). But strong leadership is also required at the prime ministerial and presidential levels, so that the entire public administration can mobilize around the PRSP in order to attain the MDGs.

*Management Information System*

Until recently, Cameroon’s management information system for public finance was notoriously deficient. The system was not sufficiently integrated and thus could not permit expenditure tracking from commitment to payment. As a result, budget management was opaque, especially on the execution side, reducing both accountability and efficiency.

The integrated public finance information system, Système Intégré de Gestion des Finances Publiques, (SIGEFI), in place at the central and provincial levels has vastly improved the flow of information and contributed to the timely reporting of the budget. SIGEFI has considerably improved fluidity, security, and transparency in the information system. It effectively links the budget directorate (in particular, financial controllers deployed in spending ministries) with Treasury accountants, enabling public expenditure to be tracked from commitment to payment. It also permits the table of financial operations to be automatically produced from the Treasury balance.
Despite these important improvements, critical upgrades of SIGEFI are needed, especially as the MTEF system is institutionalized. Not all agents are linked to SIGEFI. Financial controllers deployed in spending ministries remain under the supervision of the Budget Directorate in the MINEFI and monitor budgetary data in SIGEFI in the course of the administrative phase. The system needs to be expanded and reinforced so that authorizing officers within line ministries can monitor in real time all central government spending (by nature, broad functions, and programs) from commitment to payment.

A second important extension concerns budget preparation. The Government should envision the physical integration of the MTEF in the budget management process. In particular, an interface could be programmed in SIGEFI that would link the central and sector MTEF, allow the Budget Directorate to communicate planned envelops to line ministries, and allow ministries to communicate their needs on the basis of their priority programs. Such an integrated system would also help spending ministries monitor budget and program execution and report on the implementation of sector strategies and action plans.

**Audit System**

The control mechanism remains a major weakness in the public finance management system. It includes internal control, carried out by the administration, and external control, performed by independent entities (Parliament, the Conseil Supérieur de l’État, and the Audit Chamber). Internal control is performed either ex ante (before expenditure payment) or ex post (after expenditure payment). Both procedures are deficient because of a weak legal framework and poor human capacities. External control was virtually nonexistent until the implementation of the Audit Chamber in early 2006.9

**Strengthening the Internal Audit Process**

As suggested above, the ex ante certification of service delivery, currently performed by the physical accounting directorate (comptabilité matière) under MINEFI, should be transferred to spending ministries. Human resources should be reassigned accordingly and the organizational chart reconstructed to reflect this new organization in a way that is consistent with the objectives of both the forthcoming organic public finance law and international practices.

Important changes may also have to be made to strengthen the ex post auditing system. Serious consideration should be given to merging the
sustained, uncoordinated, and ineffective inspectorates into a unified General Inspectorate of Finance, which would report directly to the minister of finance and cover all structures or entities in charge of managing public funds.

Operationalizing the External Audit System
In 2003, Parliament passed a law creating the Audit Chamber and issued a decree defining the status of its members. The authorities adopted the content and format of the administrative and management accounts. In 2005, 22 magistrates were recruited and trained, and the Audit Chamber became officially operational in January 2006. It is in the process of auditing the 2004 government financial accounts.

The World Bank and IMF, as well as most bilateral donors, have strongly recommended that the law be amended to give the chamber the power to go beyond the standard auditing of accounts and issue opinions on the fairness and the effectiveness of the work done by authorizing officers. The Government is considering this proposal and has indicated its willingness to expand the chamber’s mandate in order to conform to the more-stringent norms of the International Organization of Supreme Audit Institutions. However, the Government has indicated that such a change would be implemented after at least two years of operations of the Audit Chamber within its current mandate and only after the appropriate capacity has had a chance to develop.

Treasury Management
Treasury management has seen some improvement over the past few years, which has improved cash management. The Government has consolidated in the Treasury a significant number of accounts previously held in commercial banks. This consolidation allows the Government to keep a single cash position and to more effectively keep track of its overall balance. The Government is in the process of creating a permanent committee that will be in charge of managing the Treasury within a more-centralized cash flow management system.

Personnel and Payroll Management
Payroll management has been historically weak in Cameroon. The total payroll, which covers some 165,000 employees, represents roughly 30 percent of Cameroon’s total annual budget. It is managed by the Directorate of Payroll under the General Director of Budget within MINEFI. The Ministry of Public
Service and Administrative Reform (MINFOPRA) is in charge of managing the civil workforce, but only from the legal and administrative standpoint. Despite episodic efforts to overhaul the system, the personnel file is far from up to date and the flow of information regarding hiring, retirement, and transfers between ministries is insufficient for planning wage increases or controlling the payroll. There is also evidence that many public employees who are paid out of the budget were never formally recruited or registered as civil servants.

In an effort to reduce public spending in response to the economic crisis of the 1980s and early 1990s, the Government froze all hiring in the public sector and cut nominal wages. In response, ministries resorted to hiring large numbers of workers on a temporary basis through revolving term contracts. This practice has become so widespread that most of these temporary workers have become de facto permanent staff, although they have no staff identification number (matricule) and are, therefore, not known to or managed by MINFOPRA. This pratice has made it nearly impossible to know how many workers are paid through the budget on a regular basis. Until a clear census is conducted and consistent decisions made to regularize the situation through formal hiring or layoff, there is little chance that the Government will be able to control the payroll and effectively manage its workforce.

Management of the public sector workforce is also hindered by the lack of transparency and technical criteria for promotion. Staffing decisions and promotions seem to be based more on political and regional considerations than on merit or performance. This process causes uncertainty, low morale, and inefficiency.

The Government needs to overhaul its personnel and payroll management system, giving more responsibilities to line ministries in personnel management. The new Public Finance Act seeks to make line ministries more responsible and accountable for executing their budgets. For them to do so, they will need more discretion in physical investment, as well as in human resource development decisions and planning.

Critical changes are needed in the personnel and payroll management system in line with increased responsibilities and accountability for line ministries. First, there is an urgent need to establish a single personnel file for the administration. The Government organized a census in 2000 to clean the file—an effort that led to the elimination of nearly 6,000 ghost employees. It failed, however, to adequately secure the personnel file. This development led to willful tampering and malfunctioning of the payroll and personnel management information system.
In 2006, the Government launched another census to complete the streamlining of the public sector workforce. MINFOPRA intended to complete the updating of the personnel file for all ministries and establish a single personnel file by June 2007. The Government also intends to conduct for the first time a census of all employees working in the public sector and paid through the budget though not registered in the personnel file managed by MINFOPRA.\textsuperscript{13} This is an important step to improving the personnel and payroll management system.

Deconcentrating Human Resource Management

Unlike other recurrent spending, the entire public sector payroll is still centrally managed by MINFOPRA and MINEFI (by the Directorate of Payroll under the Budget Directorate). A pilot project deconcentrating personnel management in selected ministries was begun in 2001. It allows line ministries to keep files up to date in order to improve the information related to the determination of payments of salaries and benefits. An integrated management system was put in place linking the pilot ministries and the Directorate of Payroll in MINEFI.\textsuperscript{14} Although the link is technically in place (MINEFI was equipped with the Antilope software and line ministries with SIGIPES, a personnel management system), it has not functioned as effectively as planned. In particular, the system is poorly secured, enabling corrupt practices that led to discrepancies in the information produced by MINEFI and managed by line ministries. To resolve this issue, the Government intends to deploy SIGIPES in line ministries on the basis of the updated single personnel file that will be put in place after the census.

Also, vast improvements need to be made in how civil servants are hired and promoted throughout their careers. Under the current system, civil servants are hired into a pool of human resources managed by the Ministry of Civil Service (MINFOPRA). Once they enter the administration through a particular ministry, they remain attached to that ministry during their entire career, irrespective of where they are posted. This permanent assignment is a source of inefficiency in resource allocation and management, because the employment and wage cost of an individual are not necessarily imputed to the administrative unit for which he or she works.

This system needs to change. Ideally, staffing needs should be expressed and decisions made by line ministries on the basis of what is required for the effective execution of sector strategies, programs, and projects, as is the case for key investment decisions. This change would allow ministries to define staffing needs by positions and profiles and to express the corresponding
wage costs in the sector MTEF. The ultimate trade-offs pertain to line ministries and depend on resource availability, as indicated by the budget envelope for the ministry. This process ensures that human resource development within ministries is planned and programmed in a fashion similar to that used for physical investment (that is, in line with the exigencies of sector strategies) and that the aggregate wage bill reflects the desired size, skills, and sectoral deployment of the public sector workforce. The Government has asked all line ministries that have already prepared MTEFs to assess their needs in personnel in line with their strategy in the course of 2007.

**Implementing a Performance-Based Incentive System**

Under the current system, compensation and promotion are not linked to individual performance. Public servants are automatically promoted every two years and given a predefined wage increase. Although they are entitled to such increases, employees still need to go to MINFOPRA in Yaoundé to process their request to make the wage increase effective. This procedure is cumbersome and wasteful, as even employees from remote areas have to travel periodically to Yaoundé, sometimes for several months, to process their request. The result is corrupt practices, the accumulation of unclaimed wage arrears, and low productivity. The Government intended to remedy to this situation by auditing total wage arrears at the end of 2006 and phasing them into the domestic debt payment plan; computing and adjusting the wage bill in the 2007 budget to clear these arrears to the extent permitted by the IMF–supported program; and amending the current system for 2007–08 so that the wage increase is automatically included in the wage bill when a civil servant is promoted.

It was also planning to prepare a diagnosis report on salary structure and benefits in 2007. This report will provide useful background information and help articulate a concrete action plan for gradually moving toward a merit-based system in which compensation and advancement are based on actual responsibilities and performance, measured by a transparent and objective evaluation system.

**Oil Resource Management**

Improved fiscal and public expenditure management will go a long way toward strengthening government finance and supporting the PRSP. Actions will also be needed in other areas that affect public finance performance and fiscal sustainability, including the management of oil resources and debt.
Cameroon’s oil sector comprises three private oil companies—Total (68 percent of total production), Pecten/Shell (23 percent), and Perenco (9 percent)—and the national oil company (Société Nationale des Hydrocarbures [SNH]), which represents the state in exploration, development, and execution of contractual arrangements with the private oil companies. SNH is in charge of selling the Government’s share of oil output to international markets and to the national oil refinery company (Société Nationale de Raffinage [SONARA]) and transferring the resulting revenue (net of SNH’s own expenditures) to the Treasury. SNH is also marginally involved in the production of oil and holds stakes in oil and nonoil companies.15 Most Cameroonian crude oil is exported by SNH, and lighter crude is imported and refined by SONARA for local and regional sales.

SONARA is the national monopoly in charge of refining oil and distributing it to private distributors. Its main asset is a small refining capacity of 45,000 barrels a day with a port, storage, and off-take facilities. The Government holds more than half of SONARA shares, and private companies, mainly Total, hold the remaining shares. During periods of rapid price increase, the Government has protected SONARA, at a considerable cost to the economy.

The Government limits product imports to 20 percent of domestic demand and imposes a small surcharge on them. Oil marketing is undertaken by four international companies and several domestic companies; distribution is undertaken by a state-owned company. Prices are determined by the Caisse de Stabilisation des Prix des Hydrocarbures, established in 1974.

The Government imposes several taxes on petroleum products. These include custom duties, a turnover tax, and a special tax that in 2004 accounted for 39 percent of the final price of gasoline and 31 percent of the price of diesel. In contrast, kerosene received a subsidy equal to 11 percent of the retail price. The prices of petroleum products also include a fee16 of about $0.40–0.60 per liter paid, which is paid into the equalization fund.

The high level of domestic duties on petroleum products has created an active market for smuggling and tax evasion. Fuel is smuggled in from Chad and Nigeria, where subsidies are still provided, and fuel imported duty free through Douala for export to the Central African Republic and Chad has been illegally diverted to the domestic market. Fuel adulteration and short selling are also problems.

With the decline of oil production, the Government has implemented a comprehensive plan to reform the petroleum sector (box 3.7). This plan includes legal and institutional reforms, structural changes, and incentives to attract investment and improve the financial and accounting system of the
Box 3.7
Key Features of Cameroon’s Petroleum Sector

Cameroon is the smallest oil producer in Sub-Saharan Central Africa. It is a net exporter of oil.

**Oil Production, Consumption, Net Exports, Refining Capacity, and Reserves, 2006** (thousands of barrels a day, except where indicated otherwise)

<table>
<thead>
<tr>
<th>Data</th>
<th>28-year history</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cameroon</td>
<td>Africa</td>
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<td>total oil production</td>
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</tr>
<tr>
<td>crude oil production</td>
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</tr>
<tr>
<td>consumption</td>
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<td>refinery capacity</td>
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</tr>
<tr>
<td>proven reserves (billions of barrels)</td>
<td></td>
<td>0</td>
</tr>
</tbody>
</table>

*Source: EIA 2007.*

— = not applicable.

**Consumption.** Cameroon consumed about 24,000 barrels of oil per day in 2006 (EIA 2007). In 2002, demand for oil rapidly increased because of construction of the Chad-Cameroon pipeline, greater use of thermal units to cope with power deficits, and a favorable price compared with gasoline.

**Oil production.** Production started in 1976 and reached its peak in 1986, at 173,000 barrels per day, before declining by nearly 40 percent by 1996. The pace of decline slowed from 1997 to 2004, and production increased in 2005 and 2006 to about 90,000 barrels per day following technological improvements that permit greater extraction per well. Thanks to recent discoveries, output was expected to rise 5 percent in 2007 and to remain stable in 2008–10.

(continued)
The relationship between private producers and SNH, including the tax regime, is contractually defined in production-sharing arrangements. Cameroonian crude is heavy, and the differential below the World Economic Outlook (WEO) benchmark widened.

**Reserves.** Proven reserves in 2006 were estimated at about 0.4 million barrels of crude oil, mostly at fields with declining output. There is renewed interest in Cameroon’s major petroleum basins. As a result of the intensification of deeper drilling in exploited fields, proven reserves were revised upward by 13 percent in 2004–05. Even after this upward revision, however, reserves are not expected to last 10 years at current output levels.

Cameroon also has about 4 trillion cubic feet of unexploited natural gas reserves. These reserves consist of small and medium-size dry gas fields and the associated gas flared at crude oil fields. There is growing interest in developing gas resources, starting with a small project to generate electricity in Kribi.

**Refinery capacity.** Until 1995, SONARA processed only domestic crude oil. Since then it has been authorized to import at market prices crude oils better adapted to Cameroon’s refinery configuration and domestic market fuel demand pattern. Its average supply mix includes SNH-Kole crude (15 percent), Alba crude from Equatorial Guinea (10 percent), and lighter crude from Nigeria.

*Box 3.7 (continued)*

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**Actual and Projected Oil Production and Prices, 1985–2009**

![Graph of oil production and prices](image)

*Source:* IMF staff estimates based on SNH data.

*Note:* Prices for 1985–99 are based on fixed euro exchange rate.
SONARA implemented a project to increase capacity from 41,000 to 45,000 barrels per day by mid-2003.

**Oil Production, Consumption, and Exports, 2000–05**

![Oil Production, Consumption, and Exports, 2000–05](image)

*Source: EIA 2007.*

Transport and storage. Products are shipped from the refinery to the main storage center in Douala by small tankers (Cameroon Shipping Lines). The Société Camerounaise de Dépôts Pétroliers operates the main cities storage facilities. Wholesale product transport is done by rail (through CAMRAIL) and road. Distribution and market retailing operations are done by private companies that have set up a Groupement Professionnel des Pétroles.

**Chad-Cameroon oil pipeline.** The project, which started in October 2000 and was completed in December 2003, enables the transit of Chad oil production. Pipeline activities do not generate a significant value added for Cameroon. Transit fee amounts to $0.41 per barrel. Hence, based on a projected flow of 200,000 barrels per day, government revenue collected from the transit fee amounts to 0.8 percent of total revenue in 2005 (0.2 percent of GDP).

SNH. No institution is solely in charge of following implementation of the oil sector reform agenda, however. Moreover, there are overlapping responsibilities and conflicts of attribution among the different public agencies in the oil sector, including the SNH, the Ministry of Industry and Mining, and the Ministry of Energy and Water Resources. The problem has adverse ramifications for the Government’s fiscal strategy and capacity to elaborate and
effectively implement a coherent oil and energy sector development strategy. Renewed attention is needed in this highly strategic sector of Cameroon’s economy if Cameroon is to achieve its medium-term objectives in fiscal policy, diversification, and growth.

Implementing Institutional Reforms

The most important task is to clearly redefine the missions, roles, and responsibilities of the key public agencies in the sector (the line ministries) and the key public companies (SNH and SONARA).

Upstream, private oil companies are responsible for exploration and exploitation, but SNH remains a key player, working closely with other agencies and private oil companies to develop and manage Cameroon’s hydrocarbon resources. SNH needs to continue to leave investments and actual oil and gas development operations to private companies. In contrast, it should be given technical assistance to enable it to support the development of gas projects, where the Government’s role at this early stage is key.

Downstream, the Government views Cameroon’s refinery as a strategic asset. But the decision to protect it by restricting imported products and imposing import duties is costly to the economy. SONARA’s performance, which in part reflects its limited size and a technology that is not up-to-date, makes protecting the refinery an increasingly expensive policy.

The Government needs to continue its efforts to deregulate the market for oil products. In particular, SONARA needs to compete with importers, and wholesale transport and storage facilities management needs to be liberalized. There is also an urgent need to strengthen the ability of sector ministries—especially the Ministry of Industry, Mines and Technological Development and the Ministry of Mines, Water, and Energy—to regulate and implement the Government’s oil and energy sector strategy.

Developing Oil and Gas Products

New exploration and petroleum development investments took place following passage of the April 1998 law for the promotion of marginal fields and the December 1999 approval of a new petroleum code. The rate of decline of crude oil production has been reduced, and new contractors are operating in most prospecting country basins. Expectations for these investments are high, as these wells could open new blocks, including deep offshore ones. It is important that SNH continue its policies to encourage exploration by private
operators, while avoiding direct investment in exploration. At the same time, serious effort should be made to improve contract-granting administrative procedures, in order to facilitate the new licensing round once the results of ongoing exploration efforts are known.

A new gas code has also been adopted and a coordinated effort launched to develop gas reserves. Evaluations are underway to select the best gas use scheme to meet estimated power demand as soon as possible and at lower cost.

Improving the Management and Transparency of the National Oil Company

Significant efforts were undertaken in the 1990s to increase transparency in the oil sector. The first independent audit by an international firm was conducted in 1991. Thereafter, SNH began to routinely provide the Government with data on production, exports, prices, revenues, costs, share of oil receipts (net of operating expenses shared with private oil companies), and transfers to the national budget. As part of this reform, SNH has also gradually upgraded its management in order to enhance transparency and accountability. Since June 2001, it has been producing regular annual financial statements in accordance with international accounting practices. In addition, the Government now releases quarterly information on total oil production, selling prices, and revenue from oil transferred to the Treasury. This information is now posted on a regularly updated Web site, which enhances transparency.18

The oil production accruing to the SNH accounts, on average, for two-thirds. Because of the low level of exploration and development investments by the operators, this share (the oil take) is higher than the average in other Sub-Saharan Africa oil-producing countries (53 percent). The ratio of government revenue to oil exports depends on production and transport costs as well as the contractual conditions agreed upon by SNH and the private oil companies.19 In Cameroon, a large share of the fixed cost has been amortized, and transportation costs from off-shore platforms are low.

Three issues related to the transfer of oil revenue have been undermining the transparency of budgetary operations:

- The Government does not receive the full amount to which it is entitled, because SNH makes additional deductions which may or may not be related to oil activities (provisions for decommissioning oil fields, administrative expenses related to the construction of the pipeline and fuel purchases for the Government).
The amount transferred is reduced by the amount of the cash advances made by SNH in response to pressing demands by the Government (typically spending for national security, sovereign entities, or public enterprises). These expenditures, which circumvent standard budget procedures, are imputed ex post in the budgetary execution. This practice distorts budget preparation and monitoring.20

There is a lack of clarity in the transfer of dividends received by SNH for its activities carried out as a private oil company (marginal direct involvement in oil production and exploration and management in various holdings of oil- and nonoil-related companies in Cameroon).

To address these issues and increase transparency, the Government committed to discontinue cash advances in order to limit extrabudgetary spending as of January 2006 and to adhere to the Extractive Industries Transparency Initiative (EITI).

Cameroon’s recent decision to adhere to EITI and swift actions by the Government to comply with its guidelines are important signals that are likely to boost transparency, credibility, and effectiveness. In October 2005, a multistakeholder EITI committee was created with the mandate to formulate an action plan to implement EITI for Cameroon. The plan was adopted on January 16, 2006, after substantive and open discussions with civil society and the oil companies. Within this participatory framework, the Government moved quickly to create a technical EITI Secretariat, establish a steering committee, and recruit and pay for a qualified independent conciliator. The main task of the independent conciliator has been to collect and reconcile data on petroleum production, payments made by the oil companies to the Government, and corresponding receipts by the Government during 2001–05.

The first EITI report, covering 2001–04, was issued in October 2006.21 It provides templates for the collection and publication of oil sector data. The report compiles and analyzes production and financial data of the oil companies, including payments made to the Government and its agencies and payments received and recorded by the Government and its agencies.

The second EITI report covers 2005. It has better coverage and provides some explanation of the discrepancies between the data in the audited books of the private oil companies, the SNH, the tax authority, and the Treasury.

Improving the Management of SONARA

Management and efficiency remain key problems for the national oil refinery company. The Government has taken some steps to improve its efficiency.
SONARA and the Government signed a performance contract to reduce inefficiencies and strengthen SONARA’s financial position. A scheme was developed to protect the company—at a considerable cost to the economy. SONARA has been able to produce unleaded gasoline since 2005. It is now facing the challenge of reducing the content of sulfur in diesel.

A 2002 World Bank study recommended some critical changes in the administration of the import tax. The main issue is that the 10–15 percent import tax paid by SONARA and other importers of fuel oil is ad valorem and thus amplifies fluctuations in the international market price, imposing additional taxes on consumers during times of high oil prices. To mitigate these problems, the Bank study suggested replacing the ad valorem tax with an excise (or per unit) tax.

Until 2004, oil prices were adjusted monthly. Out of concern for the adverse impact of high oil prices on consumers during the period of skyrocketing oil prices (2004–05), the Government yielded to social pressure and eventually suspended the price adjustment mechanism, thus divorcing the regulated domestic price of fuel from the import price. Consequently, SONARA started to accumulate quasi-fiscal losses and its cash flow situation became increasingly tight and rapidly untenable. In early 2005, the authorities, through the PRGF, committed to fully reinstate the domestic fuel pricing formula, even adding a mark-up that could allow SONARA to recoup the losses incurred in 2004. To mitigate the adverse impacts of the sharp increase in fuel prices, the authorities decided to divide the cost increase between consumers, through an increase in domestic fuel prices, and the Government budget, through budgetary transfers to SONARA. The authorities intend to continue adjusting the domestic fuel price to import price with a positive mark-up, which will shore up the financial position of SONARA over the medium run. It is important that such a mark-up be kept at a negotiated and minimal level, to keep fuel prices low while exerting continued pressure on SONARA to improve internal efficiency and competitiveness. The Government is undertaking an audit of SONARA’s operations to assess the refinery’s overall economic costs and seek ways to ensure its medium-term viability. The results of the audit will help the Government develop a plan for restructuring SONARA to ensure its long-term financial sustainability.

Improving Wholesale Transport and Storage Facilities

Cameroon suffers from severe logistic and capacity constraints in the wholesale storage and transport system. These constraints result in serious safety and
environmental risks, higher costs, and inefficiencies. Swift action, especially in developing an effective regulatory system, is needed to improve management and attract investment to boost capacities.

For transport facilities a technical economic study is needed to assess the possibility of constructing a pipeline to move products from the refinery and import facilities in Limbe to the storage facilities in Douala. The study should also review possibilities for improving the transportation of products from Douala to Yaoundé and other cities using a pipeline or improved rail and road facilities.

Storage facilities also need rapid improvement. Steps need to be taken to enhance safety and protect the environment, such as resettling people located too close to the tank farms in Douala and Yaoundé. More broadly, a study would help the Government refine its subsector strategy, including restructuring and privatizing the public company in charge of oil storage, Société Camerounaise des Dépôts Pétroliers. This approach should help address inefficiencies in the overall downstream wholesale supply chain, reducing costs, enhancing reliability and spurring competition. Emphasis should be placed on streamlining the operations of the storage and transportation system with nondiscriminatory tariffs and open access policies.

**Debt Management**

Ensuring debt sustainability in the context of steadily decreasing oil revenues is essential for future macroeconomic stability. Continued prudence in debt management is critical if Cameroon is to consolidate its fiscal situation and free up resources to finance growth and poverty reduction.

**External Debt: An Overview**

One of Cameroon’s major accomplishments since the devaluation has been its relatively successful management of its external debt. In the 1980s and early 1990s, Cameroon found itself in a very precarious fiscal position, with rapidly mounting external debt and debt service consuming a sizable part of government revenue. The rapid debt increase reflected the protracted economic depression and fiscal crisis during the 1986–93 period.

Cameroon reached five rescheduling agreements with the Paris Club between 1989 and 1997. Despite these agreements, the stock of debt outstanding was unsustainable, and debt service constituted a drain on government finances. By the end of June 1999, the nominal stock of public external debt was estimated at $7.8 million ($6.6 million in net present value).
represented 85 percent of GDP, with debt service absorbing 23 percent of government revenue.\textsuperscript{23}

Thanks to sustained reforms and macroeconomic stabilization efforts, the debt situation began to improve in October 2000, when Cameroon reached the Decision Point under the Enhanced HIPC Initiative (figure 3.5). In 2004 the Government’s failure to keep its IMF–supported program on track (see box 3.1) led to the country’s inability to fully meet its external debt service obligations, despite renewed efforts to mobilize nonoil revenue and to restrain expenditure. This inability led the Government to request a new rescheduling of Cameroon’s bilateral and commercial debt obligations later in 2005. The satisfactory conclusion and execution of a new PRGF program and a renewed effort to advance its broad structural reform program allowed Cameroon to eventually reach the HIPC Completion Point in April 2006 and to simultaneously qualify for additional debt relief under the Multilateral Debt Relief Initiative (MDRI) (box 3.8). The result has been a substantial decrease in the stock of external debt and debt service, curbing the net present value of external debt as a percentage of exports from 153 percent at the end of 2005 to 13 percent at the end of 2006; the net present value of external debt as a percentage of GDP fell from 33 percent to 3 percent.\textsuperscript{24} Debt service

\textbf{FIGURE 3.5}

\textit{External Debt, 1999–2006}

![Graph showing external debt from 1999 to 2006 as a percentage of GDP](image)

\textit{Source:} Authors’ compilation based on data from Cameroon authorities.
Box 3.8
Cameroon’s HIPC Completion Point and Multilateral Debt Relief Initiative

Debt relief to Cameroon under HIPC amounts to about $1.267 billion in 1999 net present value (NPV) terms, equivalent to a 27 percent NPV reduction of Cameroon’s debt after traditional debt relief. The relief will reduce Cameroon’s future debt service payments by about $4.9 billion in nominal terms.

The breakdown of the Enhanced HIPC Initiative assistance (in NPV terms) is as follows:

- $176 million from World Bank Group
- $37 million from the IMF
- $79 million from the African Development Bank Group
- $31 million from other multilateral creditors
- $879 million from bilateral creditors
- $65 million from commercial creditors

The Paris Club cancelled $921 million in nominal terms. Creditors also committed to grant additional debt relief to Cameroon on a bilateral basis, reducing the stock of debt owed to Paris Club creditors by another $2.55 billion in nominal terms. Following the agreement signed in June 2006, Cameroon’s debt to Paris Club Creditors was reduced from $3.5 billion to $27 million.

In reaching the HIPC completion point, Cameroon became eligible for further debt relief from the IMF, the International Development Association, and the African Development Fund under MDRI. Debt relief provided under MDRI will amount to $1.13 billion at the current exchange rate, in addition to the $202 million in relief to be received from the three institutions under the HIPC Initiative. Total relief will result in average annual debt service savings of $38.2 million between 2006 and 2025.


should amount to 1.5 percent of exports of goods and services between 2006 and 2015 (World Bank 2006b).

Cameroon also benefited from a substantial reduction in commercial debt in 2003. As of March 2003, Cameroon held about $953.5 million that was eligible for reduction with the London Club ($341.0 million in principal and $612.5 million in arrears on interest). Cameroon’s eligible commercial debt was held by some 70 creditors but was highly concentrated, with a dozen creditors holding 80 percent of it. Nearly 88 percent of the debt was owed to commercial banks, with the remaining 12 percent owed to supplier creditors. Under the operation, Cameroon agreed with commercial creditors to purchase eligible debt for cash at the price of $0.145 for each $1 of principal and to
cancel all interest arrears. The creditors’ participation rate was 80 percent. However, litigation continues with a few creditors. The Government is continuing its efforts to negotiate in good faith with all creditors, without losing sight of the principle of comparable treatment.

Domestic Debt: An Overview

The Government is determined to fully implement the new domestic debt repayment plan in order to boost investor confidence. Like the external debt, the bulk of the domestic debt was accumulated during the crisis years of 1986–93. Before 2000, about 54 percent of the total debt was securitized. Securitized debt includes debt to commercial banks as well as arrears on civil service wages. Repayment conditions (maturity, interest, and amortization) for securitized debt are specified in securitization agreements the Government has worked out with creditors.

The Government had made considerable efforts to consolidate domestic debt data from the Caisse Autonome d’Amortissement (CAA) and the Treasury, including through a number of independent audits. As a result, CAA has reconciled stocks and flows of domestic debt and prepared a debt service schedule. Because economic management was deteriorating significantly before the 2004 presidential elections, however, the debt service schedule was no longer implemented and new domestic arrears started to accumulate rapidly.

The post-election cabinet reacted promptly. In early 2005, it launched a new audit of domestic debt that included an assessment of cross-debt held by the Government and public enterprises in order to establish the new level of arrears and debt accumulated. It also drew up a new debt service schedule for 2006 and beyond, building on the results of the audit. Since then, the Government has made considerable efforts to stick to the multiyear settlement plan; much of the windfall in oil revenue over the past few years has been allocated to accelerating repayment of the domestic debt. The Government is determined to liquidate the stock of domestic debt over the next few years in order to reestablish its credibility with domestic creditors. Doing so will boost investors’ confidence while raising domestic private savings, which will stimulate investment.

Debt Management

Improving debt management requires action on three fronts:

- Resolutely implementing the Government’s macroeconomic and structural policies for boosting growth and increasing government
revenue (strengthening diversification would help reduce vulnerability to exogenous shocks)

- Developing a prudent strategy for financing future resource needs from the domestic market, as well as from the rest of the world
- Strengthening the human and technical capacities for effective debt management

It will also be necessary to develop a decision-making process that is based on the timely provision of accurate information on public borrowing and is capable of proposing the most cost-effective borrowing schemes.

Developing a Prudent Strategy for Financing Future Resource Needs

Financing the poverty reduction strategy will require substantial domestic resource mobilization. A set of prudent policies will be required to finance the internal and external resource gaps. The Government’s debt policy must be regularly informed by sustainability analyses, and the debt management services within the administration need to be technically equipped to carry out such analyses on a regular basis.

In regard to external financing, the Government needs to implement a prudent debt management policy that builds the capacity and credibility to secure grants and concessional borrowing from bilateral as well as multilateral institutions. As part of enhancing its credibility, it must rigorously respect agreed upon debt service plans and avoid accumulating arrears. More than anything else, improved governance and commitment to sustain reforms will boost donor confidence and increase donor support for Cameroon, which will facilitate resource mobilization efforts and lower cost.

In regard to the domestic or regional market, Cameroon is set to greatly benefit from the advent of the CEMAC government bond market. The projected increase in oil revenue within CEMAC will not only supply adequate liquidity, it will also enable Cameroon to borrow and finance its overall resource gap without running the risk of absorbing too much domestic savings and hence crowding out private domestic investments. Burkina Faso, Côte d’Ivoire, and Senegal have used the subregional bond market to finance resource needs, benefiting from the logistics and expertise provided by the Banque Centrale des États de l’Afrique de l’Ouest (BCEAO), the central bank of the WAEMU countries (box 3.9). As in the case of external resource mobilization, the Government will need to establish a track record of solid macroeconomic and debt management and vastly improve credibility and governance in order to tap into the resources offered by a regional bond market.
Strengthening Macroeconomic Policies and Public Finance Management

Box 3.9
Using the Subregional Bond Market to Finance Budget Deficits

CEMAC countries are seeking to develop a subregional government bond market for financing budget deficits and eliminating the recourse to drawings from the central bank. Implementation of the CEMAC plan is experiencing delays.

In contrast, members of WAEMU are well advanced in this area. Since 2001, a growing number of WAEMU countries—including Burkina Faso, Côte d’Ivoire, Mali, and Senegal—have used the subregional market to finance resource gaps. A special window of the BCEAO has helped by providing logistics and technical assistance and by facilitating the process.

Examples of Offerings of Government Bonds in the WAEMU Zone, 2006

<table>
<thead>
<tr>
<th>Country</th>
<th>Date</th>
<th>Total (million CFAF)</th>
<th>Maturity (months)</th>
<th>Interest rate (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Niger</td>
<td>June 1</td>
<td>8,300</td>
<td>6</td>
<td>3.95–5.0</td>
</tr>
<tr>
<td>Benin</td>
<td>July 11</td>
<td>25,400</td>
<td>6</td>
<td>3.25–4.5</td>
</tr>
<tr>
<td>Guinea-Bissau</td>
<td>August 14</td>
<td>6,740</td>
<td>6</td>
<td>3.73–6.0</td>
</tr>
<tr>
<td>Senegal</td>
<td>August 23</td>
<td>50,775</td>
<td>6 and 12</td>
<td>3.2–5.5</td>
</tr>
<tr>
<td>Burkina-Faso</td>
<td>September 6</td>
<td>20,000</td>
<td>6</td>
<td>3.95–5.5</td>
</tr>
</tbody>
</table>

Source: ECOWAS 2006.

CEMAC countries could soon follow suit. Their considerable oil resources could provide adequate liquidity for such a market. Having recourse to a regional bond market could lower the risk of crowding out private investment. Increased offerings of government securities would also deepen financial markets, encouraging savings and investment.

Source: Authors.

Strengthening the Capacities for Effective Debt Management

Since 1990, Cameroon’s public debt has been managed by an autonomous government agency, the CAA. In recent years, the CAA has considerably enhanced its capacities and improved debt management. Additional improvements are still needed in a number of important areas. First, internal and external control procedures need to be improved. The CAA should establish procedures to reconcile debt aggregates with creditors’ statements on a regular basis. Although the CAA maintains regular contact with all creditors, payment data available through the debt management system often differ from creditors’ invoices. In addition, disbursements or cancellations are not regularly
recorded. Debt reports and repayments made through autonomously managed bank accounts should be regularly audited by an independent agency.

Second, better coordination is needed between the CAA and other agencies involved in debt management, including the Treasury and BEAC. Such coordination would help prevent overpayments and delayed payments.

Third, the Government needs enhanced capacity to manage debt-related risk. Beginning in 2010, the level of concessionality of Cameroon’s external debt could be reduced significantly as the country’s per capita income crosses the International Development Association (IDA)—only threshold. Cameroon will then have to borrow on less favorable terms, increasing risk. The Government should develop a capacity-strengthening program to help CAA staff acquire the necessary skills for risk assessment so that they can more effectively guide the Government’s debt management and resource mobilization strategy.

In broader strategic terms, there is a need for a strategic assessment of the respective roles of the CAA and the Treasury. Such an assessment would come at an opportune time, as the Treasury has now strengthened its capacity and is capable of managing debt.

**Public Procurement**

Past procurement practices have been very costly to the Government. A 2000 review of the procurement system, the Country Procurement Assessment Review (CPAR) (World Bank 2000b), concluded that comprehensive reforms were necessary to create conditions for sustainable improvement in the capacity to manage and absorb public resources, including foreign aid.

The efficiency of the system was hindered by cumbersome and nontransparent procedures, weaknesses in legal and regulatory frameworks, and the exclusion of line ministries from the procurement process. The absence of monitoring, discipline, and sanctions led to a lack of accountability; administrative delays; abuses in contract-awarding procedures, including the widespread practice of slicing and packaging contracts; and over- and multiple billing. Tax regulations related to procurement were enforced haphazardly, contributing to the high cost of bids. This situation led the Government to implement a bold procurement reform over the past few years.

Reform has started to yield good results and needs to be sustained. The Government began procurement reforms in 2000 to increase competition, reduce delays, and limit the discretion of bids and awards committees. These reforms are expected to reduce corruption and lead to more-efficient public spending.
The reform process was assessed in 2005, in the second comprehensive CPAR, carried out by the Government and the World Bank in collaboration with civil society, the private sector, and other donors. The assessment, based on a set of baseline indicators developed by the Organisation for Economic Co-operation and Development–Development Assistance Committee (OECD–DAC), concluded that significant progress had been made over the previous five years and that the foundations of the national procurement system were well in place. It rated Cameroon 69 on a scale of 100.

**Giving Greater Responsibility to Contracting Authorities**

Contracting authorities are now entitled to conduct and monitor procurement, award contracts, and lead the execution of such contracts. Within ministries, public enterprises, and other public bodies, public procurement commissions (Commissions de Passation des Marchés) were created with full responsibility for granting binding contracts up to a certain threshold and specialized public procurement commissions (Commissions Spécialisées de Contrôle des Marchés) were created to review contracts over the threshold. A review conducted by independent experts concluded that these reforms resulted in marked improvements in the transparency and integrity of the bidding and contracting process. Some of the problems identified in the 2000 CPAR persist, however. To address them, the Government needs to impose sanctions against malpractices in the competitive bidding process.

**Strengthening the Public Agency in Charge of Supervising the Public Procurement Process and Reforming Regulations**

Created in February 2001, the Agence de Régulation des Marchés Publics (ARMP) has performed satisfactorily at updating and implementing new regulations. It has organized the preparation of standard bidding documents, a procedure manual, and a bidder’s guide. It has provided outreach and information programs to the public and private sectors and training to contracting authorities. It also advises and makes recommendations to the contracting authorities upon request and reports to the Government on progress made and difficulties encountered in implementing reforms.

ARMP has developed a database of contracts awarded and a centralized filing system to facilitate ex post audit of contracts. It annually assesses the reliability and performance of the national procurement system, using a set of performance indicators defined in collaboration with the World Bank. The Government intended to design and install a computerized system in 2007.
for planning, executing, monitoring, and controlling public contracts. This database will be accessible to the public through the ARMP Web site.

These are encouraging achievements, which the Government should consolidate. To do so, it needs an effective program for further strengthening the capacities of the ARMP as well as the regulatory framework.

Reinforcing Upstream and Downstream Controls

In June 2000, the Government adopted decrees putting in place ex ante and ex post controls of the procurement process. These controls include the participation in bid evaluation commissions—including specialized commissions—of independent observers, whose task is to report on the commission’s compliance with the rules of competition, transparency, fairness, and efficiency. They also include annual audits performed by an independent auditor recruited through a competitive bidding process. A review conducted by external experts in 2004 concluded that most of the independent observers have produced good-quality reports that provide valuable insights into the contract-awarding process in the public sector.

Enforcing Sanctions

The most significant weakness of the procurement system is the fact that sanctions are not systematically imposed against parties that do not follow the rules. In 2006 the Government reiterated its commitment to ensure application of the statute barring any individual or legal entity from bidding if that entity has committed proven infractions during a procurement process. As part of the fight against corruption, the Government has started to publish the penalties imposed in legal proceedings and the sanctions against offenders. Despite these positive steps, Cameroon has yet to develop an effective system of sanctions for well-documented irregularities.

Notes

1. Under this system, private companies must deposit a bond that the Government can cash if the company fails to meet its environmental and fiscal obligations.
2. The system has not yet been implemented.
3. Cameroon’s performance in terms of tax revenue as a percentage of GDP compares favorably with countries such as Côte d’Ivoire (14.9 percent) and Uganda (11.9 percent) but is well below the level reached by countries in rapid transformation, such as Tunisia (more than 20 percent). Cameroon’s rankings in terms of taxes on goods and services, profits, and capital gains are similar.
4. Several sector ministries—including primary, secondary, and tertiary education; agriculture; husbandry; health; and justice—have sector MTEFs.
5. The ministries of public works and primary and secondary education are expected to be equipped with this software in 2007.
6. In 2004, the increase in extrabudgetary spending by the national oil company contributed to the lack of transparency and integrity in budget execution.
7. The régies d’avance is a system under which the authorizing officer, upon approval of the public accountant, authorizes an agent to undertake a number of small operations, the nature of which is well defined.
8. A standardized framework has been provided that includes stocktaking of the main accomplishments in terms of sector-level strategic objectives; performance analysis and review of the implementation of programs and projects along the various strategic axes and revision of the priority action programs; review of budget execution; revision of the MTEF for the next five years; and elaboration of the program budget for the following year.
9. The state superior audit institution (Contrôle Supérieur de l’État) reports directly to the presidency; it cannot be considered an external control institution.
10. The workforce consists of permanent civil servants as well as people with long-term (contractuels) and short-term renewable (temporaires) contracts.
11. Current legislation indicates that a temporary worker should not be working as such for more than two years.
12. Antilope is the module of the management information system dedicated to managing the payroll.
13. In the past, some of these payments were hidden under the category “goods and services.” They have been reclassified in the table of financial operation as “other personnel expenditure.” They include payments made to temporary primary school teachers (instituteurs vacataires) and temporary health workers recruited with HIPC funds.
14. The pilot ministries are the ministries of primary and secondary education, health, economy and finance, and public service.
15. SNH exploits jointly with Perenco an oil field that represented 1 percent of total oil production in 2004. It holds 20 percent stakes in Total, Pecten/Shell, and Perenco as well as in other companies involved in downstream activities.
16. Equalization funds exist in countries that have established a policy setting the same price for all consumers in any place of the territory—in practice, in the gate of all wholesale depots. These funds pay the transport cost differences.
17. Twenty percent of estimated annual product demand is supplied under a bidding context.
18. Past audits of SNH by a certified public accounting firm were made public. SNH published production, sales, and revenue data for the first half of 2005 and pledged to update this information quarterly.
19. Production and Cost-Sharing Agreements: The Government gives private oil companies the right to explore or exploit a specific field, but they have to share any production generated from the field with the SNH. The split varies from
70/30 in favor of SNH, to 50/50. On average, the split is 63/37 in favor of SNH. Shared operating costs (i.e., depreciated development costs, depreciated exploration costs, and financial charges) are split 50/50.

20. The allocation planned for some ministries is below the projected level of actual spending. This distortion reflects the fact that the SNH direct payment is expected to make up the difference. Expenditures for which budget allocations were initially insufficient are attributed ex post to ministries/common expenditure budget lines with budget expenditures that have not yet been fully disbursed.

21. The EITI reports on Cameroon and other countries involved in this initiative are available at http://www.eititransparency.org.

22. The agreed adjustment formula for the ex-refinery prices covers import parity prices, port handling charges, import taxes, and a negotiated amount set to progressively adjust refinery economics to import competition.

23. Paris Club members hold 69 percent of Cameroon’s nominal debt, with 25 percent owed to France and 18 percent to Germany.

24. The net present value of external debt as a percentage of GDP is expected to rise modestly over the medium term while remaining at about 13 percent in the long run.

25. Some of the nonparticipating creditors have already obtained favorable court judgments; others are about to launch legal actions against Cameroon.

26. An estimated 60–65 percent of this debt was contracted before 1994.

27. By law the CAA acts on behalf of the Government in the following areas: managing the public and publicly guaranteed external debt and the public domestic debt; safekeeping all loan agreements and related documents; ensuring timely disbursements of negotiated loans and making regular debt service payments; participating in the renegotiation of debt agreements with official and commercial creditors; and providing regular statistics on the external and domestic debt for official publications.

28. In particular, a regular training program is required to ensure that the entire professional staff acquires the technical skills necessary for using the latest computer-based debt management programs. Staff must also be trained to evaluate new borrowing proposals and debt renegotiations.

29. The cutoff for IDA eligibility was $965 in FY2006. In 2004, Cameroon’s per capita GNI was $800. The country has limited access to capital markets.

30. This evaluation system includes 12 indicators under the four pillars of a modern procurement system (the legislative and regulatory framework, the institutional framework, procurement operations and private sector practices, and integrity of the public procurement system).

31. Malpractices include slicing and packaging, modifying evaluation criteria after bid opening and during evaluation, creating biased shortlists that sometimes include candidates with personal connections, creating fictional contracts, and awarding contracts to bidders that did not meet conditions.
Deepening Trade and Financial Policies within the Regional Framework

Cameroon’s PRSP identifies diversification of the economy as the main engine for reducing economic volatility and deepening growth. Diversification into higher-value agricultural, manufacturing, and services requires considerable improvement in the competitiveness of the business environment. A more business-friendly environment is also a key condition for attracting foreign investment and boosting export-led growth.

To do so requires a well crafted combination of macroeconomic and sector policies. Improved macroeconomic stability will reduce sovereign risk and costs, enhance Cameroon’s credit rating, and attract investment. In addition, Cameroon needs to increase its competitiveness by reducing transaction and production costs through greater trade openness, improved infrastructure services, deeper financial markets, and more-productive human capital (box 4.1). Improvements in these areas will require policies that enhance competition.

In small countries such as Cameroon, policies that increase scale, credibility, and visibility are important. Deepening regional integration is critical for Cameroon to position itself as a viable subregional hub, a conduit for foreign investment, and (eventually) a growth pole. The experiences of China and India have shown that openness is critical: both countries began to realize their potential after taking advantage of the opportunities afforded by globalization (box 4.2) through a well designed open door policy, including the development of special economic zones.

Cameroon has many competitive assets—including political stability within a troubled subregion, a hub position within an oil-rich subregion, natural endowments, and a relatively well-educated labor force—as the PRSP recognizes. Realizing their potential will require effective trade reforms and prudent regional cooperation and integration policies.
Box 4.1
Cameroon’s National Competitiveness

Key indicators
Population (millions), 2006 ...................................... 16.6
GDP (billions, current US$), 2006 .......................... 18.4
GDP (PPP int'l$) per capita, 2006 .......................... 2,199
Sectoral value-added (as percentage of GDP), 2004
Agriculture .......................................................... 44
Industry .............................................................. 16
Services .............................................................. 40
Human Development Indicator rank
(out of 177 economies), 2004 ............................... 144

Global Competitiveness Index 2007

<table>
<thead>
<tr>
<th>Overall rank (out of 128)</th>
<th>Score (1–7)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Competitiveness</td>
<td></td>
</tr>
<tr>
<td>Index 2007 .................. 111 .......................... 3.3</td>
<td></td>
</tr>
<tr>
<td>GCR 2005–06 (out of 117 economies) 99 ........................ 3.4</td>
<td></td>
</tr>
<tr>
<td>Basic requirements ........ 108 .......................... 3.7</td>
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The most problematic factors for doing business
Access to financing .................. 16.0
Corruption .......................... 15.2
Tax rates .......................... 10.5
Tax regulations .......................... 10.0
Inadequate supply of infrastructure .... 9.9
Inefficient government bureaucracy .... 9.6
Poor work ethic in national labor force 5.0
Inadequately educated workforce .... 4.3
Policy instability .................. 4.0
Crime and theft .................. 3.7
Inflation .......................... 3.6
Restrictive labor regulations .... 3.5
Foreign currency regulations .... 2.5
Government instability/coups ..... 2.2

Note: From a list of 14 factors, respondents were asked to select the five most problematic for doing business in their country and to rank them between 1 (most problematic) and 5. The bars in the figure show the responses weighted according to their rankings. PPP = purchasing power parity.
### Box 4.1 (continued)

The Global Competitiveness Index in detail

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<td>Capacity for innovation</td>
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*Hard data. ICT = information and communication technologies; R&D = research and development.

Box 4.2
Creating a Business-Friendly Environment: Lessons from India

India dismantled a restrictive Foreign Direct Investment (FDI) regime, gradually replacing it with one of the most-open and relaxed national policies toward foreign investment in the developing world. The reforms have unleashed the enormous growth potential of India’s economy. The rapid yet calibrated move toward deregulation and liberalization has made India a favorite destination of foreign investors.

India’s policy environment provides clear guidelines for entry, freedom of location and investment, choice of technology, production, and repatriation of capital and dividends—features specifically aimed at enhancing the flow of FDI. The approval process for FDI, for example, has been greatly simplified and eligibility for automatic approval by the central bank eased. The 40 percent ownership limit was eliminated, with foreign investment of up to 51 percent of shareholding automatically approved in a long list of industries. Since the mid-1990s the list of industries in which FDI is permitted has been broadened. Automatic approval has been granted for joint ventures with up to 74 percent foreign equity participation, and 100 percent foreign equity and ownership is permitted in export-processing zones and in units that are 100 percent export oriented.

Since September 1992, portfolio investment has been allowed for registered foreign institutional investors, such as pension funds, mutual funds, investment trusts, and asset management funds. Companies have been allowed unrestricted entry (in terms of volume) in the primary and secondary markets for corporate securities. In addition, Indian companies with sound financial positions are permitted to raise capital abroad by issuing equity in the form of global depository receipts, foreign currency convertible bonds, and other debt instruments. The Indian Government also created the Foreign Investment Promotion Board as a one-stop, fast-track shop, where foreign investors can obtain all necessary approvals and have approved those FDI proposals not covered under the automatic approval.

The liberalized foreign investment approval regime has also facilitated foreign investment and transfer of technology through joint ventures. In exploration and production, oil and gas fields are open to the private sector and to foreign participation under production-sharing contracts. One hundred percent wholly owned subsidiaries are permitted for investment and financing.

These reforms have not only forced Indian companies to improve the quality of their products, but also enabled many to restructure their activities and upgrade their technology through mergers and acquisitions. The most visible impact of FDI has been in the manufacturing sector, which expanded the range of products available to consumers. In the service sector, a more-open FDI regime has seen the entry of more banks and insurance companies. Global management consultancies and accountancy firms have virtually taken over these markets in India.

Deepening Trade and Financial Policies within the Regional Framework

Deepening Trade Reforms to Enhance Competitiveness

Cameroon is among a growing number of countries in Sub-Saharan Africa that has significantly liberalized its trade policies since the 1980s and replaced a controlled trade regime with a more open and less distortionary one. Under the umbrella of CEMAC, the six-member economic and monetary union in Central Africa, Cameroon has accelerated its trade liberalization policy in the context of greater regional integration.¹

Throughout the 1970s and most of the 1980s, Cameroon maintained numerous tariffs at high average rates, imposed high tariffs and prohibitions, and maintained a deep antiexport bias in its trade regime. As a result, high rates of nominal and effective protection created a formidable barrier to the expansion of domestic industry and hindered international trade in nearly all products other than unprocessed raw material and agriculture commodities. High official tariff rates did not raise substantial revenues. Instead, they encouraged distorted behavior—including widespread tariff and tax exemptions, evasion, smuggling, and outright customs fraud—that reduced revenues. Like other countries in Sub-Saharan Africa, Cameroon saw significant erosion in its share of global trade.

As the largest and most diversified economy in the CEMAC subregion and the principal entry port for the Central African Republic and Chad, Cameroon occupies a strategic position. Consequently, economic protectionism in Cameroon created ripple effects in neighboring economies. Although, like other oil-exporting countries, Cameroon has maintained a primary trade surplus over the years, the shrinkage of the oil sector and the plummeting price of international commodities, especially coffee and cocoa, in the 1990s quickly transformed Cameroon’s current account surplus into a deficit.² Even though Cameroon has a relatively strong manufacturing and services sector compared to other countries in the region, it has yet to develop a strong export-oriented and diversified economy.

Following the 1986–93 economic crisis in the subregion and the 50 percent devaluation of the common currency, the governments of CEMAC countries decided to reform their trade regime to enhance competitiveness and attract investment. Key components of the new policy included implementation of a common external trade policy and the progressive liberalization of intraregional trade. As a result, the region transformed itself from one of the more protectionist trade regimes to one of the more open in Sub-Saharan Africa (table 4.1). In 1994, the CEMAC countries adopted a common external tariff (CET), making the subregion a custom union. The tariff consisted of a four-rate structure with fewer categories: 5 percent for essential goods, 10 percent for raw materials and capital goods, 20 percent
TABLE 4.1
Tariff Rates in Selected Countries in Sub-Saharan Africa, 1995–97

<table>
<thead>
<tr>
<th>Country</th>
<th>Year</th>
<th>Unweighted average tariff</th>
<th>Import-weighted average tariff and surcharge rate on dutiable imports</th>
<th>Indicative effective protection rates on production for domestic market manufacturing</th>
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<td>Benin</td>
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<td>28.9</td>
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<td>10.5</td>
<td>68.8</td>
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<tr>
<td>Côte d’Ivoire</td>
<td>1996</td>
<td>14.7</td>
<td>14.5</td>
<td>92.4</td>
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<td>Ghana</td>
<td>1996</td>
<td>11.2</td>
<td>7.3</td>
<td>67.2</td>
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<td>Malawi</td>
<td>1995</td>
<td>16.3</td>
<td>10.9</td>
<td>89.8</td>
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<td>1997</td>
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<td>12.9</td>
<td>50.5</td>
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<td>1997</td>
<td>23.8</td>
<td>16.2</td>
<td>107.0</td>
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</table>


Note: Calculations are based on data obtained from countries in the study.

for intermediate goods, and 30 percent for consumer goods. Although there were some delays in phasing in this generalized preferential tariff, many country-specific temporary surtaxes, intrazone tariffs, and nontariff barriers for local products were eliminated, and a process to replace the fragmented indirect tax system with a uniform VAT was introduced.

Despite these measures, trade liberalization has yet to translate into improved competitiveness. According to The Africa Competitiveness Report: 2007 (World Economic Forum 2007), Cameroon ranks 111th out of 128 countries in terms of competitiveness, with a global competitiveness index of 3.3 on a 7-point scale against an average of 3.29 for Sub-Saharan Africa (box 4.1). It ranked behind South Africa (46), Mauritius (58), and Nigeria (102). This poor performance can be attributed mostly to the slow pace of implementation of agreed reforms by the Government and partly to inadequate and inconsistent policy resolve, which has left in place administrative barriers and dysfunctions in Cameroon and throughout CEMAC (box 4.3).
Box 4.3
Cameroon’s Incomplete Trade Liberalization Agenda

Since the introduction of an ambitious reform process, Cameroon has maintained one of the more-liberalized trade regimes in Sub-Saharan Africa. In a cross-country survey conducted in 2005 by the IMF, Cameroon trade regime was ranked third on a scale of 3–10, where 10 represented very restricted trade practices. Cameroon’s simple average Most Favored Nation tariff was 18.0 percent in 2004. In addition to reducing tariffs, Cameroon has removed quantitative restrictions on imports and exports in the agricultural sector as well as export taxes on a variety of agricultural products, including cocoa, coffee, cotton, and sugar. It has also removed restrictions on trade in services.

Despite these measures, significant obstacles remain. A review by French customs experts of Cameroon’s fiscal-customs reform found that although CEMAC governments confirmed their commitment to reform, as defined in the 1994 CEMAC Treaty, they frequently breached its provisions, creating a gap between commitments and implementation on the ground. The report concluded that the persistence of exonerations and surcharges, complexities in customs procedures, and the weak institutional and technical capacity of customs administrations were obstacles to the free movement of goods across borders, creating a significant antiexport bias (Steenlandt, Puons, and Dufly 2002).

Also, the freight allocation system (tour de role) used for truck loading in Ngaoundéré and the freight allocation monopoly system in Chad and the Central African Republic add significantly to transaction costs. The tour de role system was first implemented in France 1965. Supply and demand for transport services are centralized at the regional level. Transporters are registered on a list at the regional freight office; and they are then assigned a task according to their ranking on the regional office registry. All trucking companies transport freight at a fixed price determined by the transport union, regardless of the quality of service provided. This system is suboptimal, because it creates disincentive to invest and rationalize a truck fleet. It partly explains why transport tariffs are twice as high in CEMAC as they are in East Africa. Removing the system would enhance competitiveness and reduce costs, but the resulting streamlining of the truck fleet would have social costs.

A second impediment to trade in the subregion is the double taxation of goods in transit from the port of entry (mainly Douala) to landlocked countries (the Central African Republic and Chad). The administrative roadblocks around the Douala-Bangui and Douala-N’djamena corridors also add to transactions costs for these countries.

Source: Authors.
Implementing the CEMAC Plan for Trade Facilitation and Integration

The Government needs to provide more-effective leadership and play a central role in implementing the CEMAC plan for facilitating trade and deepening integration. The main challenge is to transform nominal reforms into an effective competitive policy for Cameroon and its neighbors. To do so, Cameroon and other CEMAC members must take three main steps. First, they must ensure that intraregional trade for products originating from the subregion is indeed duty free and that all nontariff barriers are eliminated. This measure would boost trade within the subregion, especially Cameroon’s export of food products, such as plantain and cassava. Second, CEMAC governments should lower the common external tariff rates and set a maximum rate of 20 percent, in order to harmonize with the prevailing rates in WAEMU. Third, Cameroon should show the way by resolutely and fully implementing the 1994 CEMAC Treaty. This means not only enforcing the common external tariff regime but also aggressively implementing trade facilitation policies, including removal of persisting nontariff barriers (ad hoc measures and administrative impediments to free trade) within the subregion, as well as with the rest of the world. The Government also needs to improve the transit regime to increase the efficiency and overall functioning of the customs union and make CEMAC a more effective free trade zone. Cameroon should also take the lead in discussing trade arrangements with its largest neighbor, Nigeria. Cameroon stands to gain considerably from a policy of constructive engagement with Nigeria, as the Government proved in the Bakassi affair.4

Cameroon must fulfill its pledge to consolidate the CEMAC reforms by fully paying its dues to the Compensation and Development Fund. The fund was established by CEMAC as the financial instrument for dealing with trade-related compensation among member states. Its main objectives are to compensate countries, especially landlocked ones, for loss of revenue (mostly trade taxes) as a result of the elimination of internal tariffs and taxes and to finance projects that promote regional integration. In 2001, the heads of state of CEMAC countries agreed to impose a 1 percent fee on all imports from third countries to finance CEMAC institutions.5 Implementation has been slow and haphazard. The two countries that have traditionally provided leadership in the subregion, Cameroon and Gabon, have not yet complied, adversely affecting CEMAC’s budget. Their actions are indicative of the perennial lack of leadership and resolve by the authorities with respect to honoring regional agreements and implementing regional policies.
Deepening Trade and Financial Policies within the Regional Framework

Improving Port and Clearance Operations

To reduce transit time and improve transparency in customs clearance, in August 2000 the Government set up a single trade processing window (Guichet Unique du Commerce Extérieur [GUCE]), which has significantly reduced clearance time at the port of Douala. The GUCE provides a single window to importers and exporters by grouping all of the customs clearance and other administrative services involved in import and export operations in one place. A facilitation committee is in place, chaired by the private sector, to closely monitor the efficiency of port services, especially clearance operations.

Though the efficiency of port and clearance operations has improved considerably, additional improvement is needed. The average clearance time inside the GUCE is about five days for imports and about three days for exports, but the average clearance time to draw merchandise out of the port area is much longer. Studies reveal that shippers and their agents account for more than half of the average clearance time at the port. Delays in clearance time often reflect cash flow constraints as operators face difficulties to gather the sums needed to pay customs duties. Also, other operators use the port as a storage area.

An action plan has been designed and begun to be implemented to sensitize shippers and agents to the need to reduce delays in clearance activities. The Government also intends to move toward an electronic GUCE in 2007, with electronic payments and full implementation of the law on electronic communication. These steps will speed port transactions, enhance security, and reduce costs.

Deepening Financial Markets

Cameroon has successfully completed the stabilization phase of a broad financial sector reform that restructured its banking and insurance sectors. Deepening financial markets and opening financial services to the poor remain the two top priorities in the government’s new generation of financial sector policies.

A decade of bank restructuring has helped consolidate Cameroon’s banking system. As in other countries in the region, the privatization and rehabilitation process has made Cameroon’s banks solvent and profitable (box 4.4). The regional implications of national banking reforms—in particular, the reorganization of the Cameroonian system—mean that it is now easier for banks to open branches in other countries.
Box 4.4
Successfully Restructuring the Banking and Insurance Sectors

Compared to the 1980s, most commercial banks in Cameroon are solvent, liquid, and profitable. Three banks—Société Générale des Banques au Cameroun (SGBC), Standard Chartered Bank Cameroun (SCBC), and Caisse Commune d’Épargne et d’Investissement (CCEI)—have been recapitalized by their private shareholders. The Banque Internationale pour l’Épargne et le Crédit du Cameroun was created through the scission/liquidation of the Banque Internationale pour l’Industrie et le Commerce. Two other banks, Banque Méridien-Cameroun and Crédit Agricole, have been liquidated.

New banks have entered the market, bringing strength to the sector. The Commercial Bank of Cameroon is a member of the Fotso Group, which has since established subsidiaries in various CEMAC countries. Union Bank of Cameroon was established by the largest Cameroonian microfinance network (the Cameroon Cooperative Credit Union League) and two international banks.

The insurance sector has also been restructured. Several insurance companies (including the mutual insurance company in the agriculture sector, Assurance Mutuelle Agricole du Cameroun), were closed; the national reinsurance company, Caisse Nationale de Reassurance, was liquidated; and other insurance companies were recapitalized following injunctions by the Inter-African Conference on Insurance Markets (Conférence interafricaine des marchés d’assurance), the regional regulator.

The Central African Banking Commission (COBAC) is responsible for regulating the regional financial sector. It has increased its supervision of national banking systems in the CEMAC region, maintaining on-site control as well as overseeing all financial intermediaries. Created in 1990, but operationalized only in the past few years, COBAC was responsible for overseeing about $3.76 billion of assets in 2005 (World Bank 2006d).

Source: Authors.

Despite these changes, Cameroon’s banking sector remains dominated by a few large banks, which concentrate on traditional banking functions, especially short-term lending and trade finance. There is still much room to deepen financial intermediation. Indeed, at 16.5 percent of GDP the ratio of broad money supply to GDP is still shallow and less than 5 percent of the total population held a bank account or used bank credit services at the end of December 2006. In terms of the supply of financial services, the 2006 FSAP noted that “Cameroon’s performance is lower than that of countries
with a similar level of development. With regard to the availability of bank accounts, Cameroon, with 14.39 bank accounts per 1,000 inhabitants, falls far short of the average (51.34). . . . Its relative performance in terms of deposits is even weaker, with only 35.5 accounts per 1,000 inhabitants, as opposed to 589 on average.”

The overarching objective now is to deepen financial intermediation. Doing so will require sustained improvement in the institutional environment (the judiciary, accounting, audit, and payment systems); diversification of financial products and services to boost investment (long-term lending for housing, leasing, and stocks and bonds); and expansion of financial services to small operators, the poor, and rural dwellers, including through greater access to the microfinance and postal financial services.

**Improving the Institutional Environment**

Several issues need to be tackled to improve the institutional environment. They include strengthening the legal environment and the accounting and audit system and enhancing the efficiency of the payment system.

**Strengthening the Legal Environment**

The legal framework for the credit environment in the CEMAC zone was developed at the regional and national levels. All CEMAC member countries are also members of the Organisation pour l’Harmonisation en Afrique du Droit des Affaires (OHADA). OHADA legislation governs many of the legal issues relating to the credit environment, including secured transactions, debt collection and enforcement, and insolvency systems. In contrast, judicial, procedural, and institutional matters are handled at the national level and usually differ from one country to another.

Financial communities in the six CEMAC countries recognize that OHADA legislation has improved the legal framework for the credit environment. Credit activities nevertheless remain hindered by major deficiencies in the implementation of this legislation as well as these countries’ judicial systems. Debt collection and foreclosure on collateral remain inefficient because of complex procedures, uncertainties in each country’s civil procedure, weak capacity, and problems of governance in the relevant judicial systems. Financial sectors within CEMAC place little reliance on the operations of their respective countries’ judicial systems to resolve credit-related disputes.

At the national level, judicial procedures in Cameroon are painstakingly slow and their outcomes hard to predict because of corruption, which remains a daunting challenge throughout the CEMAC zone. The judicial
system needs to be strengthened, by consolidating magistrates’ training on commercial, banking, and credit matters; increasing magistrates’ specialization in commercial branches; and improving governance, for example, by applying disciplinary measures, strengthening supervisory services, increasing collegiality, and publishing judgments. The functioning of the commercial registry needs to be improved and the national law reconciled with the OHADA law on loan recoveries and insolvency proceedings.

At the regional level, several improvements to OHADA legislation would be advisable. The laws governing secured lending and collateral should be revised to strengthen the reliability of secured lending and collateral and facilitate their creation, publication, and enforceability. The laws organizing cooperatives and credit unions need to adapt current regulations on secured movable assets to microfinance establishments and clarify the application of these dispositions. The insolvency regime needs to be revised to strengthen creditors’ rights and increase market discipline.

**Strengthening the Accounting and Audit System**

A number of measures should be taken within CEMAC to consolidate the current system and provide standard financial information to potential investors and international lenders. These measures include the updating and harmonization of OHADA’s accounting standards to put them in compliance with international financial reporting standards (IFRS); the adoption of international standards on auditing to define the legal and professional obligations of auditors (commissaires aux comptes); and the regular publication of the accounts of public enterprises, with adequate supervision by ministries of finance to follow up on recommendations made by auditors.

OHADA accounting standards tend to impose excessive constraints on small and medium-size enterprises (SMEs). The thresholds that determine the level of information requested need to be revised upward. This would allow many small enterprises to use a cash accounting methodology, and medium-size enterprises could provide simpler information.

**Enhancing the Efficiency of the Payment System**

A payment system reform project was launched in 2003, under the leadership of the regional central bank, BEAC, with financial assistance from the World Bank. The goal of the reform was to improve the efficiency and security of payment systems in the CEMAC zone by reducing delays in fund transfers (within Cameroon and within CEMAC), reducing the time needed to clear checks, and improving the security of financial transactions.
The upgraded payment system has several components: a real-time gross settlement system for large or urgent payments; an electronic clearing system (on a national and regional basis); a regional card system; and a risk-management system (centrale des incidents de paiement). However, implementation is taking longer than initially anticipated, because of the system’s complexity and weak capacity and coordination within BEAC. Once the system is in place, the authorities will need to provide full support to regional efforts, by ensuring that customs and tax offices accept the new payment mechanisms and that wage payments are made using the instruments made available by the reform. Cameroon should show the way, because it stands to reap the greatest benefits from this reform, given the size of its economy relative to other CEMAC member states and its much larger banking and private sector.

Expanding Financial Services

The Cameroonian financial sector has not been responsive to the needs of setting up a strong and committed system to channel resources to meet the financing needs of SMEs. Lack of adequate access to financing is cited as the greatest obstacle to doing business in Cameroon (see box 4.1). Indeed, many conventional financial institutions are reluctant to advance credits to SMEs, whose profiles usually do not meet general risk acceptance criteria. Though banks have excess liquidity, little of it is being channeled into productive investments to enhance Cameroon’s competitiveness. Addressing this problem requires deepening financial intermediation, particularly with respect to microfinance institutions, postal financial services, housing financing, the insurance market, the social security system, the Douala stock exchange, and the government bond market.

Strengthening Microfinance Institutions

Cameroon has a relatively large number of microfinance institutions (table 4.2). Efforts need to be taken to strengthen these institutions so that they meet the needs of small borrowers.

A regional regulatory framework for microfinance institutions and services was adopted in April 2002. The framework gave microfinance institutions until April 2005 to meet a set of administrative requirements and until April 2007 to meet the prudential requirements. The licensing process was completed in October 2005, and 205 microfinance institutions that were not licensed were closed in December 2005.
### TABLE 4.2
Microfinance in the CEMAC Zone, 2004

<table>
<thead>
<tr>
<th>Item</th>
<th>Cameroon</th>
<th>Central African Rep.</th>
<th>Chad</th>
<th>Rep. of Congo</th>
<th>Gabona</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of microfinance institutionsb</td>
<td>714</td>
<td>22</td>
<td>214</td>
<td>86</td>
<td>4</td>
</tr>
<tr>
<td>Number of members/customers (thousand)</td>
<td>475.6</td>
<td>34.0</td>
<td>98.9</td>
<td>155.8</td>
<td>4.7</td>
</tr>
<tr>
<td>Total population (million)c</td>
<td>16.4</td>
<td>3.8</td>
<td>9.8</td>
<td>3.0</td>
<td>1.4</td>
</tr>
<tr>
<td>Members/customers as percentage of total population</td>
<td>2.9</td>
<td>1.2</td>
<td>1.0</td>
<td>5.1</td>
<td>0.3</td>
</tr>
<tr>
<td>Total loans (million CFAF)</td>
<td>61.02</td>
<td>993.00</td>
<td>3.67</td>
<td>6.62</td>
<td>1.20</td>
</tr>
<tr>
<td>Total loans (million US$)</td>
<td>111.00</td>
<td>1.85</td>
<td>6.00</td>
<td>12.00</td>
<td>2.20</td>
</tr>
<tr>
<td>Average loan size (CFAF)</td>
<td>128.3</td>
<td>29.2</td>
<td>37.3</td>
<td>357.2</td>
<td>259.1</td>
</tr>
<tr>
<td>Average loan size (US$)</td>
<td>233</td>
<td>53</td>
<td>68</td>
<td>649</td>
<td>471</td>
</tr>
<tr>
<td>GNI per capita (US$)</td>
<td>800</td>
<td>310</td>
<td>260</td>
<td>770</td>
<td>4</td>
</tr>
<tr>
<td>Average loan size as percentage of GNI per capita</td>
<td>29.1</td>
<td>11.0</td>
<td>24.3</td>
<td>84.3</td>
<td>11.9</td>
</tr>
<tr>
<td>Total deposits (million CFAF)</td>
<td>95.0</td>
<td>2.7</td>
<td>4.4</td>
<td>31.4</td>
<td>17.0</td>
</tr>
<tr>
<td>Total deposits (million US$)</td>
<td>173.00</td>
<td>4.80</td>
<td>8.00</td>
<td>57.10</td>
<td>0.03</td>
</tr>
<tr>
<td>Average deposit (thousand CFAF)</td>
<td>200</td>
<td>78</td>
<td>45</td>
<td>432</td>
<td>4</td>
</tr>
<tr>
<td>Average deposit (US$)</td>
<td>363</td>
<td>143</td>
<td>82</td>
<td>785</td>
<td>7</td>
</tr>
</tbody>
</table>


Note: CFAF 550 = US$1. CFAF data for Equatorial Guinea are not available.

a. Data are as of December 31, 2005.
b. On December 31 2005, COBAC and the Ministry of Finance announced the closure of 205 microfinance institutions in Cameroon. The licensing process is ongoing in Chad and the Republic of Congo.
c. Estimated population figures are from CIA World Factbook 2005.
d. GNI per capita is calculated using the Atlas methodology.
The next steps for strengthening the subsector include sensitizing all players to the new regulations; strengthening physical and human capacities to bring individual institutions up to par with regulation requirements; and establishing a strong link between microfinance institutions and commercial banks. The Government needs to work closely with the banking commission and the donor community to strengthen microfinance institutions and networks and disseminate the new regional regulations. The microfinance department of the Central African Banking Commission (COBAC), though technically solid, needs to be reinforced in terms of human and financial resources so that it can more effectively enforce the new regulations.

Restructuring the Postal Financial Services
Cameroon Postal Services (CAMPOST) provides both mail and financial services, through a network of about 230 post offices across the country. Its financial services include deposit services only (current accounts, savings accounts, and money orders); it does not lend money. A modernized and restructured postal sector could provide financial services that are accessible to larger parts of the population.

CAMPOST was created in 2004, as a result of the merger between the national savings bank, Caisse d’Épargne Postale (CEP), and the post office, Cameroon Postal Corporation (SONAPOST). The authorities agreed to the merger because the CEP experienced financial difficulties and the SONAPOST lacked resources. The merger should be viewed as just a first step toward an in-depth restructuring of Cameroon Postal Services (box 4.5). Eventually, this process will lead to the separation of the postal and financial services through the creation of a subsidiary that will exclusively provide financial services. As in the current setting, the financial subsidiary will receive deposits but not provide loans. The financial subsidiary will seek a license from the Ministry of Finance, and its activities will be regulated and supervised by COBAC, which supervises all financial institutions in Cameroon.

Improving SMEs’ Access to Financing
Inadequate access to financial services is a critical problem for SMEs in Cameroon and an important impediment to investment and growth. Cameroon has one specialized credit establishment (PRO–PME Finance- ment), three leasing companies, three banks, and a few microfinance
Restructuring the Financial Services Provided by the Postal Service

The lack of a well-defined sector strategy has harmed the development of postal services and led to the current postal crisis and resultant heavy fiscal burden on the state. Since 1999, the Government has introduced legal, regulatory, and institutional changes that aim to better organize the sector and strengthen the postal operator. The changes are not part of a well-defined sector strategy, however, but rather a series of ad hoc decisions to accommodate the telecommunication reform strategy and actions for dealing with crises. The regulatory framework, defined in the 1999 postal law, has not been implemented. The ambitious universal service funding mechanism failed to provide the minimum financial and regulatory support to the postal company. Cumulative deficits and weak governance led to financial disarray and turbulence in the mail and financial services of the postal sector.

In the face of this crisis, the Government finally took initial steps to implement sustainable reform in the sector. CAMPOST was created in April 2004, as a result of the merger of SONAPOST and the CEP, both of which were experiencing financial difficulties. This merger constituted a reversal of past financial reforms, which had called for a separation of financial and postal services and led to the creation of CEP in 2001.

In 2004, the Government also adopted a decree relating to the compte d’affectation spécial, a fiscal instrument for providing financial support to the postal incumbent to offer universal postal services. The main sources of funding were supposed to come from license fees paid by private postal operators and from the Telecommunication Universal Fund. However, these sources are unlikely to meet CAMPOST’s recurrent subsidy needs. The challenge for the Government is to swiftly mobilize the necessary resources to address the postal crisis and implement a long-term action plan for developing the postal sector.

To reorganize the sector, the Government will need to define an updated sector strategy, including development objectives and the strategic path it envisions for the sector. The reorganization requires the redefinition of universal service obligations at a level that corresponds to citizens’ expectations (rather than political will). It will also be necessary to create new mechanisms that allow for broader access to postal services in a sustainable manner, with transparent regulatory mechanisms and greater private sector participation on a level playing field. In coordination with policies for the telecommunication and information technology sectors, the Government could test innovative funding mechanisms for universal services—least subsidy for bundled communication services (see box 5.7). The authorities will need to rapidly introduce an effective regulatory system to enhance competition in the sector, assess
the relevance of the postal universal service mechanisms, and propose to the Government new schemes.

The financial support needed from the state to relaunch postal services on a sustainable basis will be significant. Historically, the state has guaranteed postal savings. CAMPOST’s customers are hence expecting the Government to back CAMPOST. A redundancy plan and a recapitalization scheme are being implemented. In addition to recapitalizing CAMPOST, the government will need to provide sufficient working capital, a critical element for any public postal operator running financial services (including payments).

The Government will need to create a framework that prevents the postal operator from mismanaging private customers’ savings. In the meantime, the authorities have established a dedicated account at BEAC to safeguard new deposits at CAMPOST, conducted an audit to establish the level of liabilities of CAMPOST, contracted with an audit firm to establish the 2004 and 2005 financial accounts and used some of the oil windfall to accelerate the reimbursement of the former savings banks’ liabilities. The medium-term reform plan should aim at improving performance and governance of postal financial services, relying on increased private sector participation. The Government needs to swiftly take the measures required to set up a financial subsidiary in order to separate postal financial services from mail services.

Source: Authors.

institutions dedicated to providing financial services to SMEs. What they offer falls considerably short of what is needed, however. The main obstacles identified by financial institutions to meeting the growing demand from SMEs are poor management and governance, unreliable financial information, and difficulties enforcing collateral and loan guarantee schemes in case of bad credit. Institutions’ lack of competence to assess risks and design appropriate financial instruments for SMEs represents an additional roadblock, according to the World Bank Financial Sector Assessment Program (World Bank 2006d).

To address some of these concerns, the Government needs to put in place measures to improve financial information on SMEs. Possible measures include the creation of a financial database of SMEs’ credit history; provision of technical assistance to financial establishments to develop products that meet SMEs’ needs; and improvement in the institutional environment, as described in the previous subsection. The Government
could also encourage the development of leasing activities, which play an important role in providing small firms with longer-term resources, particularly by reviewing the taxation of leasing companies.

Reforming Housing Financing
Rapid urbanization has created a growing gap between rising housing needs and constrained capacities, with credit constraint the main obstacle to the development of housing in Cameroon. Total housing loans represent less than 0.5 percent of GDP in Cameroon and other CEMAC countries. Housing financing comes largely from the government-owned housing credit organization, Crédit Foncier du Cameroun (CFC), and a few commercial banks, which generally provide loans with a maximum maturity of seven years. Microfinance institution resources are also used to meet housing expenditure needs, although microfinance institutions do not offer specific financial housing products.

The CFC has experienced serious financial difficulties over the past two decades. Its resources come from a 2.5 percent earmarked income tax surcharge, which enables the institution to offer subsidized loans. Lax management over many years led to the accumulation of nonperforming loans, which represented more than 80 percent of CFC’s portfolio. An attempt to diversify its portfolio and compete with commercial banks worsened its financial situation. Weak management led to repeated losses on current activities; only the 2.5 percent income tax surcharge has allowed CFC to keep afloat.

In 2005 a new management team was put in place, with the mandate to implement a broad restructuring plan for improving CFC’s financial situation. The plan included renewed efforts to recover nonperforming loans and to concentrate activities on its original mission—the provision of housing loans to individuals. The authorities are reassessing how this could be most effectively done in order to meet the growing needs of the population.

Cameroon’s housing policy requires major revision. The Government should avoid allocating public spending to poorly targeted measures (such as subsidies to housing banks), focusing instead on creating mechanisms based on sound social criteria. Policies could include those that seek to leverage private savings; encourage the entrance of other actors in the market, rather than the maintenance of a monopoly position; and support the issuance of bonds, thereby strengthening the development of the financial market.

In addition to restructuring CFC, the Government needs to strengthen the real estate market and spur housing development. The most urgently
needed measures include securing registration of real estate properties, strengthening the efficiency of mortgage guarantee schemes by revising OHADA procedures and developing secured lending and collaterals, creating incentives to attract long-term investment able to provide longer-term refinancing, and strengthening and extending the centrales des risques to individual housing loans. Increasing access to housing loans by low- and middle-income households calls for customized strategies. For example, the Government could promote the extension of housing loans by networks already providing services to such households. It could create incentives for microfinance institutions to provide short-term loans for gradual construction by homeowners as well as medium-term loans for housing by facilitating their access to additional resources through guarantee mechanisms when they demonstrate strict financial discipline.

**Deepening the Insurance Market**

The insurance sector has remained a marginal player in the financial market in Cameroon and within CEMAC. In Cameroon, insurance premiums represent less than 1 percent of GDP (table 4.3), and average insurance expenditure is weak. Most insurance policies are subscribed by industrial or commercial companies. Cameroon accounts for a large share of CEMAC’s insurance subsector, with 21 of the 36 licensed insurance companies in the union based there.

**TABLE 4.3**

<table>
<thead>
<tr>
<th>Country</th>
<th>Per capita GDP (US$)</th>
<th>Insurance density (per capita spending on insurance premiums) (US$)</th>
<th>Insurance depth (total insurance premiums over GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benin</td>
<td>455</td>
<td>2.3</td>
<td>0.75</td>
</tr>
<tr>
<td>Cameroon</td>
<td>800</td>
<td>9.0</td>
<td>1.06</td>
</tr>
<tr>
<td>Ghana</td>
<td>320</td>
<td>2.2</td>
<td>0.64</td>
</tr>
<tr>
<td>Kenya</td>
<td>320</td>
<td>10.1</td>
<td>2.98</td>
</tr>
<tr>
<td>Rwanda</td>
<td>300</td>
<td>1.2</td>
<td>0.43</td>
</tr>
<tr>
<td>OECD</td>
<td>23,364</td>
<td>2,339.9</td>
<td>9.00</td>
</tr>
<tr>
<td>World</td>
<td>—</td>
<td>469.6</td>
<td>8.07</td>
</tr>
</tbody>
</table>


— = Not available.
CEMAC countries have adhered to the treaty on the Inter-African Conference on Insurance Markets (CIMA), which regulates the insurance sector, including by granting and revoking licenses and applying sanctions. Regulation of the insurance market remains weak. CIMA lacks resources and a clear definition of its supervisory mission. It also suffers from political interference from member states. Improving CIMA’s capacity to carry out its supervisory role and strengthening its rules are prerequisites to the development of the insurance market.11

Reforming the Social Security System
The social security system should provide much-needed protection for families, especially those with children (through family allowances), the elderly (through the pension system), and for employees who have suffered from work-related accidents. The Government started restructuring the social security system in 1998, with the creation of a tripartite social security reform steering committee, made up of representatives of the Government, employers, and unions. The strategy included restructuring the social security institution and developing a new approach that calls for private management of the Caisse Nationale de Prévoyance Sociale (CNPS), the gradual introduction of a fully funded defined contribution system, the extension of the system (which currently covers just 10 percent of workers) to more workers, and possibly the introduction of health coverage. A few steps were taken, including the cleaning up of employers’, employees’ and beneficiaries’ files and the auditing and updating of CNPS’s financial statements. The Government also launched 10 studies in 2002 that examined specific issues and recommended measures, including required changes to the legal framework. Unfortunately, the conclusions of these studies and related action plans were never presented to the interministerial committee for validation and adoption, and the reform came to a standstill. Progress in reforming the social security system rests on the Government’s willingness to swiftly adopt and implement this important reform program.

Operationalizing the Douala Stock Exchange
Attempts to develop a stock market in Central Africa parallel developments throughout the continent. They represent a major effort to mobilize domestic resources and improve the supply of long-term capital.12
A well-functioning stock market is expected to provide significant resources for financing long-term investment.

In 1998, BEAC launched the development of a regional stock exchange to deepen regional capital markets. The project has been mired in controversy, as a result of conflict between Cameroon and Gabon over the site of the stock exchange’s headquarters (Douala or Libreville). In 2000, the Conference of Heads of State of CEMAC decided to establish a private regional stock exchange in Libreville, the Central Africa Stock Exchange (BVMAC). BVMAC was created in June 2003, with capital provided by 25 shareholders (bank, insurance, and other companies).

Cameroon has followed a parallel process, opening a national stock exchange in Douala in 2001. The capital of the Douala Stock Exchange (DSX) is held by private stakeholders, namely by commercial banks and insurance companies. It is fully equipped, both technically and in terms of human resources, to function effectively. A regulator—the Commission of Financial Markets—has been established and fully staffed, and some banks have received licenses as brokers.

Despite these developments—and the fact that the DSX was officially inaugurated in 2003—securities have not yet been traded. Although DSX invested heavily in equipment and paid salaries for three years, no revenue was generated. The delay dried up DSX’s capital and put the company in an untenable financial situation, leading the Government to recapitalize the exchange in 2005.

This episode illustrates how failure to agree on and implement key decisions frequently entails substantial financial and economic costs, to both the Government and the private sector. Swift action is required to provide Cameroon and the subregion with a key institution for mobilizing long-term resources for investment. The experiences of emerging economies suggest that it is essential that the stock market reach a certain scale of operations and tap into a broad pool of savings in the subregion if it is to become an efficient and credible instrument for raising funds and reducing risk. Therefore, it is in the best interest of Cameroon to make the DSX a component of a subregional market and encourage cross-listing with other countries, such as Nigeria and regional blocks such as the West Africa Economic and Monetary Union (WAEMU). Hence, the Government should resume negotiations in good faith with the other CEMAC countries with the aim of merging the Douala and Libreville markets. The regional stock exchange could well have operational centers in both cities, with
electronic settlement and a full back-up option operating between the two centers.

**Developing a Government Bond Market**

Developing a government bond market would help governments raise funds for closing budget gaps and provide instruments for the central bank to conduct monetary policy through open market operations, thereby deepening the financial sector. Rapid action is needed to implement the BEAC/CEMAC plan in this area, as the UEMOA countries have already done. Indeed, a regional market for government bills and bonds would complete the shift from controls and direct central bank lending to market-based deficit financing. By providing additional savings instruments, it would deepen financial markets, diversify portfolios, increase capital mobility within the region, and allow governments to better manage their debt. As in other areas, Cameroon stands to be the principal beneficiary of a liquid and well-functioning bond market. For this reason, the Government needs to exert leadership and work closely with its CEMAC partners to accelerate implementation of this important project.

**Attracting Foreign Investment**

Attracting foreign investment is key to economic diversification and growth. Foreign investment is not only a conduit for financial resources, it is also a conduit for new technology and expertise and a bridge to world markets, especially for manufactured exports. According to researchers, a 1 percentage point increase in the ratio of FDI to GDP is associated with a 0.5–1.3 percent increase in the domestic investment rate and a 0.3–0.8 percent increase in long-term per capita growth (Borensztein, de Gregorio, and Lee 1998).

Cameroon has underachieved in this area, underperforming comparable West and Central African countries, such as Côte d’Ivoire, Ghana, and Senegal, as well as oil-producing and mineral-rich countries, such as Angola and Botswana. Based on the estimates of growth impact cited earlier, raising the ratio of FDI to GDP in Cameroon from the 1.17 percent average level for 1995–98 to the average level of Côte d’Ivoire, Nigeria, and Senegal (2.45 percent) during that same period would double the FDI rate and raise per capita income growth by 0.6–1.6 points over its level of about 5–6 percent. The potential gain for Cameroon is substantial.

Increasing FDI requires more-effective privatization and improvement in governance. Privatization programs are an important source
of FDI. Because of the small size of the domestic financial sector, a large share of privatization revenue in Sub-Saharan African comes from foreign exchange earnings (84 percent versus 43 percent in developing countries between 1990 and 1998). These revenues tend to come in the form of FDI (80–90 percent in Sub-Saharan Africa versus 50 percent in East Asia). Privatization not only attracts FDI and foreign exchange, but it may also signal improvement in the overall investment climate, reduced government intervention, and possibly improved governance, all of which are conducive to investment. Sader (1995) estimates that every $1 of privatization investment generates $0.88 in additional new investment in the host country.

Hence, Cameroon could boost FDI, increase its foreign exchange earnings, and spur domestic investment by accelerating its privatization program, especially in infrastructure (see chapter 5). Sader (1995) also suggests that negative perceptions and the stigma of poor governance and corruption associated with certain countries are important barriers to foreign investment. Improving governance will thus continue to be critical for attracting foreign investment, diversifying the economy, and sustaining growth.

The regional framework is also needed to enhance visibility and credibility. Important as it may be, however, improving governance alone will not allow Cameroon to attract significant foreign investment. Size, scale, and visibility also matter. Other things being equal, the larger the economy and the population, the more visible and attractive a country is to foreign investors (except in the mining sector). This is because the larger the country, the larger the pool of good-quality workers for export-oriented manufacturing and the larger the domestic market for import-substitution investment. The significance of size underscores the importance for countries like Cameroon to harmonize investment policies with other countries in the subregion. Integrating goods, labor, and capital markets helps address the issues of scale, visibility, and credibility, both from the demand side (by increasing the size of the regional market) and from the supply side (by creating a pool of labor and capital for production and export to world markets). To this end, Cameroon and its CEMAC partners need to implement a common investment charter, including the new OHADA business laws designed to promote and harmonize an investment-friendly environment that can foster rapid economic transformation.

CEMAC countries need to deepen regional integration, including by facilitating labor movement within the subregion. Cameroon would be the main benefactor of deeper regional integration, because it stands the best chance of becoming a subregional growth pole within CEMAC.
Notes

1. CEMAC is made up of Cameroon, the Central African Republic, Chad, the Republic of the Congo, Equatorial Guinea, and Gabon.

2. The increase in capital imports to fund the Chad-Cameroon pipeline exacerbated the deficit.

3. Competitiveness is defined as a set of institutions, policies, and factors that drive productivity. The global competitiveness index provides a holistic overview of factors that drive productivity and competitiveness, which it groups under nine pillars: institutions (public and private); infrastructure; the macroeconomy; health and primary education; higher education and training; market efficiency (goods, labor, and financial services); technological readiness; business sophistication; and innovation (World Economic Forum 2007).

4. Nigeria’s border with Cameroon, which runs from Lake Chad to the Gulf of Guinea, was never established using modern surveying techniques; it was charted in colonial times using landmarks such as rivers and trees. The 3,000 square kilometer (1,200 square mile) peninsula, which abuts the Gulf of Guinea, consists of wetlands that are rich in fish. Its offshore waters contain several oilfields, with more possibly to be discovered. Nigeria and Cameroon almost went to war over Bakassi in 1981. The International Court of Justice gave Bakassi to Cameroon, based largely on a 1913 treaty between the former colonial powers, Britain and Germany. A United Nations–led joint commission was set up in 2002 to define the 1,600-kilometer (1,000-mile) land boundary between the two countries following the International Court of Justice ruling. Nigeria, which controlled the peninsula, initially cited “technical difficulties” for missing a September 2004 deadline to pull out of Bakassi; on June 12, 2006, it agreed to withdraw within 60 days. Since former Nigerian President Olusegun Obasanjo signed the agreement with his Cameroonian counterpart, Paul Biya, Nigerian troops have gradually handed over control of the territory to Cameroonians. The process is supposed to be completed by June 2008.

5. Thirty percent of these proceeds go toward the operating costs of the CEMAC institutions (Executive Secretariat, Court of Justice, and so forth); 70 percent go to the Compensation and Development Fund, with 40 percent allocated to compensation and 60 percent to other projects.

6. In 2003 the first actions, which targeted large shippers, reduced the average clearance time by more than two days.

7. However, the use of savings accounts is somewhat greater because of the financial services available from microfinance institutions, which already had more than 470,000 customers in 2004.

8. The executive secretariat of CEMAC could be in charge of quality control and compliance with professional norms.

9. The OHADA accounting standards distinguish three levels of required reporting, based on the size of the company: the normal system, for large enterprises; the simpler system, (système allégé) for medium-size enterprises; and the minimal system, based on cash accounting, for small enterprises.

10. Some links have already emerged between microfinance institutions and banks in Cameroon. A small number of banking institutions has helped
launch microfinance institutions through financing (grant, loan, or participation in their capital), technical assistance, and the creation of microfinance windows at their institutions. Many microfinance institutions have difficulties opening or maintaining bank accounts, however, because some banks perceive them as competitors or high-risk customers.

11. See World Bank (2006d) for specific technical recommendations.

12. A stock market may also prevent capital flight to Europe and North America, allowing savings to be reinvested in Africa.

13. All CEMAC members except Cameroon agreed on the establishment of a regional stock exchange in Libreville.

14. DSX handles only Treasury bonds with zero coupon, with terms from 2–12 years and 3 percent yield.

15. The municipality of Douala issued bonds in early 2005 for more than CFAF 7 billion to finance infrastructure investment, but this operation was not handled through the DSX, as initially planned.

16. One way of doing so would be to support the motion to abolish visas for diplomats, civil servants, investors, and traders between Cameroon, Chad, the Central African Republic, and the Republic of Congo as a first step and extend it to all citizens by 2009.
Improving Infrastructure Services

Improving infrastructure services is essential for boosting the competitiveness of Cameroon’s economy, attracting foreign investment, increasing diversification, and sustaining higher growth. Improving access to key infrastructure services is also essential for connecting poor and rural areas to mainstream economic activities and growth poles, making growth more inclusive.

Cameroon has seen significant improvements in the transport network in recent years, thanks to the implementation of structural reforms programs supported by the World Bank’s Third Structural Adjustment Credit (SAC-III) and Sub-Saharan Africa Transport Program (SSATP). Key program elements include privatization of the railways and industrial and commercial port activities as well as the creation of a road fund.

Despite these important gains, Cameroon continues to underachieve relative to comparator countries in Africa and Asia in the delivery of key public utilities. For Cameroon to diversify its economy, significant improvements are needed in nearly all infrastructure services.

Enhancing Private Participation in Infrastructure and Service Delivery

The main challenge is to boost private participation in infrastructure investment and service delivery. There is broad consensus that increased private sector participation is indispensable for rapidly improving the quality and coverage of infrastructure services and reducing costs while easing the strain on public finances. Indeed, important changes in technology, particularly over the past two decades, have allowed competition to flourish in areas once considered natural monopolies, boosting private participation in infrastructure service provision worldwide, especially in energy and telecommunication.

Reflecting these trends, private sector provision of infrastructure worldwide rose considerably during the 1990s (World Bank 2002c), nearly tripling
in Sub-Saharan Africa and quadrupling in Latin America and the Caribbean between 1995 and 1999. Private sector provision has also increased in Cameroon over the past decade of structural reforms, albeit by much less than in comparator countries. According to the World Development Report 2002 (World Bank 2002c), two important factors for successful privatization that enhances private investment in infrastructure are structural reforms (privatization and market liberalization) and efforts to enhance the credibility of the Government’s regulatory framework. Cameroon has had problems in both areas.

**Implementing the Privatization and Market Liberalization Agenda**

Effective privatization in Cameroon has been hampered by the Government’s tendency to procrastinate on critical reforms and to put off implementing agreed-upon programs and policies. As shown in tables 8.1 and 8.2, the time lag between decision and execution of key policy decisions is six to eight years—three times longer than in comparable countries, such as Côte d’Ivoire and Senegal.

The consequences of lengthy preparatory processes are long delays in planned investments, protracted battles between stakeholders and Government agencies, loss of momentum, and poor execution of major projects. There is also an increasing risk that internal and external market conditions could change unfavorably, thus complicating the mobilization of financial resources, especially for large projects. Lengthy preparatory periods can be harmful to both companies and the country as a whole, because critical maintenance and medium-term capacity expansion plans are generally put on hold during the interim period. This exacerbates capacity problems, reduces the market value of firms, makes investment plans more costly, and renders public financing indispensable, thus defeating one of the main purposes of privatization.

**Strengthening the Regulatory Framework**

The weakness of the regulatory framework also contributes to the slow pace of privatization in Cameroon. Important lessons can be gleaned from the experience of other countries (World Bank 2002c).

First, a credible and independent regulatory body is a prerequisite for successful privatization and reform. The presence of a credible regulatory body is important for mitigating the risk of political interference in the privatization process and keeping the process running smoothly. It also provides a focal point for negotiations as well as critical technical expertise and information on market, pricing, and technology trends.

Second, the type of regulatory model must match the condition of the country, including its size, human resources, and institutional capacities.
For example, the regulatory agency can operate at the national level (a centralized system as in Tunisia) or at the state or community level (a decentralized system as in India). It can consist of sector-specific regulatory agencies or specialized units within a unified multisector regulatory authority. A rule of thumb is that for relatively small countries with weak institutional and human resource capacities, a unified and cross-sector agency is preferable to a segmented system, in which each infrastructure sector has its own independent regulatory entity. It is true that sectors have their specificities, which require specialized expertise. However, in most small countries, these specificities are minor compared with the number of cross-cutting issues that would benefit from a coherent policy framework; specialized expertise can often be better provided by outsourcing of certain tasks. For starters, the wisdom would be to pool rather than stretch scarce human and administrative resources.

Cameroon’s weak regulatory system requires major reforms to foster increased private sector investment in infrastructure. From the outset, the Government chose a regulatory model that is centralized but includes sector-based specializations. A centralized (that is, national rather than local) regulatory system is a wise policy choice, given the small size of the country and the need for economies of scale in regulation (pooling of engineers, lawyers, and economists).

This logic should have led to a single regulatory authority rather than multiple sector-specific entities. Instead, Cameroon created multiple independent regulatory bodies for different infrastructure subsectors. The result has been unsatisfactory: some agencies are understaffed and underfunded, while others are overstaffed and often lack a clear mandate or strategic vision. Regulatory agencies operate in isolation rather than coordinating their interventions in a market that is rapidly becoming integrated. At times, line ministries and regulatory agencies have competed, claiming identical prerogatives. The result has been deadlock, at a huge cost to the economy. To strengthen the regulatory system across the board, the Government should reconsider its approach and possibly switch to a unified model. Many small countries, especially in the Caribbean, have effectively used such a scheme for all infrastructure services and have gained tangible results in terms of private investment and service delivery.

**Addressing the Energy Problem**

 Despite its considerable endowment in energy resources, Cameroon remains severely hampered by structural problems (box 5.1). It has the second-largest
Box 5.1
Cameroon’s Electric Power Sector at a Glance

*Capacity.* System capacity is about 1,000 megawatts (MW), 300 MW of which is dedicated to a local aluminum smelter, Alucam. The system comprises a large network, South Cameroon, serving Douala and Yaoundé; a smaller system, North Cameroon, serving the main cities of the north; a 70 MW thermal power plant in Limbe, which became operational in 2005; and a number of small isolated systems using diesel generators, which serve rural centers. About 95 percent of power generation is hydro, covering mainly the South Cameroon and North Cameroon grids. The remaining 5 percent is produced by small isolated centers. The system is still entirely dependent on the hydrology of the Sanaga basin, although there are plans to diversify the sources of water to the other two main basins. The hydrology is seasonal within the year and varies from year to year. There is potential to develop gas-fired plants, albeit at a higher cost.

*Access.* Access to electricity is low by international standards, at about 88 percent in urban areas and just 23 percent in rural areas, where large areas are not served at all. Although electricity represents 70 percent of energy consumption by industry (because of Alucam), it represents only 3.5 percent of consumption by households, which derive 86 percent of their energy from biomass.

*AES SONEL.* Problems of management, capacity development, and financial resources led to the privatization of the national energy company in 2001. AES Société Nationale d’Électricité (AES SONEL), a private-public company, has a monopoly over transmission, distribution, and generation up to 1,000 MW (close to the current demand level); power generation above that threshold will be provided by independent power producers and financed at least partly from commercial sources.

The privatization of AES SONEL has fallen short of expectations. Because of international market conditions, the private partner has been unable to mobilize the funding needed for sector development and has not met its investment obligations. AES SONEL has not been in a position to develop a sector strategy in a timely fashion, contributing to the current crisis in the electricity sector.

*Electricity sector regulatory agency.* An electricity sector regulator (ARSEL) was established in 2000. It has been effective, as illustrated by its recommendation in January 2004 to increase electricity tariffs in a difficult context. ARSEL has also started to play a role in developing the long-term sector development plan. It still needs support to assert its authority, attract the talent it needs to fulfill its role, and negotiate effectively and transparently with private investors in the sector.

(continued)
Improving Infrastructure Services

Box 5.1 (continued)

*Rural electrification agency.* The Agence d’Électricité Rurale (Rural Electrification Agency) has been created and staffed. It is constrained by the distribution monopoly of AES SONEL and the lack of resources for supporting rural electrification.

*The state.* The Ministry of Water and Energy (MINEE) remains weak. Sector management used to be handled by the Ministry of Economy and Planning (MINEPAT). To deal with the energy crisis, in January 2004 the Government created a temporary Energy Steering Committee to manage the sector. This arrangement has impaired the decision-making process, because the allocation of responsibilities between the committee and the sector institutions (ARSEL, MINEE, MINÉFI, SNH, and AES SONEL) was not clear and led to unnecessary conflict among competing actors.

*Source:* Authors.

hydropower potential in Africa, after the Democratic Republic of Congo, and the potential to become a low-cost energy producer and exporter to neighboring countries. Cameroon is also blessed with natural gas and oil reserves. Its gas potential is insufficient to be marketable on a global scale but sufficient to fuel local power plants. Although gas-fired capacity is unlikely to become competitive against hydropower in Cameroon, it can play a positive role, especially in emergency situations, such as the current one.

**The Need for a Medium-Term Action Plan**

Capacity is inadequate, often causing disruption in services. Per capita electricity consumption as a ratio of per capita income is lower in Cameroon than in comparator countries. Over the past few years, Cameroon has been experiencing serious energy shortages because of inadequate capacity relative to demand, which has been rising at an estimated rate of 10 percent a year, more than twice the average GDP growth rate. This trend is likely to continue, boosted by growth in income, population, and, in particular, rapid urbanization.

Capacity has stagnated over the past several years, for a number of reasons. First, except for the Limbe thermal plant, operational since 2005, no investment in new capacity has been made since 1997, when the privatization process started, because of the lengthy preparation period and the collapse of private investments in the power sector in much of Africa during this period. Second, performance by the AES SONEL initially fell far
short of expectations, significantly limiting its capacity to execute planned investment. Weak billing and collection, failure to extend the distribution network, and poor management have greatly impaired the company’s capacity to self-finance or attract private financing for capacity expansion.

For these reasons Cameroon needs a short- to medium-term emergency action plan. Despite the seriousness of the crisis, the Government has been slow in responding and formulating an urgently needed sector development plan. Only in early 2004 did it appoint an Energy Steering Committee with a mandate to prepare an action plan to cope with the crisis. The report, which the committee submitted to the Government in 2005, outlines a plan for addressing the rapidly widening gap between capacity and projected demand, estimated at 150–200 MW for the 2004–09 period.

Because no hydropower projects were ready for implementation, this additional capacity could come only from thermal generation, which, while costly, is nevertheless a feasible and expeditious alternative. To generate such power, the Government and AES SONEL agreed to build a diesel power plant in Limbe, which is now operational.

There is also planning for about $400 million in investments in transport and distribution, to be implemented by AES SONEL and financed as part of an International Finance Corporation (IFC) loan package. The Government is also studying plans for building a 150 MW gas-fired power plant. Although the Government considered commissioning this unit in 2006, the project will apparently not be operational before 2010 at the earliest. Because of time constraints and market uncertainty, the World Bank and IFC have proposed that the Government finance the project with public funds, with the possibility of private sector refinancing.

The Need for an Energy Sector Development Strategy

An energy sector strategy is urgently needed for expanding long-term capacity to meet demand and support growth. Past failures to articulate and effectively implement a long-term capacity development strategy have caused Cameroon to adopt costly and nonoptimal emergency solutions as described above.

The Government has already started work on such a strategy. It created an Energy Task Force to assess the situation and suggest policies to enhance the contribution of the energy sector to promoting growth and poverty reduction. The task force has developed an integrated approach in which the supply of energy services, including traditional energy, is embedded with urban, rural, and social sector development strategies as well as with
other infrastructure development programs. As part of the overall strategy, a least-cost development plan for electricity was prepared in 2006. The objective is to determine the desired size of medium-term capacity and assess various long-run alternatives in terms of economic, environmental, and social impacts. One of the key pillars of the long-term capacity expansion strategy is the Lom Pangar Dam project (box 5.2). The plan was expected to be finalized and adopted by the Government before the end of December 2006.

As in finance and trade, a subregional outlook would be most appropriate. It would be opportune for Cameroon to develop its energy sector strategy by taking into account not only its own needs but the growing needs of subregional markets, which offer numerous possibilities for Cameroon to export electricity. Such exchanges have intensified in West Africa among Benin, Côte d’Ivoire, Ghana, Nigeria, and Togo, as well as between Niger and Nigeria. Adoption of such a strategy would enable Cameroon to benefit enormously from CEMAC’s long-term plan for interconnecting countries in the region (for example, Cameroon’s northern network with Chad) and developing a power pool, as in Western and Southern Africa.

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**Box 5.2**  
**Cameroon’s Lom Pangar Dam Project**

The Lom Pangar Dam is a pillar of Cameroon’s long-term energy development plan. It would regulate the water of the Sanaga River, on which all plants are located. This strategic project is designed to reduce uncertainty in the generation of hydropower, increase the country’s hydropower potential, and address the need for capacity reserve in the system.

The reservoir would be situated in a sensitive biodiversity section of the Deng Deng forest, raising concerns about its environmental impact. It would affect the Chad-Cameroon oil pipeline, with the possible inundation of 5–30 kilometers (at an estimated cost of US$30 million) and the potential risk of oil spill in the reservoir.

The Government has ordered an environmental study of the project. It will need to address the concerns raised in the study before proceeding with the plan, weighing the plan against other alternatives within the framework of an overall energy-sector development strategy. The strategy must also include traditional energy and gas and provide clear objectives regarding how low-cost energy needs can be met to support diversification and growth.

*Source: Authors.*
The Need for Strengthening the Institutional and Regulatory Framework

Institutional and regulatory issues also need urgent attention. The energy crisis has revealed the urgent need for reforms in the governance and institutional framework. In light of recent developments, public sector involvement in the energy sector has moved beyond strategy and policy formulation to a broader partnership with the private operator, including investment planning and financing. The idea of a complete retrenchment of Government from production and investment to only a regulatory role now seems unrealistic. The experiences of other countries suggest that a balanced partnership is more desirable.

The regulatory agency needs to be restructured and its capacity strengthened. In the power sector, an independent electricity regulatory agency (ARSEL) began operating in 2001. It is not financed by the Government but draws its resources from a surcharge on power tariffs collected by AES SONEL. ARSEL reviews and authorizes changes of power tariffs requested by AES SONEL, assesses the business plan of the utility and its long-term investment plan, monitors the process for granting licenses, and participates in power sector planning. It coordinated the preparation of the complex studies for the Lom Pangar Dam project. It is thus active in the key functions of power sector regulation. The Government and ARSEL have prepared, with the support of the World Bank, a plan for restructuring and reinforcing the capacity of the regulatory agency.

Improved capacities for key institutions intervening in the energy sector in strategic planning, development of energy projects under private-public partnerships, and management of water resources in water basins in which several plants are located are required for effective implementation of the long-term development plans. Indeed, a top priority for the Government would be to address the issue of water basin regulation in a context in which independent power producers are expected to contribute to energy production and diversification of water sources. Within a unified regulatory system, human and financial resources would be strengthened to meet these challenges. A more integrated approach would also be helpful to extend energy services to rural areas and poor communities.

Improving the Transport System

To the average Cameroonian, the road system is the most important component of the transport network. Cameroon has a relatively dense interurban road network spanning some 50,000 kilometers (31,000 miles), 53 percent
of which are classified as part of the primary network. Nearly 80 percent of paved roads, 73 percent of gravel roads, and 70 percent of rural tracks are in mediocre or bad condition (table 5.1). Traffic counts for the year 2001 show that paved and gravel roads together carried about 90 percent of traffic (Republic of Cameroon 2003a).

The urban road network is roughly the same size as the interurban network, with about the same proportion of roads in bad or mediocre condition. It is especially weak in Douala, the economic capital of Cameroon.

The limited extent of the paved network and the poor state of the road system as a whole pose a major obstacle to gaining access to basic services, especially by the poor. The problem is widespread in cities and acute in rural areas. Moreover, as in all infrastructure in Cameroon, access and services are weaker in rural than urban areas. This constitutes a major impediment to connecting rural areas to mainstream economic activities and narrowing the economic opportunity gap between cities and the countryside, where nearly two-thirds of Cameroon’s population lives.

Cameroon’s transport infrastructure also includes a railway system, which links Douala to Ngaoundéré, in the north. The railway system is operated by CAMRAIL, a public company that was privatized in 1999.

Cameroon also has a network of three main autonomous maritime ports. The port of Douala is by far the largest. It handles most of Cameroon’s sea

<p>| TABLE 5.1 |
| Length and Condition of Road Network, 2001 |</p>
<table>
<thead>
<tr>
<th>Measure</th>
<th>Paved</th>
<th>Gravel</th>
<th>Earth</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Length</td>
<td>4,090</td>
<td>9,929</td>
<td>12,110</td>
<td>26,129</td>
</tr>
<tr>
<td>Percentage of network</td>
<td>16</td>
<td>38</td>
<td>46</td>
<td>100</td>
</tr>
<tr>
<td>Condition (% of network)</td>
<td>21</td>
<td>27</td>
<td>29</td>
<td>27</td>
</tr>
<tr>
<td>Standard</td>
<td>37</td>
<td>70</td>
<td>6</td>
<td>35</td>
</tr>
<tr>
<td>Mediocre</td>
<td>42</td>
<td>3</td>
<td>65</td>
<td>38</td>
</tr>
<tr>
<td>Bad</td>
<td>4029428</td>
<td>1,726,157</td>
<td>702,380</td>
<td>6,457,965</td>
</tr>
<tr>
<td>Percentage of network traffic</td>
<td>62</td>
<td>27</td>
<td>11</td>
<td>100</td>
</tr>
</tbody>
</table>


n.a. = Not applicable.

Note: Data on traffic over rural roads are not provided in the source document. An absolute value was estimated as a fraction of traffic using dirt roads.
traffic as well as that of the Central African Republic and Chad, handling about 7 million tons of traffic a year. Cameroon also has two smaller ports, in Limbe and Kribi. The port of Limbe is used mostly for the export of logs and the import of crude oil by SONARA, which is located in the area. The port of Kribi is used almost exclusively for traffic related to the Chad-Cameroon pipeline and its offshore platforms.

The transport infrastructure also includes three international airports (in Douala, Yaoundé, and Garoua) as well as secondary airports and airfields in provincial capitals. Airport infrastructure is in dire condition in Douala, the economic capital, but in far better condition in Yaoundé. Douala accounts for about two-thirds of air traffic and Yaoundé for about one-third.

Road Transport

A comprehensive road transport-sector strategy implemented since 1996 has led to significant improvements in road services. The transport sector, especially the road system, has been the focus of a sustained dialogue between the donor community and the Government since the economic crisis of the early 1990s. The Government adopted a comprehensive strategy in 1996 to address the rapid deterioration of the road network and other infrastructure services. The core of the road subsector strategy includes defining a priority road network; refocusing the state mission on planning, programming, and monitoring; privatizing road maintenance activities and outsourcing them to small and medium-size enterprises; opening public works and equipment rental to competition; setting up a road fund; and taking measures to enhance road safety and protect the road network.

A great deal has been accomplished in these areas. More than 200 small and medium-size enterprises were operating in the sector as of 2003, up from fewer than 50 in 1997. The road fund—established to secure adequate funding and timely disbursement for road maintenance activities by the private sector—has performed in a largely satisfactory manner. Funds are available on a regular basis, and the volume and quality of financed road maintenance is steadily increasing since the fund began operating.

Implementation of the road safety strategy has also yielded encouraging results, especially in terms of load control on the main trunk roads. However, much remains to be done in this area in order to reduce the high rate of road accidents.

Implementation of the rural road–subsector strategy has been hampered by gridlock in key institutional reforms. The Government did allocate significant HIPC funds to rural road rehabilitation, but maintenance of the
rural road network remains a problem, primarily because of the slow pace of the decentralization process, which was meant to assign responsibility to local governments for managing funds and service delivery.

In 2005, the Government developed and adopted a new strategy to carry out the unfinished reform agenda. A comprehensive sector MTEF was developed to assist in programming, budgeting, and monitoring strategy implementation.

*Boosting Investment in Road Infrastructure through Public-Private Partnerships*

The strategy for the public works and transport sector has been translated into several priority programs, including extension of trans-African roads (as part of the NEPAD [New Partnership for African Development] road network); development of a subregional road network in the CEMAC zone linking the political and economic capital cities of the subregion; and improvement of the remaining national network trunk roads (box 5.3).

Given the scope of needs and the high cost of investments, the Government intends to promote appropriate public-private partnerships, such as operational leases, concessions, and lease or management contracts. It is considering a variety of arrangements, such as build-operate-transfer (BOT) and build-own-operate contracts, to encourage public-private partnership and attract private and foreign investment in the road subsector. A case in point is the recent plan to seek international competitive bidding for the construction of a second bridge over the Wouri River in Douala through a build-operate-transfer contract.

*Sustaining an Adequate Maintenance Policy*

Much has been done to improve road maintenance, in terms of both a new institutional framework and adequate funding. These efforts notwithstanding, the Government still has to address the critical problem of capacity and service quality. Doing so requires urgent measures to improve the road maintenance funding mechanism and the functioning of the road fund; design a financing mechanism based on effective needs; strengthen the administrative capacity to plan maintenance, including the capacity to efficiently handle contract management, and find more-efficient ways to contract out maintenance.

In 2005, the Government modified the legal and regulatory framework of the road fund to create a more effective setup (box 5.4). Under the new
Box 5.3
Priority Programs in the Road Sector

Cameroon is moving ahead on three priority programs in the road sector. The first is the trans-African road. Cameroon represents a development pole for both West and Central Africa. Implementing the trans-African road (NEPAD road network)—which links Nigeria to Central Africa through Cameroon—is therefore a development priority.

The second project is the CEMAC network, which links Cameroon to neighboring CEMAC countries. The main trunk roads currently unpaved are Ambam–Kyé (Equatorial Guinea)–Ossi (Gabon); Amban–Eking (Equatorial Guinea); Ngaoundere–Toumboro–Moundou (Chad); Garoua–Demsu (Nigeria); Mora–Limi–Banki (Nigeria); Sangmélima–Djourou (Republic of Congo); and Kousséri–N’Djamena (Chad). The European Union, the African Development Bank, and France are participating in the effort to pave the CEMAC network. The rest of the priority network also requires rehabilitation. The Government has already assessed the status of most of these roads and is seeking donor assistance. The World Bank is participating in the framework of its CEMAC regional program.

The third project is the national network of trunk roads. Good trunk roads are needed to link the national capital to provincial capitals and to facilitate the socioeconomic development of landlocked areas (linking the industrial harbor centers, consumption centers, and tourist sites). This project plans to extend the paved road network to connect the two major urban centers (Douala and Yaoundé) and provincial capitals, as well as department and provincial capitals. The Government also plans to connect major rural agricultural production areas and their markets, usually in urban centers. Because of the constraints on the existing network, priority should be given to roads with the greatest traffic and probably to the critical points of the network, such as steep slopes, bottlenecks, and flooded areas.


setup, a larger share of the petroleum fee is allocated directly to the road fund and its use does not go through the general budget management process.

The Government could consider setting up a road maintenance agency, as several countries in West and East Africa have done. It also could pursue new ways of contracting maintenance activities. Participation of local people should be promoted for part of the works (cleaning). More efficient forms of contract should be considered for larger shares of the network (single roads or a geographical area of the priority network), according to the quality of service and long-term relationships with contractors. Long-term performance-based contracts for the maintenance of some major
Improving Infrastructure Services

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trunk roads is an attractive alternative (box 5.5). Such contracts can be complex to implement, but Chad and other developing countries outside Africa have had success in this area. The Government could test the scheme using priority roads as a pilot case.

Developing Appropriate Instruments to Fund Road Rehabilitation

More than 75 percent of the road network is in mediocre or poor condition. Funding is required to prevent further degradation and loss of priority networks. The Government has wisely embarked on priority programs to rehabilitate the core network and to continue the rehabilitation of the rural roads initiated under HIPC funding. The 2005 institutional revision of the road fund allowed the fund to be used (within a separate window) for some donor- or Government-funded investment expenditure, especially rehabilitation programs.

Designing and Implementing Public Transport in Urban Areas

SOCATUR, the main urban transport company, was liquidated in 1994; the road transport is now operated entirely by the private sector. In Yaoundé, commuters depend largely on private taxis to go to work or school, and in Douala, a few small private transport companies have emerged. A new strategy for urban transport services has to be forged to improve urban transportation, especially

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Box 5.4

Cameroon’s Road Fund

The 1998 creation of a road fund has helped secure resources for road maintenance through a petroleum levy. The levy brings more than $30 million to the sector every year, up from less than $10 million before the reform. This scheme has shortened payment delivery time to private enterprises, improved the programming of road maintenance operations, and helped revitalize private civil engineering and construction firms.

The scheme has been hampered, however, by a number of problems. First, only a fixed percentage of the fuel levy was allocated to the road fund and channeled through the Treasury, while a ceiling was fixed in the Government budget, which no longer reflected the true resource needs for financing road maintenance. Second, implementation of the road maintenance contracts still relies heavily on external technical assistance, especially the EU-funded road maintenance program. Programming capacity and links between contracting and programming are weak at best.

Source: Authors.
Box 5.5
Performance-Based Maintenance and Management of Roads

Performance-based maintenance and management of roads (PMMR) contracts aim to ensure that the physical condition of roads is adequate over a multiyear period. These contracts expand the private sector’s role from simple execution of works to both maintenance and management of roads.

Australia, New Zealand, the United States, and several Latin American countries, including Argentina, Brazil, and Uruguay, already have PMMR–type contracts in place, covering thousands of kilometers of roads. Many countries in Africa, Asia, and Europe are now introducing contracts for performance-based maintenance and management of roads, often with crucial support from donor agencies that have recognized the benefits of result-based approaches for poverty reduction. This new approach may also bring about a much-needed breakthrough for the preservation of road assets in poor countries, which are rapidly eroding because of inadequate management and maintenance.

During the bidding process for such contracts, potential service providers propose a monthly lump-sum fee per kilometer of road to be managed and maintained. The contractors are paid not for physical works (inputs) but for meeting certain predefined service quality levels (outcomes). Examples of service quality levels include the speed attainable on the road; road users’ comfort, which is linked to the absence of road surface damage, such as potholes; and the presence of traffic signs and road markings. The fixed monthly fee usually covers all physical and nonphysical works provided by the contractor. Penalties are imposed if some criteria are not met, and the contract can be cancelled if there is persistent noncompliance over a longer period.

Source: Authors.

in Yaoundé and Douala and meet the needs of rapid urbanization. Better organization of urban transport should also attract private sector participation.5

Air Transport

Cameroon faces daunting challenges in air transport, the subsector in which reforms have lagged most. Air travel within Cameroon and from Cameroon to the rest of Central Africa is limited and unpredictable, because of poor performance by Cameroon Airlines (CAMAIR), the state-owned airline company, which dominates the industry. CAMAIR has been mired in financial difficulties for more than 10 years, crippling its capacity to provide adequate services within Cameroon, let alone in Central Africa or outside the subregion.6 Several African and European carriers also serve Cameroon, providing access to Europe and the rest of Africa.
Since 1994, Cameroon’s seven main airports have been run by Aéroports du Cameroun (ADC), a public-private partnership involving Aéroports de Paris, the Agence pour la Sécurité de la Navigation Aérienne en Afrique (ASECNA), CAMAIR, the Government, and several marginal stakeholders. This partnership has not yielded the expected results, for a number of reasons, including Government interference in management, an ill-defined concession perimeter, mandatory contracting relations with CAMAIR on ground services, costly management errors, and the generally weak condition of air transport in Central Africa. Because of these difficulties, the principal investor, Aéroports de Paris (ADP), could not generate sufficient revenue to maintain its assets, especially at smaller airports, and ran the risk of damaging its main platform in Douala. As the situation became untenable, ADP completely withdrew from management and participation in the partnership.

Despite these difficulties, air transport has the potential to grow and to link Cameroon to the global economy. For this to happen, the Government needs to swiftly complete the restructuring of CAMAIR and the liberalization of air services in the spirit of the Yamoussoukro Declaration (box 5.6).

A number of important steps are needed. First, substantial quality improvement and cost reduction need to be made to ground services. This change could be accomplished by restricting the concession to the main airports (Douala and Yaoundé); preparing a strategic plan for the maintenance and phased development of secondary airports, as dictated by the prospects of traffic growth in the regions in which they are located; changing the institutional setup in order to reduce the cost of airport handling services; and reviewing public-private partnership arrangements within ADC in order to give the airport concessionaire effective management rights.

Second, private participation in the sector should be promoted, by providing a favorable environment, within the framework of the Yamoussoukro Declarations I and II. Efforts could be made to facilitate the operations of private subregional airlines, as well as national airlines from the region. Given the experience of Air Afrique, the CEMAC Governments must be extremely cautious about launching any form of publicly owned regional airline.

Third, the Government needs to rapidly finalize the restructuring and privatization of CAMAIR. In 2005, the Government, with the assistance of the IFC, decided to proceed with the scission liquidation of CAMAIR. Under the privatization strategy, CAMAIR was to be liquidated and a new company created, operated, and managed without Government interference. The Government was to assume the liabilities of CAMAIR while holding 49 percent of the capital of the new company, paid as an in-kind transfer of CAMAIR’s traffic right to the new company. The Government clarified
Box 5.6
The Yamoussoukro Declaration

The Yamoussoukro process started with the Yamoussoukro Declaration of 1988, a statement of common political commitment toward the liberalization of air transport in Africa. The Yamoussoukro Decision, adopted in November 1999, was made legally binding after endorsement by the Organization of African Unity Heads of State and Governments in July 2000.

The decision’s principal aim is to gradually liberalize scheduled and non-scheduled intra-African air transport for the provision of “efficient, affordable, reliable and safe air services that are in compliance with ICAO (International Civil Aviation Organization) standards and recommended practices.” The decision provides for the elimination of restrictive practices and controls, including the granting of air-traffic rights, capacity, frequency of flight operations, tariffs, and the number of airlines to be designated per route. It also requires that states ensure fair competition, consumer protection, and compliance with international safety and security standards.

Although the decision is a continent-wide initiative, its implementation has taken on a regional dimension. In view of the need to improve efficiency and safety of air transport services in their regions and to accelerate the liberalization process, the ministers responsible for civil aviation in West and Central Africa signed a memorandum of understanding in November 1999. This document established a framework for greater cooperation and harmonization of the regulatory environment in the two regions. In February 2003, meeting in Lome, the Committee of Ministers adopted an action plan for implementation of the decision in Western and Central Africa.


its financial obligations with respect to CAMAIR, recruited a liquidator, and launched an invitation for bid in January 2006. A winning bidder was selected in June 2006, but negotiations have stalled since, illustrating the perennial problem of procrastination and inconsistent implementation of the stated policy course. The Government should take the necessary steps to facilitate the development of the new national airline company.

Rail Transport

Rail transport was concessioned to a private company, CAMRAIL, in mid-1999. The concession led to significant improvements in rail services and costs along the Douala–Ngaoundéré corridor.

By 1996, the railways system, which used to be subsidized by the Government, had accumulated more than $20 million in fiscal and social...
security arrears. By 2003, it had contributed $12.7 million, after the subsidies paid out by the Government to CAMRAIL to cover passenger service losses. This reversal partly reflects the growth in freight traffic, which rose 24 percent between 2000 and 2006, and passenger traffic, which rose 17 percent.

However, since completion of works related to the Chad-Cameroon pipeline, CAMRAIL has had to cope with slow growth in traffic volume, which rose just 3 percent a year. Some of the decline has been compensated by tariff increases. But the concession continues to incur recurrent losses as part of its passenger service obligations.

Because of adverse changes in the economic and financial environment (increase in market prices and labor costs and appreciation of the euro and the CFA with respect to the U.S. dollar) and an underestimation of the financing needs for infrastructure and rolling stock rehabilitation, CAMRAIL’s initial financing plan is unsustainable in terms of the concession’s ability to finance both long-term track and rolling stock investments. In view of these unfavorable exogenous changes, the Government agreed to renegotiate the rail concession in 2004–05. Key elements of the new contract include payment of passenger service arrears owed to the rail concessionaire and identification of funding mechanisms to continue to finance rail track rehabilitation in the short term. The authorities, the World Bank, and CAMRAIL management also decided to reallocate some World Bank funds to finance activities needed to reinforce safety and protection of wildlife and the environment.

The first concession amendment, which took care of CAMRAIL’s immediate needs, left out the important issues related to long-term track financing needs. Discussion of these issues was to have been concluded by February 2007. CAMRAIL alone cannot shoulder the cost of financing track investment, because its capacity to finance long-term investment remains severely constrained by the need for significant mid-term financing to cover the cost of renewing the rolling stock. In response, the Government has agreed to negotiate with CAMRAIL for a new concession financing scheme, which would lead to a transfer of the track financing obligations from CAMRAIL to the Government. In exchange, CAMRAIL would increase the concession fee paid to the Government. Track financing for the 2008–12 period will be provided by IDA.

**Maritime Transport**

The maritime sector is dominated by foreign interests. The national maritime transport company, Cameroon Shipping Lines (CAMSHIP); several short-distance maritime companies; and some private operators in
auxiliary services effectively represent Cameroonian interests in the maritime transport sector. Under the maritime law passed in December 1997, CAMSHIP was entirely privatized and the traffic to and from Cameroon was liberalized.

The port reform is near completion. The port of Douala, originally run by the national port authority, has been managed as an autonomous entity by the Port Authority of Douala since 1999. Creation of this entity has led to marked improvements in management and the quality of services. Nearly all commercial port services—including towing, berthing, and container terminal operations—have been privatized as part of the reform program. As a result of these reforms, service tariffs decreased significantly in 1998. A subsequent round of decreases (of roughly 27 percent) occurred on container operations when the concessioning of the container terminal began in early 2005.

The main challenge is to sustain the progress achieved and to rehabilitate port infrastructure. The French Development Agency (AFD) and the German development bank (KfW) have provided financing for infrastructure improvements. Port facilitation, which has been improved by the one-stop shop—GUCE—in Douala, will have to be sustained. Computerization of GUCE, continued improvements in the professionalism and efficiency of freight-forwarders, and the deepening of customs reforms should also help raise service quality while reducing costs in the future.

**Developing Water Resources**

Cameroon fares poorly in terms of access to safe water and development of water resources. Only half of Cameroon’s population has access to drinking water, with considerable gaps between urban areas (where 80 percent of residents have access) and rural areas (where just 31 percent of residents have access). Poor water quality is also an important concern, especially in urban areas. At the current pace of reforms and progress, Cameroon appears significantly off track for meeting the MDG of providing universal access to safe drinking water by 2015.

Cameroon enjoys generally favorable natural conditions and is blessed with a rich natural resource base. Inconsistent and harmful policies explain the subpar quality of water supply services. The country has failed to make needed investments in upgrading and modernizing its water facilities over the past decade: neglect, underinvestment, and poor maintenance have crippled the hydraulic network, and production equipment needs to be completely rehabilitated.
As a result of these failures, Cameroon lags other countries in terms of distribution capacity. In 2002, the distribution network per capita for Douala and Yaoundé was about half the level of Dakar and one-third that of Abidjan (table 5.2).

Enhancing quality and improving access remain the main challenges. In the PRSP the Government reaffirmed its determination to improve access to and the quality of drinking water, including raising the rural areas access rate from 33 percent to 75 percent between 2001 and 2015. The Government’s strategy seeks to improve water quality and access in urban areas and develop water resources in rural and semi-urban areas.

Improving Water Access and Quality in Urban Areas

Implementing the strategy requires privatizing the water company, SNEC, and deepening sector reforms to improve access and water quality in urban areas. Unfortunately, after nearly three years of on-and-off negotiations with the provisionary adjudicator, the privatization process stalled and was declared unsuccessful in September 2003. The lack of transparent information on SNEC’s financial situation adversely affected the credibility of the privatization process. This is yet another manifestation of the Government’s Achilles’ tendon: its penchant for putting off key reforms and failing to follow through with implementation once an agreement is reached. In this, as in other cases, market and financial conditions became unfavorable during the lengthy preparation and negotiation period.

In March 2002, the Government appointed an interim administrator to manage SNEC, in the hope of halting the deterioration of the company, which was on the verge of bankruptcy. This approach yielded some tangible success. In particular, by strengthening billing and collection, the new management team improved SNEC’s operating performance and financial position. It also made essential investments in rehabilitation. As a result, the distribution indicator significantly improved (reaching 77 percent in 2004), and the company has enjoyed a slight positive surplus since 2003.

Sustainable progress in the water sector hinges on how swiftly and resolutely the Government can implement a partnership with the private sector, with emphasis on improving quality and expanding services to the population. In 2004, the Government restructured SNEC as a public-private partnership. Building on experience with public-private partnerships in West Africa, the Government decided to subcontract service
<table>
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<tr>
<th>City</th>
<th>Population</th>
<th>Annual production capacity</th>
<th>Distribution network</th>
<th>Subscribers</th>
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<td></td>
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<td>Cubic meters per day</td>
<td>Kilometers</td>
<td>Number</td>
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<tr>
<td></td>
<td></td>
<td>Liters per day per person</td>
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<td>Abidjan, Côte d’Ivoire</td>
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<td>4,800</td>
<td>340,000</td>
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<td>800</td>
<td>58,000</td>
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<tr>
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<td>230,000</td>
<td>2,400</td>
<td>220,000</td>
</tr>
<tr>
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<td>82,000</td>
<td>600</td>
<td>32,000</td>
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<tr>
<td>Nouakchott, Mauritania</td>
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<td>33,000</td>
<td>650</td>
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<tr>
<td>Ouagadougou, Burkina Faso</td>
<td>1,100,000</td>
<td>450,000</td>
<td>1,400</td>
<td>39,000</td>
</tr>
<tr>
<td>Yaoundé and Douala, Cameroon</td>
<td>3,000,000</td>
<td>252,500</td>
<td>1,512</td>
<td>109,000</td>
</tr>
<tr>
<td>Total</td>
<td>9,180,000</td>
<td>900,000</td>
<td>10,650</td>
<td>710,000</td>
</tr>
</tbody>
</table>

Source: Authors.

Notes: One cubic meter equals 1.35 cubic yards. One kilometer equals 0.62 mile. One liter equals 1.06 quarts. One meter equals 1.09 yards.
delivery to a technical partner through a lease contract (*affermage*) while leaving investment in rehabilitation and capacity expansion to a state-owned asset company (*société de patrimoine*). The Government created an asset-holding company, CAMWATER, dedicated to carrying out investment responsibilities. The Government prepared a priority investment action plan during the initial years, for both rehabilitation and extension. It is now trying to mobilize internal and external resources to carry out the plan. The World Bank has agreed to finance part of the investment program.

As for the technical partner in charge of actual service delivery, the Government launched a prequalification process in January 2006, in which several international operators expressed interest. An investment conference was organized in February 2006, and the invitation for bids was expected in the last quarter of 2006. Once a bidder is selected, the Government and the operator will finalize the negotiation of a lease contract in early 2007.

The regulatory framework will consist of the lease contract provisions, which set up performance incentives and penalties for the private operator; a performance contract between the Government and the public asset-holding company; the use of a sector-based financial model to set tariffs and investments; and a technical monitoring committee to monitor both the lease and the performance contract and propose tariff revisions on the basis of the outcomes of the sector-based financial model. In the medium run, once the main rehabilitation investments have been implemented, the lease contract could evolve into a full concession, in which case the private partner will also assume responsibility for investment in capacity.

**Developing Access to Water in Rural and Semi-Urban Areas**

The other pillar of the water resource development strategy is contained in the Rural Hydraulic II Program, which seeks to enhance access to drinking water for all regions, especially rural and secondary urban areas. This program is an umbrella structure for several water supply rehabilitation and extension projects, including the construction of priority bore holes and water wells in remote areas, especially in the north. The authorities are also developing a drinking water supply program in schools and health centers, including measures for sewage treatment, extension of the primary water drainage system, and construction of new purification systems in urban and semiurban areas.

The water supply development program is certainly ambitious, but it is within reach and in line with the needs of a rapidly growing population. The
major challenge remains the Government’s resolve to effectively implement the program. The PRSP progress reports indicate that little has been executed in an earlier Rural Hydraulic II program. The Government is finalizing a new water sector strategy that will address the critical issues of private resource mobilization for financing investment, promotion of a more effective public-private partnership in the sector, and increased involvement of communities and local governments. The Government needs to finalize the strategy and accelerate implementation.

Enhancing Information and Communications Technologies

Cameroon needs to rapidly expand the density, coverage, and quality of its electronic communication infrastructure. The single most important component of information and communication technology (ICT) is the infrastructure that provides the central networking function and links separate activities within Cameroon, as well as to the wider regional and global economy.

The capacity and quality of Cameroon’s electronic communication infrastructure are inadequate to sustain economic diversification and development. In fact, Cameroon lags its competitors in access to electronic communication infrastructure. In 2002, the number of fixed lines (7 per 1,000) was far below that of Côte d’Ivoire (20 per 1,000) and Senegal (23 per 1,000).

Cameroon has failed to make adequate investment in the fixed telecom sector, because the privatization process has proved lengthy and ultimately inconclusive. By contrast, two privately owned mobile phone companies are now fully operational. Thanks in large part to these companies, service has improved and costs fallen. As of 2006, the number of mobile subscribers exceeded 3 million, up from less than 3,500 in 1997.

Deepening Market Liberalization

Self-imposed restrictions in supply (exclusivity rights, restrictions on foreign ownership, and administrative barriers to entry) have limited the diffusion of ICT and prevented diversification and sustainable development. The monopolistic position of Cameroon Telecommunications (CAMTEL) in the fixed market means that it alone bears the burden of providing the transmission (long-distance) infrastructure needed between cities in Cameroon and in rural and remote areas. These restrictions lead to higher prices for customers and reduce the competitiveness of the business sector.
Indeed, international experience shows that lifting all restrictions by fully liberalizing the electronic communication market produces real declines in prices for all classes of customers, as well as improvements in the quality of services and substantial growth in market revenues, investment, and access.

The Government could improve conditions in the sector by deepening reforms and enhancing competition. Its telecommunication sector development strategy rests on several pillars, including the successful liberalization and privatization of CAMTEL, a sound legal and regulatory and institutional framework, and an effective partnership with key operators to develop capacities and extend services to poor and remote rural areas.

**Completing the Privatization of CAMTEL**

The privatization process of CAMTEL, launched in 1997, was declared inconclusive in May 2002, after negotiations with two consecutive bidders failed. The main reason for the failure was the slow pace of execution of the privatization program, which led to critical changes in market conditions and financial risks. Soon after those failures, the Government, with World Bank support, prepared a plan for relaunching the privatization process.

As a first step, the Government made considerable efforts to strengthen the legal and regulatory framework and consolidate the financial position of CAMTEL. It issued an interim concession to CAMTEL in 2002, including specific performance and minimum investments targets. A specialized international firm was recruited in 2003 to help CAMTEL management prepare for privatization, allowing the company to enhance its market value by operating more effectively in a very competitive sector. The new management improved business practices and made some essential investments.

In a second phase (launched in May 2005), the Government hired a consortium led by an investment bank to relaunch the privatization of CAMTEL in accordance with the new telecommunication and privatization strategies. The transaction envisaged the sale of at least 51 percent of the company’s shares to a strategic partner. The fiber optic cable installed along the oil pipeline and SAT3 (the international submarine fiber optic cable laid between Portugal and South Africa, which links more than 10 African countries) were also included in the privatization package. The prequalification process was launched in February 2006 and several international operators expressed interest. However, the bidding process, which was launched in January 2007, is stalling. The Government needs to complete the transaction expeditiously.
Strengthening the Regulatory Framework

An autonomous and independent regulatory telecom agency, the Agence de Régulation des Télécommunications (ART), has been established and is developing its capacity. It tackled several important regulatory issues during the liberalization of the telecom sector, including issuance and monitoring of licenses and authorizations and the regulation of tariffs and interconnections. ART needs to rekindle efforts to strengthen the competitive environment in order to foster service improvement and cost reduction.

The Government needs to rapidly make and implement a number of important policy decisions in order to strengthen the regulatory framework. Beyond the broader reforms in the overall regulatory model, the Government should take the following actions:

- Remove all exclusivity rights by 2010 to facilitate entry and the injection of new technologies in the sector.
- Establish light-touch licensing or authorization procedures to facilitate market entry.
- Continue to progressively and rapidly rebalance tariffs.
- Establish obligatory standard interconnection offers for all main operators.
- Review the mobilization of the Universal Access Fund and its bidding process mechanisms in order to promote the establishment of networks in rural and remote areas.
- Take appropriate measures to strengthen ART’s human, financial, and legal capacity and to boost its independence with respect to the main operators.

Improving Access and Services in Rural and Underdeveloped Areas

With market reforms in full gear, the Government needs to refine its strategy for improving access and services to rural areas and poor communities. Once the market is liberalized and normal commercial services are expanded, it becomes easier to identify segments of market incompleteness, so that the Government can more effectively devise complementary programs to improve access and service. In a competitive environment, it is possible to devise innovative and cost-effective approaches to universal service and access that promote competition and enhance services. One solution is to develop public access points or telecenters in targeted communities,
which can be used to provide access to a wide range of Internet and other ICT services. This approach could be refined to enhance local, private, or municipal participation in the operations of public telecenters, possibly through a smart subsidy, under which public or quasi-public agencies partially subsidize start-up and investment costs (box 5.7).

**Box 5.7**

**Using Smart Subsidies to Deliver ICT Services in Remote Areas**

The smart subsidy concept aims to mobilize private entrepreneurship and investment to supply services. It focuses on providing public access to voice services, computers, the Internet, and other ICT services through telecenters (or cybercafés) in rural and low-income urban areas on a commercial basis by charging fees for services. The concept encourages local entrepreneurs to manage and have a stake in the telecenters and to form partnerships with larger industry players; it allows public or quasi-public agencies to become important commercial clients or partners in the telecenter. The range of services and ICTs available on a shared basis is wider than those available on an individual basis.

Under certain circumstances, a telecenter providing universal access may not be commercially viable, and a subsidy may be required for a portion of the start-up and investment costs. Such a subsidy is allocated under a bidding process to ensure that it is minimized and generates substantial private investment. The bid process works as follows:

- The licensing authority defines a level of service for a defined geographic territory for a set period (for example, 10 years) and issues an invitation to bid for a one-time subsidy.
- Bidders are allowed to make their own technological choices and calculate their required subsidy on the basis of expected income streams from fees, capital, and operational expenditure. The required subsidy is just sufficient to make the telecenter commercially viable; it is not a full subsidy. Bidders may find additional individual, commercially attractive customers in the territory who may be reached for a small incremental cost once public access points are in place. In such cases, they will take these extra commercial opportunities into account when calculating the required subsidy.
- The bidder demanding the lowest subsidy is declared the winner and is obliged to provide the defined level of service over a specified period of time on a commercial basis.
- The disbursement of the one-time subsidy is linked to operational performance indicators regarding the establishment of public access points.

*Source:* World Bank 2004c.
Notes

1. Both the Ministry of Telecommunications and the telecom regulatory agency claimed the right to manage the telecommunication development fund. As a result, for several years mobile providers did not transfer financial resources to the fund as per the contract, and no investment took place.
2. The weak institutional capacity of the Ministry of the Environment and Nature Protection is a growing concern, especially in light of its role in monitoring the implementation of the environmental management plan for the Chad-Cameroon pipeline project and development of future hydropower projects with substantial environmental impact.
3. This strategy was supported by several loans from the World Bank and other donors, mainly the European Union and France, including the Road Management Initiative and the Rural Transport Program, two programs financed by external partners under World Bank leadership of the Sub-Saharan Africa Transport Program and SAC-III.
4. Measures include creation of a database, installation and efficient operation of weighing stations, and design and implementation of road safety campaigns.
6. These problems have been exacerbated by the downward trend in air transport since September 11, 2001.
7. There has been a blossoming of such companies such as Air Service, Bellevue, Virgin Nigeria, and Toumai.
8. This indicator is the ratio of invoiced water over produced water, and takes into account technical and commercial losses.
9. This arrangement differs from the privatization scheme attempted earlier. The previous plan called for selling the majority of the capital of SNEC and implementing a concession.
10. The financial model was completed in November 2005 and was presented and discussed at a private investor conference in February 2006.
11. Mobile operators use costly satellite-based technologies to link cities covered by their networks.
12. Some people, such as the rural poor, cannot afford the services provided by market forces. This differs from a market gap, which results because a monopoly is in place.
The population of Cameroon, estimated at 18 million in 2006, is young and growing at an average annual rate of 3 percent. This rapid growth will require the accelerated creation of wealth in order to meet the basic needs of the population and facilitate access by all to essential basic social services.

The PRSP policies for social sector development have four primarily goals. They seek to:

- Improve the health status of the population in general and that of mothers and children in particular
- Promote basic education for all, especially girls
- Intensify the fight against unemployment through integrated strategies targeting poverty pockets in the rural and urban sectors
- Preserve the environment

Strengthening the Social Sector and Enhancing Inclusiveness
The human resource development strategy constitutes the lynchpin of the private sector growth and support strategy. It seeks to enhance Cameroon’s human capital and thus improve the overall competitiveness of the economy. Toward that end, the government plans to step up investment in technical education and vocational training and introduce institutional mechanisms to encourage greater private sector involvement in the implementation of sector strategies and programs, particularly in the education and health sectors.

Chapter 6 reviews education and health policies. Chapter 7 assesses how sector strategies in the rural and urban sector help create opportunities for the poor and ensure that higher and more diversified economic growth translate into economic opportunities for them.

Note

1. Forty-one percent of the population are less than 14 years old. http://esa.un.org/unppl.
The PRSP aptly stressed that human resource development is a core component of the Government’s broad-based development strategy and efforts to meet the MDG targets. Strengthening the human resource base is also important for poverty reduction, in two critical ways. First, it determines the volume and quality of human capital and hence the long-term economic growth rate. Second, it affects the quality of growth and the extent to which growth can translate into employment creation and income generation, thereby determining the poverty and social impact of growth policies.

Compared with the regional average, Cameroon fares favorably with respect to the quality of its human capital. In 2005, the average Cameroonian worker had the equivalent of 3.18 years of primary education and 3.88 years of all levels of education—more education than the average Central and West African (3.10 years) or Sub-Saharan African (3.14 years) (figure 6.1). This performance is still considerably below that of China, India, and Tunisia, however. Moreover, the rising incidence of HIV/AIDS has adversely affected the rate of growth of human capital in Cameroon, reducing the long-term endogenous growth rate.

Cameroon is determined to diversify its economy by making it less dependent on natural resources and more dependent on the quality of its human resources in order to boost growth and reduce its variability. The Government has developed far-reaching strategies for the education and health sectors. The targets are ambitious but a matter of necessity if Cameroon is to reverse the already significant deterioration of the social sectors. PRSP simulation results indicate that the budget cost of achieving such targets is enormous under current policies, implying that more-effective policy choices are needed to improve service delivery and enable Cameroon to reach stated social sectors goals in a financially sustainable manner.
Improving Education Sector Performance

In recent years, the Government has made bold policy choices, as well as commendable efforts toward increasing public spending on education and reducing the share of the financial cost borne by users. As a result, enrollment has risen. The completion rate in the primary cycle has remained low, however, despite rising 1.6 percent per year between 1995 and 2003. The gap between the francophone and anglophone systems in Cameroon is striking; in 2003, only 59 percent of age-appropriate children in the francophone system, compared with about 80 percent in the English-speaking subsystem, completed the primary cycle. Both figures are below the MDG target of universal completion by 2015. Meeting this target implies that the completion rate needs to increase by an average of 3 percentage points per year between 2003 and 2015.

The 2003 Education Country Status Report for Cameroon (World Bank, Republic of Cameroon, and SCAC 2003) identified the major obstacles that stand in the way of achieving the MDG. They include the low level of internal efficiency of the educational system; the persistence of large regional disparities; the bias toward high-quality and elite education rather than the education of a larger number of students, especially at the secondary level; and glaring managerial deficiencies in the system. Drawing lessons from this review, the Government revised its 2000 sector strategy to
address shortcomings in quality and efficiency, explore long-term financing options, and prepare an action plan for achieving universal basic education by 2015. The new education sector strategy (covering primary, secondary, and tertiary education and vocational training) was adopted in June 2006 and endorsed by the donors, including the World Bank. The financing gap of the strategy would be covered through the French C2D and Education for All (EFA) initiative to which Cameroon became eligible in November 2006.

**Increasing Efficiency by Reducing the Repetition Rate**

Internal efficiency can be improved by reducing the high repetition rate. Lowering the repetition rate without sacrificing quality and learning outcomes is the Government’s first priority. In 2002/03 students repeated classes at rates averaging 25.8 percent in primary school, 15.3 percent in lower-secondary, and 26.2 percent in upper-secondary (World Bank, Republic of Cameroon, and SCAC 2003). These repetition rates are high by international standards. They tend to discourage hard work and build frustration, which often increases dropout rates, especially for female and poor rural students. Moreover, there is little evidence that high repetition rates raise the quality of learning. Quite to the contrary, high repetition rates may create disincentives for learning and ultimately diminish learning outcome. High repetition rates also represent an enormous waste of financial resources, an estimated 29 percent of total sector spending in Cameroon (table 6.1).

Recognizing the ineffectiveness of current assessment practices and their adverse impact on repetition rates, the Ministry of Basic Education introduced modern assessment methods and is training teachers in their use. It also introduced administrative measures to curb the high repetition rate in the primary cycle. The administrative decision calls for the elimination of repetition within each of the primary cycle’s three subcycles. A major dissemination effort is needed to ensure that these measures are understood and effectively implemented.

**Reducing Regional, Gender, and Income Disparities**

Reducing regional, gender, and income disparities is also essential. Enrollment patterns and performance are far from homogenous across the country. The chances of being enrolled depend on such factors as administrative location, area of residence (urban or rural), gender, and family income.
Cameroon has made significant progress in closing the education gender gap. By 2003, gender parity had almost been reached in access to primary education, although the completion rate for girls still lagged that of boys by 14 points.

More than gender, income seems to be strongly associated with disparities in access to all levels of education in Cameroon. Access to primary school is 25 points lower for children in the bottom two income quintiles than it is for children in the top three quintiles. Geographical disparities are even more pronounced—they partly reflect income disparities by broad regions. There is a 40-point differential between rural and urban areas, which also have higher per capita income, and a 60-point gap between the much poorer northern and far northern provinces and the richer center and southern regions. These disparities tend to widen considerably with the level of education. In lower-secondary school, for example, 10 times more students come from the richest 20 percent of the population than from the poorest 20 percent (World Bank, Republic of Cameroon, and SCAC 2003).

It is widely accepted that education constitutes a ladder that can lift children out of poverty by providing knowledge, skills, and employment opportunities. Inequalities in the education system that translate into lower access for children from poor areas or families therefore pose a major

### TABLE 6.1
Internal Efficiency Coefficient of Education, by Level of Studies

<table>
<thead>
<tr>
<th>Item</th>
<th>Primary</th>
<th>Lower-secondary</th>
<th>Upper-secondary</th>
<th>All cycles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall internal efficiency index</td>
<td>0.63</td>
<td>0.81</td>
<td>0.75</td>
<td>0.71</td>
</tr>
<tr>
<td>French-speaking subsystem</td>
<td>0.61</td>
<td>0.85</td>
<td>0.59</td>
<td>0.68</td>
</tr>
<tr>
<td>English-speaking subsystem</td>
<td>0.72</td>
<td>0.77</td>
<td>0.98</td>
<td>0.74</td>
</tr>
<tr>
<td>Internal efficiency index based on class repetition only</td>
<td>0.79</td>
<td>0.89</td>
<td>0.84</td>
<td>–</td>
</tr>
<tr>
<td>Internal efficiency index based on dropouts only</td>
<td>0.80</td>
<td>0.91</td>
<td>0.90</td>
<td>–</td>
</tr>
</tbody>
</table>


Note: The overall internal efficiency coefficient is the ratio of the number of student years theoretically necessary to produce the number of students who reach the first year of secondary school (not counting repeaters) in a system having neither repetition nor dropouts to the number of student-years actually spent in school and the number of years students effectively consume, including repetition and lost years caused by dropout. This coefficient ranges from 0 (in a system in which no students complete the cycle concerned) to 1 (in a system with neither repetition nor dropout). The overall internal efficiency coefficient for the entire educational system in Cameroon is 0.71, meaning that 29 percent of allocated resources are wasted. – = not available.
obstacle to poverty-reduction efforts. They must be confronted resolutely, with effective and well-targeted policies.

Rationalizing Education Spending

The employment situation of secondary- and tertiary-education graduates has deteriorated significantly: 26 percent of secondary school graduates and 34 percent of university graduates were unemployed in 2003. In part, this reflects the low degree of economic development of the economy and the related underemployment. But it also reflects the mismatch between the needs of the economy and the skills—or lack thereof—acquired in Cameroon’s schools. The challenge is to ensure that as enrollment rates rise, appropriate complementary policies are implemented to make the education system more relevant to the needs of a rapidly changing labor market. In particular, more attention should be given to secondary education, as studies have indicated that it contributes most to human capital formation and growth (Aghion and Cohen 2004; Mingat and Tan 1996).

In comparator countries in Africa, about 270 students are enrolled in higher education per 100,000 inhabitants. This figure is significantly lower than the estimated figure of 510 for Cameroon in 2002 (World Bank, Republic of Cameroon, and SCAC 2003). International comparisons also suggest that Cameroon has much lower public per capita spending on primary and higher education than comparable countries (table 6.2). Indeed, both the distribution of public resources across levels of education and the level of expenditure per student in Cameroon differ markedly from the average for other countries of the region. In 2000, allocations to primary (42 percent) and nonprimary (13 percent) education in Cameroon were much lower than the average values (53 percent and 19 percent, respectively) in comparator countries. Total expenditure per student represented slightly more than half that observed in the other countries for these levels of education.

At the primary level, the Government urgently needs to revise the teacher recruitment policy. In particular, additional resources are needed to hire more teachers to accommodate the increase in primary school enrollments while reducing the pupil-to-teacher ratio toward the international benchmark set in the Fast Track Initiative. Enrollment rates increased notably thanks to the abolition of mandatory fees. But the pupil-to-teacher ratio also rose, from about 50:1 in the 1990s to 60:1 in 2002. This ratio is considerably higher than the benchmark of 40:1 suggested in the indicative framework of the Fast Track Initiative.
Sustaining Reforms for Inclusive Growth in Cameroon

The gap between the supply of and demand for primary school teachers was estimated at roughly 30,000 in 2006. Under the current system, teachers include both permanent public servants as well as temporary teachers (institueteurs vacataires [IVAC]), whose salaries are paid either by the Government or by parent associations. The average salary of public servants is twice the international benchmark of 3.5 times a country’s GDP per capita recommended by the EFA initiative, making further recruitment of public servants unsustainable. By contrast, temporary teachers are paid half the international benchmark.

In 2006, the Government took the right step and decided to take a middle road by recruiting some new teachers and regularizing the situations of 13,000 former IVAC as Class 8 government workers, not civil servants. This policy is more sustainable for the budget and fairer

### TABLE 6.2

Distribution of Current Expenditures and Unit Costs, by Level of Education, 1992 and 2000

<table>
<thead>
<tr>
<th>Level and indicator</th>
<th>Cameroon 1992</th>
<th>2000</th>
<th>Average in comparable countries a</th>
<th>Ratio of Cameroon to average 2000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Primary</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share of total current expenditure on education (percent)</td>
<td>—</td>
<td>42</td>
<td>53</td>
<td>0.79</td>
</tr>
<tr>
<td>Unit cost as percentage of per capita GDP</td>
<td>10</td>
<td>7</td>
<td>13</td>
<td>0.54</td>
</tr>
<tr>
<td><strong>Secondary</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share of total current expenditure on education (percent)</td>
<td>—</td>
<td>44</td>
<td>28</td>
<td>1.57</td>
</tr>
<tr>
<td>Unit cost as percentage of per capita GDP</td>
<td>21</td>
<td>36</td>
<td>36</td>
<td>1.00</td>
</tr>
<tr>
<td><strong>Tertiary</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share of total current expenditure on education (percent)</td>
<td>—</td>
<td>13</td>
<td>19</td>
<td>0.68</td>
</tr>
<tr>
<td>Unit cost as percentage of per capita GDP</td>
<td>165</td>
<td>83</td>
<td>154</td>
<td>0.54</td>
</tr>
</tbody>
</table>


— = Not available.

a. Benin, Burkina Faso, Côte d’Ivoire, Madagascar, Mauritania, Senegal, and Togo.
to teachers, who would be paid roughly 3.5 times per capita GDP, in line with the EFA recommendations. Between 2006 and 2009, the Government intends to progressively integrate the IVAC, who are currently paid by parent associations, into the permanent staff and recruit another 3,000 teachers on average per year as Class 8 government workers in order to close the gap between the supply of and demand for teachers in primary school.

For higher levels of education, actions should be taken to better control transition, in particular into the second cycle of secondary school and universities. Cameroon certainly needs high-quality education with top-rated institutions, specialized programs, and a high level of selectivity. But such education is costly and, by design, cannot accommodate a large volume of students. A prerequisite for increased enrollment in higher education is to emphasize secondary education and raise quality as well as enrollment, especially in the first cycle of secondary school. In parallel, the authorities need to gradually combine increased enrollment in the first cycle of secondary school with an emphasis on access to technical and professional education, so that the system can produce a large pool of well-educated and operational graduates to meet the needs of the labor market. This means providing better support to applied research; offering a broader array of professional degrees; supporting private institutions of higher learning and practical training; and adopting more-creative and diversified training methods, including distance learning, which could reduce costs, increase efficiency, and reach a large volume of students.

Improving Governance

The Government needs to take a variety of actions to improve governance of the education sector. Actions include improving the management of teachers, improving the construction of classrooms and the procurement of textbooks, fostering better governance at the school level, strengthening public-private partnerships in education, and encouraging citizen involvement in assessing and operating schools.

Improving the Assignment of Teachers

Teacher assignment to different regions needs to be more equitable. Teacher salaries represent the most important cost item in the education budget; effective allocation of teachers is thus imperative for raising expenditure efficiency and attaining education outcomes. One would expect that the distribution of school and teachers would ensure roughly equal pupil-to-teacher ratios across regions and that more schools would be built in
areas in which access falls well below national average. However, figure 6.2 indicates otherwise. The relation between the number of teachers and the number of pupils appears to be random, implying widely varying pupil-to-teacher ratios. This relation is not surprising given that 45 percent of teachers are appointed on the basis of factors other than the number of students at the school.

Reducing the Cost of Classroom Construction and Improving the Procurement System for School Supplies

Another area of great concern is the high cost of classroom construction and textbook procurement. The unit cost of a well-equipped classroom in Cameroon ($12,000) is well above the EFA international benchmark ($8,000). It is also much higher than the average for the subregion. Given these high costs, the planned expansion in the number of schools and classrooms will rapidly become financially unsustainable. The Government needs to take immediate measures to reduce construction costs, such as standardizing classroom features and creating a more transparent and efficient procurement system. It also needs to rationalize the distribution of new classrooms and textbooks across provinces in order to reduce disparities.

FIGURE 6.2
Relation between Number of Students and Number of Teachers in Public Primary Schools, 2002/03

Improving Resource Management at the School Level

An indicator of the effectiveness of the education system is how well actual learning (outcome) is related to resources input per student. One might expect to find better learning results at schools that received higher levels of resources per student. But figure 6.3 indicates otherwise. Schools at which costs per student are 10 times that at other schools can produce similar educational outcomes.

These findings suggest that in addition to providing adequate and equitably distributed resources, the Government needs policies that could significantly improve efficiency in both spending and the learning process. Such efforts should target schools at which learning outcomes are low relative to allocated resources. Improving expenditure efficiency requires better governance at the school level, which can be achieved only by providing incentives for good management and teaching practices while sanctioning deviant behaviors (bribes, absenteeism, harassment, and abuses), by inspectors, school directors, or teachers. The Government took actions in this direction at the beginning of the 2006/07 school year. Such actions must be encouraged and sustained.

FIGURE 6.3
Relation between Unit Cost of Primary Education and Primary School Pass Rate, 2002/03

Strengthening Public-Private Partnerships in Education

The private education sector is relatively well established. It increases diversity, caters to specific needs, and enrolls children from across the revenue spectrum. While a few private schools count among the best in the country, most remain structurally and financially weak and tend to employ underqualified and underpaid staff. In addition, private schools are often expensive, and they operate predominantly in urban areas. For these reasons, it is not clear whether they reach disadvantaged children or reduce disparities in access and outcome.

The Government nevertheless has a long-standing commitment to the development of private education. It has provided financial subsidies of about CFAF 4 billion in recent years (1.5 percent of the education budget). It also provides direct in-kind support to private education, including by assigning public sector teachers to private institutions. Although such support has shrunk to about half of what it was before the crisis years, it remains substantial, representing 20–30 percent of unit costs.

A new law has been prepared, with IDA assistance, to develop a more effective cooperation between the private sector and the ministries of primary and secondary education. The law allows private schools to sign “cooperation contracts” with the Ministry of Education, which allows the ministry to subject the school to pedagogical inspections and quality standards in exchange for specific support, as negotiated by the school.

Encouraging Citizen Involvement in Assessing and Operating Schools

Greater parental involvement in school management can also contribute to improved school quality and output. Community-managed schools and parental associations are very active in Cameroon. The Government is working with civil society, parent associations, and charter schools to foster community involvement in the management of public schools. (This important issue is addressed in chapter 9, which deals with governance and decentralization strategy.)

Improving Basic Health and Containing Contagious Diseases

Improving health outcomes in Cameroon will require actions on four fronts:

- Vastly improving the efficiency of health spending
- More effectively targeting public sector resources to child and maternal health
• Sustaining efforts to reduce the incidence of communicable diseases, especially HIV/AIDS and malaria
• Adopting prooor policies to reduce glaring disparities and inequalities in health outcomes and health service utilization

The Government has formulated a comprehensive health-sector strategy to address these challenges and has been resolute in implementing it. The strategy, adopted in July 2002, has four pillars:

• Decentralize health services.
• Promote partnerships between the public and private sectors and improving transparency and efficiency in public resource management.
• Clarify the roles and responsibilities of different stakeholders in the provision and financing of health services (including by defining a broader role for communities) and elaborating strategies for addressing priority public health problems and improving access to basic health services.
• Strengthen institutional capacities, with a focus on human resources management.

The Ministry of Health has been restructured and strengthened to effectively carry out the sector strategy. This change has meant empowering health districts to deliver services and strengthening key functions such as regulation, inspection, and human resources management. Implementation has gotten off to a good start, with notable progress in critical areas.

Extending Outreach Activities for Core Interventions

A number of major public health programs, including immunization, malaria and HIV/AIDS prevention, and salt iodization programs, have been revamped over the past few years under the leadership of the minister of health (box 6.1). Progress on immunization coverage has been excellent, with the differentials between poor and nonpoor narrowing. The coverage rate for diphtheria, pertussis, and tetanus (DPT3) rose from 43 percent in 1998 to 76 percent in 2005, according to the Ministry of Health. System inequities were also reduced: in 1998, coverage rates for children in the highest wealth quintile were 2.2 times higher than in the lowest, and this differential had narrowed to 1.5 by 2004. The HIV prevalence rate for 2004 was estimated at 5.5 percent, with substantially higher rates for females (6.8 percent) than males (4.1 percent). Notable progress has been made in
Since the adoption of the health strategy in 2001, the Government has shown renewed resolve to restructure and implement a number of major public health programs, including immunization, antimalaria, and HIV/AIDS prevention programs. These institutional reforms and the additional financial resources invested in the sector have started to reverse the declining trend of the 1980s and 1990s. Much remains to be done to increase the efficiency of public spending and governance, however.

**Immunization Program**
The Ministry of Health has done a good job since 2002 of redressing the decline in immunization coverage. Improvement was achieved by introducing important organizational, financial, and programmatic measures. The Expanded Program on Immunization was restructured in 2002 at the central, provincial, and district levels to give renewed focus to immunization. The program has begun contracting with health districts and holding them accountable. The national program, Reach Every District Strategy, has narrowed inequities in coverage by focusing on poorly performing districts. A central technical group was established to guide and coordinate the national program and mobilize resources. Norms and standards were adopted and distributed to all districts; planning and resource management were strengthened; and injection safety and waste management practices were improved.

Financing immunization has also received a major boost particularly from the Government, which has provided most of the resources from HIPC funds. These funds have played a pivotal role in the acquisition and distribution of vaccines, equipment, and logistics.

Efforts are also being made to reintroduce vaccination cards, which are essential for monitoring program performance. The national program has also been performing annual audits, which are useful in identifying problems and proposing remedial actions.

**Antimalaria Program**
Progress in restructuring, reinforcing, and implementing the malaria program has taken place as a result of the implementation of the national malaria strategic plan, in line with the Roll Back Malaria initiative. A Roll Back Malaria committee was established, technical groups formed, and training provided at the central and provincial levels.

HIPC resources and resources from the Global Fund were instrumental in the distribution of free insecticide-impregnated bed nets to pregnant women and children under five through the establishment of 10 nongovernmental organization (NGO)–run provincial impregnation centers. In addition, more than 300,000 bed nets were distributed to children under five through a Global Fund–executed (continued)
grant. An excellent national communication plan was launched, with some 100,000 fliers distributed in 2005. The Government intended to relaunch a campaign in pilots areas in 2007, following the successful example of South Africa.

**HIV/AIDS Prevention**

Efforts to prevent HIV infection also intensified in the past few years. The HIV prevalence rate was estimated at about 11.8 percent in 2000, up from 2.0 percent in the late 1980s. In 2004, the incidence rate was estimated at 5.5 percent (Republic of Cameroon 2004a). However, this rate is not comparable to the previous one because of a change in methodology. HIV/AIDS disproportionately affects people in their prime (age 15–34), with a particularly devastating effect on women.

The 2000–05 HIV/AIDS strategic plan, adopted in September 2000, provided a good framework for the multisector-based and decentralized approach to dealing with the epidemic. The $50 million IDA credit for the HIV/AIDS Multisectoral Project attained important results, mobilizing civil society, supporting more than 3,000 communities in their efforts to prevent HIV infection, and providing funding for the HIV/AIDS activities of private sector, religious, NGO, and public sector institutions.

Progress has been made in broadening access to treatment while retaining a focus on prevention by a variety of means, including the following:

- Expand access to voluntary counseling and testing by establishing a nationwide network of 19 centers that provide confidential, affordable care in a non-stigmatizing environment.
- Improve the availability of condoms through various channels, such as social marketing, AIDS Day, and allocation of HIPC funds for vulnerable groups.
- Support mass media campaigns to promote behavioral change.
- Establish 420 nationwide centers for prevention of mother-to-child transmission, at which pregnant women can be tested and treated.
- Establish 30 accredited treatment centers nationwide for the provision of antiretroviral therapy treatment and introducing a pilot program. As of the end of 2005, some 18,000 people are estimated to have benefited from the Government’s subsidized antiretroviral therapy program. The monthly cost of antiretroviral drugs was reduced from CFAF 16,000 to CFAF 0, and treatment was extended to cover exams in addition to drugs. Lab exams are conducted twice a year, with patients bearing CFAF 3,000 of the CFAF 21,000 cost. Information from the Yaoundé outpatient clinic and the Douala Laquintinie hospital reveals that the majority of patients are women from low-income households, highlighting the prooor emphasis of this program.

*Source:* Authors.

a. The new methodology estimates infection rates in the general population in comparison to data from sentinel sites.
increasing the availability of condoms, by carrying out mass media campaigns, rapidly scaling up and implementing a program for the prevention of mother-to-child transmission, expanding access to voluntary counseling and testing, and providing care and treatment to people living with HIV/AIDS.

**Better Targeting Health Interventions**

The health strategy also calls for better targeting of health interventions, especially of the poor and other vulnerable groups, such as children and women. Analysis of health-sector resource allocation over the past few years indicates that the Ministry of Health is making a concerted effort to address inequities and has targeted more resources to the poorer provinces (figure 6.4). As part of this process, the Ministry of Health launched a competitive process for recruiting contractual staff to work in underserved areas, using HIPC resources. About 1,200 staff were recruited in 2002 and 600 in 2003.

Effort to reduce health inequalities are part of all major public health programs in Cameroon. The immunization program includes an explicit

**FIGURE 6.4**

_Distribution of Public Funds for Health Service Delivery, by Region, 1997/98 and 2000/01_

![Graph showing distribution of public funds for health service delivery by region, 1997/98 and 2000/01.](image)

strategy for reaching every district in the country, intended to reduce inequities in coverage by focusing on poorly performing districts. The HIV/AIDS program targets vulnerable groups, including young people, pregnant women, and truckers along the main roads. It has developed centers for the prevention of mother-to-child transmission across the country. Targeted media campaigns have also been effectively used to reach the poor and people in remote regions.

These commendable measures will go a long way toward redressing inequities in resources and health outcome across regions and social groups in Cameroon, and the Government intends to sustain the course and intensify these campaigns. Still, much more needs to be done. In improving prenatal care services, for example, attention needs to be given to poor households in rural areas, especially in the North, Far-North, and Adamaoua regions, with special attention to uneducated women.

**Improving Human Resource and Financial Management**

Human resource management also needs improvement. The Government has already taken some encouraging steps in this area. A new incentive system is in place that allows a special premium to be paid to health workers operating in underserved areas. The new management system also provides a framework for restructuring the Human Resources Directorate, establishing salaries for contractual staff, developing career options for medical personnel, handling disciplinary and dismissal cases, and managing health workers previously handled by the finance (MINEFI) and civil service ministries (MINFOPRA). Efforts have also been made to improve technical know-how, including through an evaluation of paramedical training and revision of the curriculum. If effectively implemented, these reforms are expected to improve overall efficiency, transparency, and accountability in the public health system.

The health sector strategy also seeks to reduce the financial burden of health services on households. Poor households are expected to benefit from exemptions to cost-recovery policies. The aim is to develop a gradual rationalization of user fees. A legal act has been published to establish price caps on at least 30 essential low-cost generic pharmaceutical products that are most likely to benefit the poor. The Government is also examining risk-pooling mechanisms in order to reduce the financial burden of health services, especially for the poor. More analytic work is needed to determine appropriate levels of cost recovery and the best mix of financing strategies. To date, progress on broadening health financing options has been slow.
Implementing Institutional Reforms to Improve Service Delivery

Despite recent moves toward greater decentralization, management of the public health system in Cameroon remains highly centralized. The absence of accountability mechanisms in the public sector is a major cause of low efficiency and poor service quality. Improving accountability requires greater participation by communities and households in the delivery of services. This can be accomplished only through a more decentralized system.

The Government is aware of this and has slowly embarked on a number of reforms in this direction. Key steps include contracting out to NGOs the responsibility for providing a package of core services to vulnerable groups or remote areas, as well as attracting greater participation of communities in management of health facilities. The Government needs to move more forcefully and consolidate these accomplishments.

Setting New Roles for All Stakeholders to Bring Health Services Closer to Users and Allocating Resources Accordingly

In line with good international practices, the Government is determined to make the central level of government responsible for policy formulation, resource mobilization, and coordination while yielding to the provincial level the responsibility for technical support to and supervision of health districts as they implement annual work plans. At the same time, more rational mechanisms need to be put in place for allocating resources to different levels of government.

Giving Renewed Impetus to Public-Private Partnerships

Building partnerships—including with nonprofit organizations—allows the health system to benefit from the creativity and buoyancy of smaller-scale and private health providers. For instance, NGOs and the private sector have played pivotal roles in programs to distribute free condoms and sensitize pregnant women on using bed nets. Such cooperation is a judicious and cost-effective way for the Government to implement public health policies and programs.

Strengthening Community Power by Providing Better Information and Involving Communities in Coproducing and Monitoring Services

A strong body of empirical evidence documents the effectiveness of community initiatives in coproducing health services in Africa, Asia, and Latin America. Such initiatives cover a wide range of activities, including
managing community-led health clinics and operating cooperative pharmacies. Users can exert more leverage on providers by participating in decision making and monitoring some aspects of health service delivery. These innovative approaches also increase transparency and accountability in the management of health centers.

Notes

1. Students are expected to master a number of specific learning outcomes upon completing each two-year subcycle.
2. With support from the United Nations Children’s Fund, the Government established a national committee to oversee programs to iodize salt. Legislation was passed to make salt iodization mandatory, and monitoring the iodine content while educating the public was made a national priority.
3. The Human Resources Directorate of the Ministry of Health has developed a human resources plan that includes incentives for recognizing and rewarding good performance and standard criteria for assigning and transferring personnel.
4. The Government provides free insecticide impregnated bednets to pregnant women and subsidizes HIV testing and antiretroviral treatment.
Determined implementation of the cross-cutting policies described in the previous chapters will go a long way to improve competitiveness and create a favorable environment for private sector investment and growth. But better-integrated sector strategies—especially in rural and urban areas—are also needed if accelerating economic diversification is to increase economic opportunities for the poor.

The Rural Sector

The rural sector dominates output in Cameroon, but it is also home to 80 percent of the country’s poor. The sector accounts for 20 percent of GDP, 20 percent of exports, 50 percent of the population, and 60 percent of employment. Crop production (more than 60 percent is production of food crops) accounts for 70 percent of rural sector GDP, while livestock/fisheries and forestry each account for 15 percent. The average farm is small (about 2.0 hectares [4.9 acres]), with large variations according to farming systems. There is no shortage of land, with significant stretches of arable land remaining to be cultivated.

Performance has been weak relative to the country’s considerable endowments. Rural sector growth has varied (averaging 5.7 percent during 1997 to 2001 and 3.5 percent during 2002 to 2005), mainly because of changing policies and international prices. Productivity has remained low, and the sector has experienced very limited technical change over the past decades.

Meanwhile, the goal of providing food security for the population has remained elusive. In fact, between 1971 and 1988, imports of cereals to feed the growing population expanded by a factor of more than 10 (from 32,100 to almost 350,000 metric). Cereal imports per capita increased from 7.2 kilograms to 24.0 kilograms during that period, while cereal production per capita declined from 160 kilograms to about 80 kilograms.
The performance of the rural sector improved somewhat after the 1994 currency devaluation and implementation of sensible macroeconomic and structural reforms. Implementation of the rural sector strategy contributed to a sustained 4 percent annual growth rate during the post-devaluation decade (see table 1.3).

Low productivity caused by a variety of factors—financial and technical policies, and climatic—remains a major constraint to higher rural sector growth. The 1986–93 depression severely hurt agriculture. Fiscal retrenchment, low public investment, and weak trade policies contributed to low agricultural productivity and growth rates during this crisis. The long-term decline in international commodity prices during this period hurt coffee and cocoa production and deprived the agricultural sector of much-needed foreign exchange and resources for investment. Diversification, especially into higher-value crops, has been both slow and difficult. A key issue is inadequate access to and the high cost of rural credit to finance investment and production.

The weakness of rural infrastructure is also a key constraint on rural sector growth. Resources allocated to rural road maintenance are only one-fourth of what is needed to keep the rural network functional, for example. This translates into high marketing costs, especially transportation costs, which raise the producer price of highly perishable food crops.

The Government has already articulated a comprehensive rural sector strategy that seeks to raise productivity and diversify agricultural production. It intends to modernize production equipment and techniques and introduce new varieties of crops. These policies are key components of the overall strategy of public sector retrenchment from direct production activities in favor of indirect support to the private sector and markets. The main thrust of the strategy is to enhance the incentive framework, reinforce human resources and capacities in the rural sector for boosting supply response, and enhance intersectoral links (agroindustry and commerce) to spur economic transformation.

Enhancing the Incentive Framework

The Government’s liberalization policy has improved incentives as well as competitiveness. The share of producer prices to the freight on board (FOB) export price has increased significantly, creating incentives for production and export. There has also been a marked increase in the concentration of production in certain zones, reflecting geographic comparative advantages. These results are encouraging, but much more needs to be done to increase
the competitiveness of Cameroon’s agriculture. The Government could deepen the market by enhancing incentives to producers and investors, facilitating access to credit, and strengthening human capacities.

Completing Government Retrenchment from Direct Production and Commercial Activities

The Government remains entrenched in commercial agricultural activities through several rural development agencies, such as the Office National du Caçao et du Café (ONCC) and the Office Céréalier. It had decided to scale up intervention by the Office Céréalier so that the office resells cereals at below-market prices to stabilize the market during periods of food shortages (World Bank 2002a). Such a practice distorts traders’ incentives and is likely to reduce producer prices at harvest. The Office Céréalier should disengage from commercial activities and promote the development and management of village-based cereal storage facilities by both producers and communities to ensure food security. It is important that rural development agencies limit their activities to providing well-specified and truly public services.

Legislation that gives the minister of trade the power to “regulate domestic markets or contribute to food security” when the need arises needs to be revised. This language creates a loophole that could lead to intrusive government interventions in the market and distort incentives.

Facilitating Factor Mobility

Regulation on transport activities specifies particular road lines for each transporter, a practice that reduces market integration across regions. Abandonment of this policy would enhance integration and competition and reduce price differentials across areas. Legislation also excludes foreigners from carrying out small and informal trading activities. These measures impede the smooth working of the market and should be removed to strengthen competition, enhance incentives, and spur investment and growth in agriculture.

Developing Incentives for Productivity-Enhancing Investment

The Government’s income tax policy for agricultural producers has several features. Food crop producers who own less than 5.0 hectares of land do not pay income tax, and cash crop producers are subject to income tax regardless of the size of their holdings. Farmers with annual turnover of less than CFAF 5 million pay a flat tax, based on an assessment made by a provincial-level commission (World Bank 2002a).
This tax system may not be transparent or efficient, for several reasons. First, farm size is difficult to assess, because no agricultural survey has been conducted for many years. Second, the tax system is biased, because it penalizes production of export crops. Third, the mechanism for establishing tax payments for producers with annual turnovers of less than CFAF 5 million is not transparent and provides ample room for corruption. Assessing turnover is difficult, requiring knowledge of yield levels and prices; there are no clearly laid-out procedures that guarantee fairness. Therefore, the agricultural tax system could be improved to remove those distortions and enhance incentives for farmers to invest in productivity-enhancing activities, such as the adoption of new technologies and crop varieties.

Strengthening the Marketing System

Better coordination by producer groups to negotiate prices and by traders to minimize transport cost have improved marketing efficiency and competitiveness. Additional measures could help remove remaining marketing constraints, give producers a larger share of the output price (figure 7.1) and reduce price variations across markets. Measures that have proven effective elsewhere include supporting the creation of interest groups such as Groupement d’interêt cooperatif (GIC) or Groupement d’interêt économique (GIE) involved in marketing and improving their operational efficiency; design and implementing a market price information system; creating large wholesale markets in Douala and Yaoundé to increase wholesale competition and reduce consumer prices; removing unnecessary checkpoints and fighting corruption that taxes the transport of goods on heavily used routes; and improving the rural transport network by identifying and improving the main road networks through which agricultural goods flow.

The Government could consolidate the postliberalization marketing system for major export crops (box 7.1) by taking the following steps:

- Strengthen the association of market participants, enabling them to oversee adherence to deontological practices and fair competition rules and to manage information and data related to the coffee and cocoa subsectors.
- Streamline the institutional framework and remove agencies that are no longer required for the smooth and fair functioning of the market. Reassess the relevance and functions of the ONCC in the context of the liberalized system. Remove all remaining levies that are no longer justified (including customs verification levies imposed by the ONCC,
Strengthening Sector Policies through an Integrated Approach

FIGURE 7.1
Production, Wholesale, and Retail Price of Crops in Yaoundé and Douala

a. Prices in Yaoundé

b. Prices in Douala

Source: Republic of Cameroon 2003b.
Box 7.1  
**Liberalizing the Cocoa Market in Cameroon, Côte d’Ivoire, and Nigeria**

Two complementary objectives are sought in implementing market liberalization programs for tropical commodities. The first is to allow farmers to receive a larger share of world prices (box figure). The second is to link incentives with international prices to enhance the efficiency of the production and marketing process. Results of liberalization efforts have been mixed, as the cases of Cameroon, Côte d’Ivoire, and Nigeria reveal.

**Producer Price of Cocoa in Cameroon, Côte d’Ivoire, and Nigeria before and after Liberalization**

Before the liberalization reforms, Cameroon used a hybrid model combining marketing boards and stabilization funds, which were intended to stabilize prices, ensure quality, and provide services to farmers. In Côte d’Ivoire, crop ownership remained with farmers, but the government regulated producer and export prices by issuing export licenses and stabilizing prices through a stabilization fund. Nigeria used monopoly–monopsony marketing boards. By the mid-1980s, under pressure of donors and low world prices, these countries began to liberalize the commodity markets.

Nigeria was the first African country to liberalize its cocoa market. In 1986, it unilaterally abolished its marketing boards. There was little preparation for liberalization, and the process was unnecessarily chaotic (Gilbert 1997).

Cameroon was the second country to liberalize, doing so between 1989 and 1995. The major impetus was the insolvency of the stabilization agency, the Office National de la Commercialisation des Produits de Base (ONCPB), which was in charge of coffee and cocoa. In order to meet the EU  

(continued)
condition for financial support under the Système de Stabilisation des Recettes d’Exportation, the Government replaced the ONCPB by an organization with a more limited role, the ONCC, and sharply reduced the price offered to farmers (Gilbert 1997).

Despite the questionable ownership of reforms in Cameroon and problems in Nigeria, farmer prices rose substantially following reform in both countries. There was some concern, however, about the quality of the product delivered, partly because of the lack of control.

Côte d’Ivoire, the world’s largest producer of cocoa, with 40 percent of world production, was the third country to liberalize. The Caisse de Stabilisation et du Soutien des Prix des Produits Agricoles regulated Ivorian cocoa policy during the 1970s and 1980s. With the sharp reduction in the world price, it experienced financial problems in the late 1980s similar to those of Cameroon’s ONCPB. During the 1990s, a reform agenda was prepared with the objective of increasing the transparency of the export-bidding process. The liberalization process, which was completed in 1999, coincided with a sharp fall in cocoa prices, attributed by many to the liberalization process. The fall in prices put pressure on the government to assist cocoa farmers. Cocoa prices recovered sharply in 2001 and 2002, as consumption rose in the context of weak production, caused by neglect of cocoa trees during the previous low price years and political unrest in Côte d’Ivoire.

It is too early to fully assess the result of the liberalization. Farmers and the private sector are more involved in the marketing process and are able to benefit from any world price increase. Cocoa from Côte d’Ivoire is sold at a discount, however, because of the uncertainty of product delivery.

Source: Gohou 2004.

a. Gilbert and Varangis (2003) argue that the decline reflected the lack of growth in cocoa consumption and was completely unrelated to the liberalization process.

the Office International du Cacao et du Chocolat [OICC], and Société Generale de Surveillance) in order to reduce costs, enhance incentives, and increase the fluidity of the marketing system.

- Work closely with producers and traders associations to promote organizational and technical training and enhance the involvement of producers groups in coffee and cocoa marketing activities.
- Simplify administrative procedures for exports, which, in 2002, required 14 signatures and visas.
Enhancing Supply Responses

The Government could improve producers’ ability to respond to incentives and market signals in a number of ways, including improving service delivery, extending contract farming and tree crop development, and strengthening producers organizations.

Improving Service Delivery

Increased coordination between extension service providers (public service institutions, private input suppliers, and others) could significantly raise productivity. The introduction of legislation authorizing private veterinarians to perform public service functions, for example, provides new opportunities for fostering private provision of extension services in this area. In general, greater benefits could be reaped from designing programs to subcontract extension services out to nongovernmental entities.

Some innovative service delivery schemes have been implemented. A major fertilizer company provided funding for the planting of several thousand experimental plots in many parts of the country. A private association of young agronomists has been providing extension advice to farmers in the south, under informal contractual arrangements that include in-kind remuneration by producers. The association’s limited resources made it difficult to scale up the initiative, however.

Extending Contract Farming

Contract farming can provide both opportunities and incentives for raising productivity by developing forward and backward links between industry and small producers. Contract farming also provides a venue for foreign investment and technology infusion in agriculture, because it allows more-professional and much larger industrial farmers to operate, which fosters diversification and exports.

Cameroon’s business environment and institutional framework have not been especially favorable to contract farming. Many potential partners in contract farming, such as agroindustrial groups, recognize the benefits of such activities, but they are concerned about the institutional and technical capacities of producers organizations to honor output contracts or land-leasing agreements. As part of the refining of its broad rural sector strategy, the Government needs to review this issue and devise creative mechanisms for promoting contract farming that would spell out the roles of the state, the industrial partners, producers organizations, and land owners and specify performance criteria.
Some activities have already started. MAISCAM (Mais du Cameroun), a company that produces and processes maize, has been purchasing locally produced maize from smallholders. The brewing industry imports large quantities of maize in addition to purchasing maize from MAISCAM. SCAN, a company that produces tomato paste, buys its supplies from local smallholders. A medium-scale cassava processing plant based in the Littoral Province was supplied by dozens of producer groups before it had to close because of insufficient supplies.

**Strengthening Producers Organizations**

Producers organizations are the main actors, beneficiaries, and instruments in the successful implementation of the rural development strategy. Supporting these organizations, beyond what is done through market reforms, essentially boils down to strengthening their institutional, technical, and managerial capabilities. Actions should be taken to enhance their productive capacity and to increase the share of value-added by producers organizations that share a common production system (for example, potato producers in the south, and tomato producers supplying the SCAN processing plant).

**The Forestry Sector**

Forest management, biodiversity conservation, and governance are highly intertwined in Cameroon, where they offer both opportunities and challenges to sustainable development. Cameroon covers a land area of 475 square kilometers, about half of which consists of forests with exceptional biological diversity.

Although the economy is mostly based on agriculture and oil, the forestry sector is the largest nonpublic sector employer and the second-largest source of export revenue after petroleum. Traditional production of timber for export is gradually diversifying towards a wide range of processed products and, most recently, trade of environmental services. The exceptional diversity of the natural environment and wildlife makes tourism a promising economic sector.

The forestry sector is key to the Government’s economic diversification and growth strategy. But the sector is also very vulnerable to corruption. Poor governance has been an enduring challenge for the sector, which has traditionally been a source of political patronage and private gains for political and economic elites.
The timber industry has been a key stakeholder in Cameroon’s forestry sector and has long played a significant role in the country’s economy. Commercial logging began during the German colonial period and expanded under the subsequent French period. In 1920, 59,000 tons of timber were exported from Cameroon to France (Oyono, Kouna, and Mala 2003). Industrial logging started around independence in 1960, and since 1980, timber has been the second largest source of export revenues after petroleum, accounting for some 25 percent of the country’s foreign exchange—far exceeding that of any other agricultural commodity. Moreover, timber is exceptional among Cameroon’s primary commodity exports in that its prices have never collapsed for a sustained period, and, in fact, its prices have risen steadily over the past century. The forestry sector is Cameroon’s largest nonpublic sector employer, with 13,000 employees in the formal sector and around 150,000 people working in the informal sector, according to the most recent data from the National Institute of Statistics (INS). This large labor force makes the forestry industry one of the major employers in the country.

Large foreign timber companies have provided much of Cameroon’s rural infrastructure, particularly in remote areas, where they have, in effect, acted as a surrogate state in their provision of services, as well as in their informal political–economic dominance. European companies, principally French and Italian, have traditionally dominated Cameroon’s timber industry. They interacted with domestic companies largely through subcontracting logging rights and equipment rental. Over time, however, these commercial relationships deepened, in some instances to the point of shareholder participation. During the same period, Cameroon saw a number of Greek, Lebanese, and domestic companies enter the market; these companies were new to the industry and without processing capacity, but were drawn to the market by the simplicity and profitability of operations, given their established links with political elites. Some 150 timber firms are active presently in Cameroon.

Sustaining Implementation of the Forestry Reform Program

To ensure the forestry sector’s growth and sustainable development, the Government of Cameroon has initiated far-reaching reforms that touch on the sector’s institutional and regulatory frameworks. The new forestry policy centers on the following:

- Sustainable management of forests, with the creation of a permanent forest estate and the setting up of Forest Management Units to replace forest permits.
• Contribution to economic growth and poverty alleviation by ceding part of the income from tax revenue to councils, thus creating jobs and establishing community forests.
• Participatory management through consultation with the civil society and the private sector, communication with rural populations about their responsibilities, and establishment of permanent dialogue with the international community.
• Conservation of biodiversity through a national network of protected areas.
• Build public sector capacity in the performance of its traditional key functions and the transfer of productive functions to the private sector.
• Establishment of a legal framework conducive to the development of the private sector, based on long-term conventions and industrialization.
• Harmonization of the regional management system through a zoning plan.
• Improvement of governance through increased transparency and systematic information dissemination to the public.

With support from the Bank (SAC III and PSFE), Cameroon has enacted important reforms. These reforms, along with others, have changed the sector settings profoundly and generated gains as well as new challenges. Overall, there was an increase in sector transparency, improvements in law enforcement, and a reduction in illegal logging. The shares of the forest rent for the state and local populations increased, as did taxes per unit of timber volume. The total area under forest concession increased considerably, while areas under active logging and overall volumes harvested decreased. Sustainable forest management plans are ready for adoption or are under implementation for 60 percent of the forest estate, and forest certification is advancing faster than in any other country. Exports changed from mostly logs to mostly sawn wood and processed timber. Export and tax revenue earnings decreased from the 1997 peak, when forest cut was the highest and most indiscriminate, stabilizing around high average values, as reforms made extraction levels and tax revenues more constant and predictable. Reduction in harvests and export volumes had a relatively modest impact on the production dollar value as processing advanced and sector employment expanded. Industry ownership has become more diverse, as some old-style companies left the sector and new mode modern and law-abiding companies took over. Protected areas expanded, communities started their first forest management efforts, and the first community-hunting zone was created.
At the same time, increased controls, higher costs, and more discerning international markets helped reduce illegal logging by industry, and companies started selling the totality of their production overseas. Legally-sourced timber practically disappeared from the local supply chain, and local producers and dealers were confined to the informal or illegal sector. Illegal logging has become the normal way to supply local markets.

Consolidating and perfecting these reforms will probably increase the forestry sector’s contribution to economic growth and rural income, and strengthen its linkages to the industrial and service sectors.

Cameroon’s Forest and Environment Sector Program, jointly developed by the Government and its development partners, is designed to secure, deepen, and scale-up the forestry policy reforms (box 7.2). The program focuses on strengthening national institutions and the role of civil society to create conditions in which local communities and the private sector can engage in the sustainable management, conservation, and development of forests and other natural resources.

Promoting Forest-Related Products and Improving Living Conditions in Forest Communities

Positive changes have occurred in both the nature and the impact of forest-related economic activities in the rural sector. However, prospects could be even brighter and could boost the contribution of forests to rural income and poverty reduction.

Cameroon has not yet been able to transfer a meaningful share of management responsibilities and financial benefits to local communities through community forestry. Between 1998 and 2006, when the first community forestry manual was prepared with the UK Department for International Development (DFID), more than 200 requests to establish community forests were made and 76 community forests were established. However, community interests were, at times, undermined by vested interests. Different community forestry models were adopted, such as subcontracting industry to harvest community forests, restricting community forest use, and permitting artisanal logging based on long-term rotations. Each of these models has limitations, and none has worked particularly well.

While it is too early to draw final conclusions, one can say community forestry’s impact on people and livelihood has been modest. Assessment of developments is often mixed: the positive effect of transferring part of forestry taxes to local governing bodies was tempered by transparency problems
**Box 7.2**

**Improving the Forestry Sector with an Ambitious Reform Program**

<table>
<thead>
<tr>
<th>Reforms</th>
<th>Reform implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competitive allocation of exploitation permits</td>
<td>Transparent allocation of forest exploitation permits (quality of bidding documents)</td>
</tr>
<tr>
<td></td>
<td>Participation of an independent observer in the permit allocation committee meetings and forwarding of reports</td>
</tr>
<tr>
<td></td>
<td>Exclusion of companies convicted of major infringements of forestry legislation and regulations</td>
</tr>
<tr>
<td>Planning of forest concessions allocation</td>
<td>Allocation of forest concessions according to the programme elaborated</td>
</tr>
<tr>
<td>Forestry Revenue Enhancement Programme</td>
<td>Collection of forest-sector specific taxes (PSRF annual report)</td>
</tr>
<tr>
<td></td>
<td>Collection of fines and damages arising from offences (PSRF annual report)</td>
</tr>
<tr>
<td></td>
<td>Effective payment of all bank deposits (PSRF annual report)</td>
</tr>
<tr>
<td></td>
<td>Setting up a system for fair redistribution of RFA shares (equalization fund)</td>
</tr>
<tr>
<td>Forestry taxation reform</td>
<td>Pursuance of fiscal reform implementation</td>
</tr>
<tr>
<td></td>
<td>Effective and efficient consultation between the Government (MINEF-MINFB) and the private sector</td>
</tr>
<tr>
<td>Sustainable management of forest concessions</td>
<td>Regular meetings of the technical assessment committee on management plans and the Inter-ministerial Committee for the approval of management plans</td>
</tr>
<tr>
<td></td>
<td>Number of concessions allocated in the past two years that have management plans approved by the administration</td>
</tr>
<tr>
<td></td>
<td>Number of final conventions signed</td>
</tr>
<tr>
<td>Supervision of management plans</td>
<td>Regular monitoring of forest exploitation with satellite imagery (road map available each year)</td>
</tr>
<tr>
<td></td>
<td>Participation of an independent observer in MINEF control activities</td>
</tr>
<tr>
<td>Promotion of community forests</td>
<td>Transparent application of the right of pre-emption for local communities</td>
</tr>
<tr>
<td></td>
<td>Effective start of a capacity-building project for forest community management</td>
</tr>
<tr>
<td>Restructuring of ONADEF</td>
<td>Execution of ANAFOR working program in accordance with the guidelines laid down by the reform of that institution</td>
</tr>
<tr>
<td>Combating illegal exploitation</td>
<td>Charging all established offences; application and collection of penalties</td>
</tr>
<tr>
<td></td>
<td>Exclusion of all companies guilty of serious offences from submitting tenders for exploitation permits, and suspension of valid permits</td>
</tr>
</tbody>
</table>

*Source: Authors.*
and misappropriation of funds; the creation of community forests was undermined by overburdening regulations and vested interests of individuals acting on behalf of communities; and concerns to limit illegal logging by industrial groups resulted in a shortage of building materials for local communities.

Maintaining a sustainable domestic energy supply remains critical in the northern regions of the country. Policy measures are needed to promote the regeneration of woodlands and to organize the effective supply of fuelwood to urban markets. Cooperatives and communities that manage woodlands to produce fuelwood and charcoal for sale to urban dwellers in these regions could expect significant returns. Experience in Madagascar, Mali, and Niger shows that this activity has the potential to become the largest generator of cash income for both individuals and communities in these regions. Key actions that could yield quick tangible results include reducing distortions in fuelwood pricing and improving rent distribution among economic actors by creating community-managed fuelwood supply zones around major cities; regulating all activities related to tree growing to increase the private sector’s participation in the reforestation program; and expanding community forests and implementing community master plans to supply fuelwood.

The exploitation of nontimber forestry products (such as *Gnetum africanum*, rattan, or *Pausinystalia yohimbe*), which is widespread in rural zones of Cameroon, is a substantial source of income for forest dwellers. But the regulatory framework continues to impede development of large-scale exploitation of these resources, and this impediment restricts activities in the informal sector. As long as it is organized in a way that prevents both the overexploitation of plants and the trade of endangered species, exploitation of nontimber forestry products could increase income and create employment in rural zones in a sustainable fashion.

**Promoting the Transformation of Business Models in the Timber Industry**

The biggest challenge to industry is declining timber resources. To deal with this challenge, Cameroon has successfully started bringing forest harvest in line with natural regrowth through the introduction of a forestry management plan. In a matter of years, Cameroon’s industry has adapted its structure to new challenges by adding more value to diminishing harvests. In this process, industry ownership and the level of integration are rapidly evolving as exports changed from mostly logs to mostly processed wood. Employment did not decline, but it rather increased, despite the 30 percent reduction of harvests that occurred between 1987 and 2006. New alliances and
partnerships among companies emerged in response to higher fiscal burdens and more stringent management regulations. All companies suffered profitability losses and faced liquidity problems. Companies unable to adapt to the new taxation and regulatory environment closed or were sold, while the new competitive concession award system attracted new investors to Cameroon.

Looking ahead, the sector strategy should seek to maximize the secondary effects of reforms on industrial activities, economic transformation, and rural–urban economic linkages. For the timber industry, areas under managed concessions are expected to increase, while harvested volumes are expected to remain constant or decrease, thanks to better control of illegal logging\(^3\) (figure 7.2). Meanwhile, it is hoped that more secondary processing and use of a broader range of species will occur. For this process to firmly take hold and gain steam, the Government needs to continuously adapt regulations to allow this new industry to become fully established and competitive, while keeping corruption and illegal logging at bay.

Although the modernization of the country’s processing capacities is still beginning, this trend is likely to grow in the next few years, significantly increasing the number of employees in the forestry sector.

**FIGURE 7.2**
Forestry Sector: Areas under Management Plans

![Graph showing number of management plans approved per year and cumulative areas under an approved management plan](image)

*Source:* Authors, based on data from MINEF.

*Note:* mp = Management plans.
Adoption of advanced processing techniques can create employment, including skilled jobs.\textsuperscript{4} Also, more attention should be given to local markets and small-scale enterprises, which are the source of numerous jobs—often precarious ones, but essential for the poor—and for meeting the domestic demand for wood products.

The Urban Sector

With more than half of its population living in towns and cities, Cameroon is one of the most urbanized countries in Sub-Saharan Africa. It is also one of the few countries with a balanced urban structure, market towns, medium-size cities, and two main urban poles (Douala, the economic capital, and Yaoundé, the administrative capital).

At the current rate of urban growth (estimated at 6 percent a year—about twice the 2.9 percent growth for the population as a whole), more than 12 million people will be living in cities by 2020. At this rate, Cameroon’s urban population will double every 11–12 years. Moreover, as in most African countries, Cameroon’s population is very young, with roughly 40 percent of its people under the age of 15 and more than two-thirds under the age of 30. The majority of youth live in urban areas. The results of the 2001 Cameroon Household Survey indicate that urban poverty fell by as much as 20 percentage points between 1996/97 and 2001, thanks to sustained per capita income growth.\textsuperscript{5}

Without adequate attention, however, cities can rapidly become a fertile ground for poverty and insecurity. Rapid urbanization and a young urban population constitute a double-edged sword for Cameroon. On the one hand, the concentration of young people provides a large pool of workers for industry and modern services, which would help Cameroon diversify its economy. On the other hand, urbanization puts added pressure on the already inadequate infrastructure and deficient education and health services. Unless employment opportunities expand rapidly, rapid urbanization could result in massive unemployment and the expansion of slums, unhealthy conditions, insecurity, and poverty. These negative trends are already prevalent in urban areas. Since the 1990s, urban growth has expanded into sprawling settlements on the outskirts of cities, creating neighborhoods with high population densities, especially around Douala, and grossly inadequate basic services.

Indeed, although Cameroon’s population has doubled since the late 1980s, infrastructure expansion has been minimal. Almost 70 percent of
the urban population and all poor urban residents live in areas without basic services. The situation is even worse in other cities, where growing isolation, underemployment, lack of access to basic services, and poor living conditions create an explosive mix of social problems that need urgent, organized, and sustained attention from the Government.

Part of the problem of inadequate services and congestion in urban areas stems from underfunding of urban infrastructure investment, at the central and local levels. At the central level, budget allocation to urban infrastructure in the postdevaluation period has been inadequate. Although the Government has increased sector budget envelopes over the past few years, within the PRSP framework, the allocated resources remain far below what is needed to reverse the adverse trends in urban infrastructure development. At the local level, the provision of basic infrastructure services in urban areas has suffered from the collapse of financing over the past decade. As decentralization progresses slowly, municipal governments find themselves in a tenuous situation, with meager resources from the central budget and greater responsibilities in service delivery. As a result, local governments are unable to purchase the equipment needed to maintain services such as sanitation and drainage, solid waste management, and connections to basic services.

### Improving the Allocation of Resources

Misallocation of resources at the local level is also to blame. Indeed, basic services such as road maintenance, drainage, and provision of potable water in urban areas have been neglected despite the serious threat posed to public health, while municipal and metropolitan governments have devoted most of their scarce resources to administrative expenditures that have little or no impact on the provision of urban services. Municipalities have also received assistance from local and foreign NGOs, many of whom are supported by donors. In order to be sustainable, donor-funded assistance from NGOs must be comprehensive and involve the community.

Most investment has gone to transport infrastructure, with little positive impact on the urban poor. Investments have focused on improving or extending primary infrastructure (especially roads and rainwater drainage), mainly in Yaoundé. These investments cover only a small fraction of the expenditures required to bring urban infrastructure up to standard. They are more part of a transport development strategy than an urban one.

Investments in urban infrastructure have used expensive technology that is not always suited to actual needs. Moreover, the choice of construction technology has prevented labor-intensive techniques that
could have been carried out more effectively by small and medium-size enterprises, thereby reducing employment opportunities. Overall, the impact of investments on the living conditions of the urban poor has been marginal at best.

**Restructuring the Institutional Environment**

Urban development has also been hampered by the problem of overlapping institutions and the multiplicity of intervening agencies. Public investment has been managed by different ministries and public agencies, whose actions are uncoordinated, sometimes conflicting, and therefore ineffective. Two ministries were involved at the central level. The Ministry of Urban Affairs, created in 1997, had responsibility for the 10 regional capitals and 8 other cities with more than 100,000 inhabitants. The Ministry of Town Planning and Housing was in charge of all other cities. These ministries were merged into the Ministry of Urbanism and Housing in 2004.

A number of semipublic organizations, including the Mission d’Aménagement et d’Equipement des Terrains Urbains et Ruraux, the Société Civile Immobilière du Cameroun (SCIC), Crédit Foncier du Cameroun (CFC), and the Fonds Spécial d’Equipement et d’Intervention Interc communal (FEICOM), are in charge of developing urban land, financing housing development, and supporting the activities of municipalities. These organizations have no clear mandates, however, and are not well equipped to serve the urban poor. Crédit Foncier is being restructured under the supervision of COBAC (see chapter 4). An audit was completed in May 2005 on the operations of FEICOM, which manages the distribution of fiscal revenue and provides project loans to local governments. The audit revealed disastrous management, prompting the Government to put in place a provisional administration to implement a restructuring plan based on the audit recommendations. The plan aims to strengthen the role of communities in the management of FEICOM; separate FEICOM resources from resources the agency is managing on behalf of local communities; terminate operations in which FEICOM contracts on behalf of communities and that FEICOM also finances; and restructure and improve management, including by streamlining staff.

**Implementing the Government’s Urban Development Strategy**

The Government has developed a long-term sector strategy that seeks to improve the living conditions of the urban population and to reinforce the
economic role of cities. The Government’s strategic vision is spelled out in an urban sector policy letter that recommends reducing the role and the responsibility of the state in urban management and refocusing central government effort on financial support and capacity strengthening of local governments. This policy change should be implemented by involving the three main urban stakeholders: local government, civil society, and the private sector.

The strategy relies on the city development contract approach for effective implementation. This approach, based on consultation with all stakeholders, involves drafting a contract in which the various partners agree on a set of targets, actions, means, and shared responsibilities. The approach provides a framework for financing short-term urban interventions. It also provides a framework for a dialogue on longer-term sector strategies and interventions. Effective implementation of this policy would require development of appropriate urban sector investment financing instruments; better information on cities, their needs, and their management; and increased efficiency of public expenditure.

State financial reengagement in the sector has to be increased and better targeted. In particular, the volume of resources allocated to urban infrastructure—outside of the water and electricity networks—and city management needs to be increased. Reform of the property tax system could be used to improve resources available to local governments.

For an effective use of allocated resources from the central government, it is essential that cities define their local priorities and investment needs as they prepare their city development contracts. To be included in the national urban priority investment plan, local priorities will have to be widely discussed among local stakeholders, in accordance with the new directives of the national urban policy. Local governments also need to have a certain measure of financial autonomy in raising and allocating funds. Financial autonomy is essential for allowing a more-efficient allocation of resources between administrative and managerial activities on the one hand and the provision of services to city residents on the other. Decisions on local priorities should be decentralized in accordance with the logic of the city development contracts as well as the national decentralization policy.

The formulation and implementation of city development contracts must be based on sound analysis of the economics and demographics of cities, as well as enhanced capacity to assess the local impacts of investment projects. A demographic-economic database on cities need to be created that could be used to assess the economic functions and importance of cities from the national standpoint and allow local governments to identify
the public investments that would have the greatest benefit in terms of economic development and poverty reduction, at least locally. Such a system would also contain mechanisms for the regular monitoring of urban development outcomes and management indicators. By providing a solid ground for implementation of the national urban sector MTEF and facilitating the selection of cities for development contracts, such a system would help achieve urban sector strategy goals.

Greater efficiency in public spending in the urban sector may require adaptation of infrastructure standards, models, and techniques. The revision of standards could be done in consultation with local stakeholders of city development contracts. Urban investment plans need to identify works that could be outsourced to small and medium-size enterprises that use appropriate management methods.

Management and Protection of the Environment

Cameroon is blessed with a wealth of natural resources and biological diversity. But rapid population growth and the resultant need for energy, food, and other commodities have led to deforestation, intensification of agricultural production, and overall degradation of the environment. These processes may eventually lead to the degradation, alteration, or transformation of the ecosystem.

The potential opportunity cost of these adverse developments—including lost prospects for tourism, recreation, food, exports, and associated economic development—is huge. The sustainable use and management of the environment is thus critical to the country’s future development prospects. New challenges are also emerging, such as the environmental impacts of the new offloading facility for oil exports off Kribi, a main tourism center and livelihood for fishing communities.

Rational management of the environment constitutes a priority in Cameroon’s sustainable development strategy. The Government needs rapid actions in two main areas.

Implementing the New Legislation on the Environment

Since 1996, the Government has made important changes in environmental legislation and policy that promise more-efficient management of all natural resources, including the coastal and marine resources (box 7.3). The new legislation is designed to equip Cameroon with a comprehensive
and effective legal framework that could more effectively reconcile environmental protection with the exigencies of infrastructure development, economic growth, and poverty reduction. More than 10 years after the Government adopted these laws, however, most of them are still awaiting implementation decrees.

Under SAC-III and the Petroleum Environmental Capacity Enhancement Project associated with the Chad-Cameroon pipeline project, the Government made important efforts to develop regulations, rules, and procedures to deal with specific environmental aspects of forest resources management and oil industry business. In the forest sector, rules were enacted to provide for environmental assessment of forest concession that are close to designated protected areas; community forest regulations; and

**Box 7.3**

**Awaiting Implementation of Environmental Laws**

Cameroon’s environmental laws provide a good regime for environmental protection and management, conservation, and sustainable development of the natural resource base. The Government has agreed to translate these laws into effective procedures based on the basic principles of modern environmental law derived from international conventions to which Cameroon is a party. These include the Convention on Biodiversity, which aims to affect international cooperation in the conservation of biological diversity and to promote the sustainable use of living natural resources worldwide; the Convention to Combat Desertification, which aims to combat desertification and mitigate the effects of drought in countries experiencing serious drought or desertification; and the Convention on International Trade in Endangered Species of Wild Fauna and Flora. Legislative reform since the Rio Summit has been made by passage of the Law on Forests of 1994 and its implementing decrees of 1995 on wildlife and forests; the Framework Law on Environmental Management of 1996; and the 1998 Law on Water, which prioritizes the right to clean and accessible water supply.

National priorities, defined in the National Environmental Action Plan, include meeting basic needs and ensuring fair access to resources for all Cameroonians. This may increase the demand for resources in the short term, making the need for far-sighted and sustainable management all the more imperative. Marked improvement in the effectiveness of policy and legislation is expected in the near future, provided the necessary funding, research, and capacity building are made available.

*Source: Authors.*
sustainable management of forest resources, including wildlife. Under the enhancement project, the World Bank has been assisting the Government in fine-tuning the 1996 law and preparing decrees for its effective implementation. Once these decrees and regulations are enacted, they will provide a sound framework for assessing the environmental impact of infrastructure and extractive industries-related projects, evaluating their cumulative impacts and taking into account the interests and needs of the communities living nearby.

Strengthening the Mandates of Environmental Protection Agencies and Enhancing Community Participation

In 2004 Cameroon established the Ministry of Environment and Nature Protection (MINEP), with the mission of promoting environmental protection. MINEP needs to provide leadership, work in synergy, and build consensus and coordination mechanisms with other sector ministries and institutions, such as the Pipeline Steering and Monitoring Committee, that share the mission of managing and protecting the environment in Cameroon. MINEP also needs to develop a program for strengthening the capacities of and encouraging communities to participate in decision making—and to share the benefits from conservation. There are a few good experiences in this area from countries in the subregion. Cameroon could also raise the stakes for local participation through a creative approach that links environmental protection with community needs as well as economic and social development.

Notes

1. Together with training on basic management functions, such support would include provision of weighing equipment, warehouse facilities, short-term credit for storage, and advice on marketing approaches.
2. Market participants include groups of individuals and producers, exporters, forwarding agents, quality and phytosanitary control agents, and processors.
3. Areas under sustainable management plans have increased from 530,000 hectares in 2003 to 4 million hectares in March 2006, while harvested volumes have steadily declined from 3.5 million cubic meters in 1997/98, showing a tendency to level at around 2.2–2.5 million cubic meters (see figure 7.3).
4. New processing facilities, such as numerical control panel equipment and laser guiding, require more qualified workers, who are generally trained on the job (Carret 1999).
5. Urban poverty rate has dropped from 41.4 percent in 1996 to 22.1 percent in 2001, while poverty depth has fallen from 14.7 percent to 6.3 percent. Poverty
depth shows how far households are from the poverty line. It captures the mean aggregate income or consumption shortfall relative to the poverty line across the whole population.

6. This interministerial committee was established to supervise and monitor environmental, social, economic, fiscal, and social aspects of all existing and future pipelines in Cameroon. It will have a role to play in reviewing and monitoring projects that are likely to affect pipelines.

7. Niger has been successful in protecting both its environment and its giraffe population with community participation. A fraction of fees paid by tourists is transferred to the local community, which participates in policing the protection policies.
Of the many strategic domains discussed so far, none is more important or has greater ramifications for sustainable economic growth and sociopolitical development than governance. Appropriate policy choices, determined resolve, swift actions, and commitment to reforms—all of which are related to the overarching cross-cutting issue of governance—are needed across policy areas.

Institutional change is a precondition for the effective use of resources. The lack (or perception of the lack) of transparency and accountability and the weak and fragmented institutional structure have been detrimental to investment, including FDI, and to private sector development in Cameroon. These problems are reflected in Cameroon’s low country rating on most international indicators of governance. In 2000, for example, Transparency International’s Corruption Perception Index for Cameroon was 2.0
(on a scale of 0 to 10, with a higher number indicating better governance), and Cameroon ranked 84th out of 90 countries (TI 2004).

The adoption, in June 2000, of the National Governance Program (PNG I) constituted a watershed, because it heightened the importance of good governance to economic and social development and signaled the Government’s determination to resolutely deal with this issue. The PNG I is a comprehensive package of measures aimed at improving governance by strengthening public financial management, transparency, accountability, and participation in public affairs; improving the justice system; promoting respect for human rights; and fighting corruption. A subset of priority actions from the PNG was attached to the Interim-PRSP as part of the PRSP Priority Action Plan.

The Government has taken important steps that have resulted in tangible gains in governance and an increase in Cameroon’s international ranking. It initiated reforms in procurement, budget management, and the forestry sector, as discussed earlier in this report. It also took steps to improve its relations with civil society and external partners. In particular, it consolidated and institutionalized a nationwide consultative process originally developed for preparation of the PRSP—a process that is being used to monitor and implement the PRSP. Together, these much-needed reforms improved transparency and government efficiency between 1996 and 2005 (figure IV.1).

With sound policy and institutional frameworks already in place in many areas, resolute implementation remains the main challenge. Indeed, comparison of Cameroon with other countries reveals that much remains to be done to improve governance and change perceptions (figures IV.2 and IV.3).

To address these challenges, the Government has developed second-generation institutional reforms designed to improve transparency, accountability, and service delivery. In November 2005, the Government adopted a revised PNG (PNG II) and its priority action plan, with emphasis on high-impact activities through detailed performance indicators. The revamped PNG covers political (democratic) as well as administrative and economic governance, including a module for fighting corruption.

The quality of economic governance can be assessed from various perspectives, including: how policies are designed and implemented to deliver
public services (good or bad policy choices, effective implementation of policies); how institutions are framed to deliver public services (accountability of the central government and local institutions, an autonomous judicial system ensuring a sound legal and regulatory framework and enforcing legal and regulatory measures); and how involved the community is in the decision-making process to enhance the quality of public services.

The chapters in part IV assess the quality of economic governance under these three umbrellas and provide recommendations for additional measures for improving governance. Chapter 8 reviews the civil service reform and decentralization process as well as initiatives taken by the Government to foster community participation in public affairs. Chapter 9 looks at measures taken by the Government to strengthen the judicial system.

**FIGURE IV.1**

_Governance Indicators, 1996 and 2005_

Source: Kaufman, Kraay, and Mastruzzi 2006.
FIGURE IV.2
Governance Performance in Cameroon Relative to Other Low-Income Countries and Countries in Sub-Saharan Africa, 2005

Source: Kaufman, Kraay, and Mastruzzi 2006.
FIGURE IV.3
Governance Indicators in Selected Countries, 2005

Source: Kaufman, Kraay, and Mastruzzi 2006.
Note: — = 90 percent confidence interval.
Promoting an Effective and Participatory Decision-Making Process

With a few notable exceptions, the Government’s policy choices have generally been good. The main problem lies in the Government’s inability to stick to its stated policy course, swiftly implement policy, and prudently adapt to changing circumstances. This failure invariably translates into slow and haphazard implementation of policies, with more than a decade lapsing between the time a policy decision is made and the time it is implemented (table 8.1). Cameroon’s record in this respect is notably weaker than that of some of its neighbors (table 8.2).

A number of actions can be identified and taken to mitigate this problem that the president of Cameroon refers to as bureaucratic inertia. They include reforming the civil service to improve its capacity to implement policies and to sustain reforms, strengthening and reforming the institutional framework to improve service delivery, and increasing community participation in public affairs.

Streamlining the Central Government’s Decision-Making Process

The main cause of the bureaucratic inertia is the fragmented administrative structure with a proliferation of overlapping agencies. The institutional fragmentation and considerable overlapping of responsibilities cause conflicts of attribution, lack of cohesiveness, conflicting decisions, dilution of resources and responsibility, and lack of accountability. Also, the incentive system within the administration—the way in which civil servants are promoted and paid—is not conducive to the emergence and consolidation of a merit-based and efficient bureaucracy that can sustain reforms.

Cameroon has better-trained and more-professional civil servants than most countries in Sub-Saharan Africa. However, the core machinery
### TABLE 8.1
Length of Time between Announcement and Implementation of Selected Structural Reform Policies

<table>
<thead>
<tr>
<th>Item</th>
<th>Year of announcement</th>
<th>Year of implementation</th>
<th>Number of years between announcement and implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Privatization</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CAMTEL</td>
<td>1998</td>
<td>Not implemented as of December 2006</td>
<td>More than 8</td>
</tr>
<tr>
<td>CDC</td>
<td>1994</td>
<td>Not implemented as of December 2006</td>
<td>More than 12</td>
</tr>
<tr>
<td>AES SNEC</td>
<td>1998</td>
<td>Not implemented as of December 2006</td>
<td>More than 8</td>
</tr>
<tr>
<td>CAMRAIL</td>
<td>1994</td>
<td>1998</td>
<td>4</td>
</tr>
<tr>
<td>AES SONEL</td>
<td>1999</td>
<td>2001</td>
<td>3</td>
</tr>
<tr>
<td>HEVECAM</td>
<td>1994</td>
<td>1996</td>
<td>2</td>
</tr>
<tr>
<td>SOCAPALM</td>
<td>1994</td>
<td>2000</td>
<td>6</td>
</tr>
<tr>
<td>SOSUCAM</td>
<td>1990</td>
<td>1998</td>
<td>8</td>
</tr>
<tr>
<td>CAMAIR</td>
<td>1998</td>
<td>Not implemented as of December 2006</td>
<td>More than 8</td>
</tr>
<tr>
<td><strong>Institutional reform</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audit Chamber</td>
<td>1996</td>
<td>Law passed in 2003, operational in 2006</td>
<td>10</td>
</tr>
<tr>
<td>Constitutional Court</td>
<td>1996</td>
<td>Law passed in 2004, not implemented as of December 2006</td>
<td>More than 10</td>
</tr>
<tr>
<td>Senate</td>
<td>1996</td>
<td>Not yet</td>
<td>More than 10</td>
</tr>
<tr>
<td>Regional decentralization</td>
<td>1996</td>
<td>Law passed in 2004, not implemented as of December 2006</td>
<td>More than 8</td>
</tr>
<tr>
<td><strong>Implementation of law and decrees</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>National Institute of Statistics</td>
<td>2002</td>
<td>2006</td>
<td>4</td>
</tr>
<tr>
<td>Freedom of media</td>
<td>1990</td>
<td>2000</td>
<td>10</td>
</tr>
</tbody>
</table>

*Source: Authors’ compilation.*
Promoting an Effective and Participatory Decision-Making Process

TABLE 8.2
Average Number of Years to Privatize Electricity and Telecommunications Infrastructure in Cameroon, Côte d’Ivoire, and Senegal, 1990–2006

<table>
<thead>
<tr>
<th>Country</th>
<th>Electricity</th>
<th>Telecommunications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cameroon</td>
<td>3</td>
<td>More than 8</td>
</tr>
<tr>
<td>Côte d’Ivoire</td>
<td>Less than 1</td>
<td>2</td>
</tr>
<tr>
<td>Senegal</td>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: Authors’ compilation based on data from annual reports of privatized companies.

of government is unusually fragmented and dysfunctional that makes integrating policies a daunting task. Cameroon’s bureaucracy is characterized by a large number of line ministries that compete with a growing number of cross-sectoral committees. At the same time, a shadow cabinet within the Office of the President often works at cross-purposes to both ministries and cross-sectoral committees.

One revealing illustration of this phenomenon is related to monitoring the PRSP and the PRGF program. These programs are regularly monitored by the monitoring committee (Comité technique de Suivi [CTS]), that works under the Ministry of Economy and Finance; a technical interministerial HIPC committee set up to allocate HIPC funds and supervise, (under the Ministry of Economy and Finance) the execution of related projects; and a PRSP permanent committee under the Ministry of Planning, Programming and Regional Development, which includes the CTS and is in charge of supervising implementation of the PRSP. The many turf battles in such institutional structures hinder steadfast, consistent, and effective actions and constitute a major obstacle to cross-support or integrated actions, especially in comprehensive cross-sectoral structural reforms.

This incentive system is also to blame. A pervasive patronage-based promotion-demotion system contributes to low morale within the administration. Indeed, although initial hiring decisions are usually merit based, especially for professionals, favoritism and political patronage are widespread in lateral moves and promotions. Given the lack of accountable and transparent standards and processes, pernicious patron-client relationships and parochial personal and factional loyalties permeate the system. In this climate, decision makers tend to become excessively timid, risk adverse, and ultimately self-serving. The outcome is predictable: administrative bottlenecks; widespread mismanagement; and a
profound aversion to bold and swift actions, especially with regard to structural reforms. Eliminating these ingrained traits of political life and establishing clear and transparent promotion rules will require determined government commitment.

The patronage-based system undermines the development of a more stable, disciplined, and effective technocracy that can provide institutional memory for sustaining reforms. A low wage policy that is not linked to productivity and responsibilities has undermined the emergence of a stable and efficient technocracy in Cameroon. As discussed in chapter 3, Cameroon’s civil service wage is low relative to per capita income and to comparable countries in Sub-Saharan Africa.

The low wages reduced morale and led to widespread corruption, reflected in lower productivity and accounting irregularities. Indeed, elected and public officials as well as government employees often have private interests that conflict with their professional duties, with civil servants engaging in insider trading, selling influence, and profiteering from public works contracts. Ultimately, these problems translate into the misappropriation of public funds and ineffective execution of key programs.

The Government is keenly aware of those issues and has attempted to respond to the problem of low wages by creating special assignment committees. By participating in these committees, civil servants receive compensation over and above their base wage. Unfortunately, this practice has increased the number of permanent committees and exacerbated the problem of overlapping agencies. It has distorted work incentives within the administration, unduly bloated the institutions of public administration, and created an atmosphere of mistrust. Not surprisingly, the core ranks of demoralized professionals have been driven away from their basic statutory responsibilities toward self-aggrandizing, bonus-generating activities, compounding the problems of patronage and the erratic overlapping of committee work with that of line ministries.

The Government urgently needs to implement comprehensive civil service reform that systematically addresses the country’s mounting problems and creates a truly professional and disciplined technocracy. Box 8.1 gives some guidance on how to provide impetus to policy management. To create this impetus, the Government would need to remove unqualified and redundant employees and establish a civil service based on clearly defined job profiles and hiring and promotion based on skill, merit, and productivity. The Government must clearly distinguish the ranks of white-collar technical staff from political appointees.
Promoting an Effective and Participatory Decision-Making Process

Indeed, to foster the development of a streamlined technocracy within the administration, recruitment of professionals must be selective and merit based; compensation and advancement must be based on actual responsibilities and performance that is measured through a transparent evaluation system. Creating such a system would not only ensure a degree of stability and continuity of human resources within the administration, but would also boost morale, thereby contributing to more-accountable and efficient public administration and service. This issue is discussed in the personnel management section in chapter 3.

Strengthening the Institutional Framework to Improve Service Delivery

Greater efficiency in the delivery of public services calls for greater responsibility and accountability of those in charge. The economic and administrative governance agenda therefore calls for reforming and strengthening institutions in order to grant full responsibility to line ministries (making

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Box 8.1
Making, Managing, and Implementing Good Policies

Sure signs of breakdowns? When political policy decisions are not implemented or are partially implemented or reversed. When the policy decisions of policymakers are uncoordinated, inconsistent, or badly implemented, the long route of accountability and service delivery is likely to suffer.

- Communication, outreach, and consultation can forestall opposition and improve implementation plans. A study of two African nations revealed that more than two-thirds of cabinet decisions were never implemented. In Zambia, genuine support for reforms introduced by the multiparty democratic government in the early 1990s never extended beyond a few cabinet ministers. As a result, special interest groups, who had not been consulted, slowed implementation to a crawl.

- Choosing how to implement good policies is as important as making them. Countries have experimented in the past two decades with different public administration approaches to improving the performance and accountability of public officials and agencies. Analysis suggests that the basic drivers of performance are merit-based recruitment and promotion, adequate compensation, and reasonable autonomy from political interference.

them accountable for achieving targeted results) and decentralizing responsibilities for service delivery to local governments. Decentralization was embedded in the 1996 Constitution, but not until mid-2004 was the implementing legislation adopted by the National Assembly. 

Improved quality and efficiency in public services are partly the results of improvements in policy choices and implementation and of the overall strengthening of the legal and regulatory environments. Better-targeted reforms will be required to continue improving service delivery. Centralized delivery of services has poorly served most of Cameroon’s people, in both rural and urban areas. A key objective is therefore to strengthen citizen voice by bringing services closer to the users. This can best be accomplished by decentralizing service delivery to the community level and deconcentrating the workings of the central government by devolving power to departmental units within line ministries.

The decentralized service delivery approach has the intrinsic merit of improving governance and accountability by institutionalizing greater autonomy of decision making in schools, hospitals and clinics, and other social sector institutions. By devolving service delivery to the local level, the Government could also promote social equity and inclusiveness, which are essential for social harmony and stability.

The Government’s strategy for decentralizing service delivery consists of two complementary pillars. The first aims at accelerating the deconcentration process, under which administrative units of the central government (line ministries and departmental units) will have to rethink their mission; redesign their organizational structures; and reengineer their operational processes to allow effective transfers of responsibilities to local governments, including in service delivery. This reorganization has started, and it will need to be completed in a timely fashion and deepened. The second pillar aims at strengthening the decentralized units (communes [villages]) so that they can assume increased responsibilities in service delivery.

Several steps are needed to operationalize this scheme. They include the following:

- Align the strategic priorities of the communities and resource allocation at the central and decentralized levels (budgetary allocations and fiscal decentralization).
- Strengthen human and institutional capacities (including incentives system) of the decentralized structures.
• Strengthen synergies and cooperation between the central governments (core and sector ministries) and local governments, the private sector, and local community organizations.

Progress has been made in each of these areas, at least in regard to investment planning. The Ministry of Planning, Programming and Regional Development had developed a program for strengthening the development committees (comités de développement [CDs]), a structure designed to provide an interface between communities and the deconcentrated units.

The Government’s stated objective is to progressively increase the number of investment projects emanating from the CDs. A critical issue is their leadership, currently held by a government-appointed préfet (the official head of the department). This runs counter to the need to make the CDs a true reflection of the communities they represent and to render their leadership more responsive (and accountable) to community needs. A better solution would be to make elected officials, such as mayors and lawmakers, the de facto heads of the CDs at the community and department levels.

**Increasing Community Participation in Public Affairs**

In societies in which the average citizen is poor, public services often fail poor people. Citizen voice is weak, meaning that politicians have no incentive to be accountable to citizens or responsive to their needs.

One powerful means of giving the poor a voice is to foster community participation in public affairs. Such involvement has been shown to greatly enhance the quality of public services.

The rapid growth of citizen initiatives has been described as the new accountability agenda. It involves a more direct role for ordinary people, their associations, and the private sector across a more diverse set of jurisdictions.

Concerning governance, it is essential that civil society has a stake and a voice in implementing governance programs. Giving civil society a voice helps reduce the likelihood that disgruntled groups can sabotage a good program. It also increases institutional stability and enhances performance. The very act of reaching out and empowering beneficiaries at the grassroots, thereby strengthening accountability at the community level, will improve governance and counter the potentially disruptive influence of
vested interests and rent-seekers. Moreover, by anchoring service delivery in the priorities of local communities, this approach locates accountability where it counts most—at the level of the ultimate beneficiaries. Experience shows that greater empowerment and ownership by beneficiaries and reduced dependence on central bureaucratic control systems constitute effective instruments for minimizing the risk of corruption and thus improving service delivery.

Participation of civil society in public affairs in Cameroon has been strengthened over the past decade, particularly in the education sector. School councils have been established, including members from parent-teacher associations, the private sector, and NGOs. As stipulated by law, these citizens are involved in school management.

Similar innovations have occurred in the health sector. The participation of local communities through health committees has been encouraged. The head of the facility is required to share budgetary information with the committee, and at least one member of the committee must participate in the evaluation of public bids.

Other examples of citizen involvement are reported in chapter 3. They include the presence of independent observers on public procurement committees, the establishment of a facilitation committee chaired by the private sector in the Port of Douala, the presence of independent observers in the bidding process for forestry allocations and in the monitoring of the implementation of forestry management plans, and the participation of civil society in the EITI process. The authorities have also institutionalized stakeholder participation in the implementation and monitoring of the PRSP. On the basis of the recommendations resulting from the survey on the monitoring of budget execution and the assessment of beneficiary satisfaction, in 2005 the Government began to post lists of projects in administrative divisions. To enable beneficiaries to participate effectively in project monitoring, the Government intended to institute periodic reviews of the execution of the budget, in partnership with civil society and representatives of the beneficiaries (deputies and municipal councilors) in the administrative departments in which the lists are posted.3

Other powerful means to increase citizen voice and make public officials and institutions more accountable include policies that strengthen local capacity and demand for better services; foster the role of the private sector, including through public-private partnerships in infrastructure
investment projects; and promote an environment supportive of citizens’ initiatives. One of the most effective means for increasing the voice of poor people in policymaking is to provide them with better and more-timely information. Information increases the ability of civil society organizations to hold politicians accountable, and it is likely to improve services for the poor. Conversely, the lack of transparency in information disclosure is most detrimental to increasing citizen voice and hence to improving governance and public services. Likewise, supporting civil society organizations that generate and use specific information about service delivery or show citizens how to mobilize can help improve public service provision. Supporting mass media and its capacity to inquire, produce, and disseminate information about public services can also lead to better government performance in providing basic services. The 2004 World Development Report (World Bank 2004c) provides some useful guidelines for designing a successful information strategy (box 8.2).

The Government has made significant efforts, to improve transparency and enhance citizen voice. They include regular budget reporting

**Box 8.2**

**What Makes an Information Strategy Successful?**

Tracer studies of spending on Ugandan education revealed leaks as high as 90 percent. Once the information was publicized, the budgeted resources reaching schools rose dramatically. Studies suggest that newspaper readership and availability in India spur state governments to respond to food crises. In Buenos Aires, Argentina, publishing the wildly different procurement prices paid by city hospitals for similar products led to rapid convergence of prices. What did these information strategies have in common? The information was specific. Political interest in addressing the problem was high. And the information was electorally salient.

Other information strategies look directly at public service outputs (quality and quantity of services provided by government) rather than inputs (price paid and budgets committed and delivered). The best known are the citizen report cards developed by the Public Affairs Centre in Bangalore, India. Citizens are asked to rate service access and quality and to report on corruption and general grievances about public services. The results have stimulated considerable media, bureaucratic, and political attention and acknowledgment of their contribution to service improvements.

*Source:* World Bank 2004c.
and publication to the public; annual publication of a report on the extractive industry (currently oil) through the EITI; and publication of administrative and judicial sanctions for violations of the law (for example, procurement rules and forestry regulations). These are encouraging steps that need to be broadened, deepened, and sustained to improve governance.

Community-driven development programs can also empower communities and bolster citizen demand for effective services. Community-driven development aims to stimulate local capacity and demand through targeted actions designed to assist local communities in setting up their own development projects through a participatory process. Projects can serve the dual purpose of delivering services to the poor more effectively and institutionalizing a more responsible local government. Citizen initiatives can cover an array of issues, from improving law to enhancing budget execution (box 8.3).

A community-driven development project supported by the World Bank, the Programme National de Développement Participatif (PNDP), is under implementation in a few pilot areas in Cameroon. If it proves successful, it could be expanded to other sectors and the country as a whole (box 8.4).

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**Box 8.3**

**Increasing Accountability through Participatory Activities: Lessons from Brazil, India, and South Africa**

The budget, a primary statement of government priorities, is for many citizens a black box, monitored and assessed only by the traditional internal accountability relationships within government. But it can be a crucial tool for citizens to influence and monitor public policy and services. Accordingly, participatory budgeting initiatives are rapidly increasing in several countries. The challenges are to build capacity of citizen groups, to give politicians and policy makers the incentives to listen and act on citizen feedback, and to put out budgets that are understandable and interesting to citizens.

*Budget planning.* The most well-known budget planning initiatives come from city municipalities in Brazil, such as Porto Alegre and Belo Horizonte. Neighborhoods indicate their spending needs at budget forums, and delegates then bring these needs to assemblies, ensuring citizen voice in budget allocations and implementation.

(continued)
Box 8.3 (continued)

*Budget monitoring.* The Institute for a Democratic South Africa makes information about provincial and national budget allocations accessible to citizens. Its technical experts break down public budgets to facilitate public comments. Special reports show how much money is allocated, for example, to gender-related and children's issues. The most direct influence of its work is in strengthening the ability of parliamentarians to participate more effectively in budget discussions.

*Budget auditing.* The Mazdoor Kisan Shakti Sanghathan, a grassroots organization in the north Indian state of Rajasthan, has turned ordinary citizens into financial auditors. Its key innovation has been the *jan sunwai* (public hearing), an open-air forum at which official records are presented alongside the testimony derived from interviews with local people. “Many people discovered that they had been listed as beneficiaries of anti-poverty schemes, though they had never received payment. Others were astonished to learn of large payments to local building contractors for work that was never performed” (Jenkins and Goetz 1999). Until a state right-to-information law was passed in 2000—largely a result of the protest and lobbying efforts of the organization—it had to obtain this information by appealing to sympathetic bureaucrats. A similar national law was passed in 2003.

*Source:* World Bank 2004c.

Box 8.4

**The Community Development Program**

The PNDP (Programme National de Développement Participatif) constitutes an important element of Cameroon’s national strategy for poverty reduction, economic growth, decentralization, and good governance outlined in the PRSP. It aims to support community-driven development by allowing communities and their local government to implement priority action plans by strengthening the fiscal, institutional, and administrative environment for adequate budget allocation, effective service delivery, and transparent management of financial services. Beneficiaries of the PNDP consist of rural communities in all 10 provinces of Cameroon, as well as other organizations, including local and regional public administrations, NGOs, and other associations. The program provides financial support for rural community development, the strengthening of councils within the decentralization process, local capacity building, and project management and monitoring.
Notes

1. Another striking illustration comes from the energy sector, in which myriad players are involved.
2. The subject of decentralization remains a sensitive one in light of the regional and ethnic tensions and the abandonment of federalism under former President Ahidjo.
3. The departmental controllers will transmit reports based on these reviews to the minister of finance, who will publish a summary report covering the physical and financial execution of the projects.
Strengthening the Judicial System

An independent judicial system is essential for enhancing public trust and accountability, enforcing the rule of law in an impartial and consistent manner, protecting human rights and civil liberties, and helping promote growth and attract FDI (box 9.1). Because Cameroon has many opportunities to attract FDI, the payoff in fighting corruption is high. The 2006 Investment Climate Assessment (World Bank 2006c) identified corruption and the legal system/conflict resolution among the top 10 constraints that entrepreneurs perceive. The percentage of firms

Box 9.1
How Does Corruption Affect Growth and Foreign Investment?

Clear evidence suggests that corruption hinders economic growth, as a result of the market distortion it introduces. On the expenditure side, the selection of public investment projects is likely to be biased toward projects with lower productivity. On the revenue side, corruption in tax administration and customs often reduces tax receipts. Corruption also undermines the ability of government to impose and enforce regulatory controls. Widespread corruption also discourages foreign investors.

FDI flows to emerging market economies have grown significantly, but they continue to bypass much of Africa. Executive surveys of a large cross-section of multinational companies show that corruption deters foreign investment. African countries perceived as less corrupt (Botswana, Namibia, the Seychelles, and Tunisia) perform well, with annual inflows of almost $400 per capita. In contrast, countries perceived as having high levels of corruption (Cameroon, Kenya, and Madagascar) attract less than $1 per capita per year. One study finds that a 1-point increase (on a scale of 0–9) in the corruption index is associated with a 16 percent reduction in the flow of FDI—equivalent to about a 3-percentage-point increase in the marginal tax rate (Smarzynska and Wei 2002).

that are expected to give gifts in meetings with tax inspectors is more than triple the average for the region, while the value of gifts expected to secure a government contract is more than double the regional average (boxes II.1 and II.2).

The fight against corruption requires sustained efforts on many fronts, including political resolve by both the Government and the private sector. Promotion by the Government of the rule of law, property rights, freedom of the press, political competition, and transparency would go a long way toward fighting corruption.

Anticorruption efforts cannot consist only of actions of a few government agencies; to avoid capture of state institutions by monopolistic private vested interests, open and transparent private sector competition is critical. Together, these measures will help limit the ability of public decision makers to extract bribes.

Equally important are meaningful citizen involvement and mechanisms that give citizens a voice in fighting corruption. Civil society, the media, parliament, the judiciary, and the private sector must be involved in a participatory manner, with full voice and empowerment. Innovative ways of involving citizens at the local level—working with their municipalities to improve governance and control corruption—can be very effective.

Corruption often occurs because of a lack of reliable information. Governments may lack information on what their agents are doing on the ground, and citizens may not be aware of the laws and rules. Clarifying rules and increasing transparency can help reduce corruption.

Judicial mechanisms for checking and constraining the executive branch (the Constitutional Court and the Audit Chamber of the Supreme Court) have been absent or notoriously weak in Cameroon. Their weakness inevitably fuels the widespread perception that government employees—even those involved in flagrant corruption and reprehensible conduct—are above the law and immune to sanctions. The 2004 *World Development Report* (World Bank 2004c) stressed the importance of creating a well-functioning judiciary and implementing related reforms (box 9.2).

The 1996 constitution took an important step forward in making the justice ministry an independent power rather than a simple authority. It also mandated the creation of a constitutional court; an accounting chamber in the Supreme Court; an administrative chamber; and by implication, administrative tribunals. Although the Government has made some strides toward realizing these mandates—taking steps to operationalize the Audit Chamber
Strengthening the Judicial System

An independent, well-functioning judiciary is vital for combating corruption and often offers a viable entry point. In enforcing laws and providing checks and balances on the power of policymakers and providers, courts directly strengthen voice. In many countries, however, courts are themselves a corrupt arm of the government. Even if judges are above reproach, lawyers, court clerks, and other court officials on the take can add to the web of corruption. The ingredients of reforms are many—freedom of information; greater transparency and sunshine laws; self-regulation through reform-minded bar associations and law societies; updating of antiquated laws and court procedures; and the independence, competence and integrity of judicial personnel—but they are complicated to assemble and need time to take root.

Experience suggests that important progress can be made if reforms focus on incentives, institutional relationships, and information access rather than only on formal court rules, procedures, and court expansion. Anticorruption legislation that matches the enforcement capacity of the country, independent supreme audit organizations, and legislative oversight can help.


(Chambre des Comptes), for example—much more needs to be done. Future efforts must be directed at making these institutions work effectively.

Cameroon and its neighbors in CEMAC have agreed to the framework of OHADA. Implementation of this framework should greatly strengthen the judicial system in favor of the private sector and create a more favorable environment for foreign investment and economic diversification. This subregional scheme should also enhance harmonization of laws and regulations and improve the visibility of the economic space to foreign investors.

In 2002, the Government conducted a technical diagnostic study to identify the causes of poor performance of the justice system. The study recommended a number of actions to improve the operations of the courts and the application of judicial procedures, including reforming judicial procedures, improving the remuneration of judges, and renovating and expanding facilities. The judicial sector strategy and MTEF were prepared on the basis of these recommendations and is now under implementation. The plan aims to consolidate judicial independence; step up the anticorruption campaign in the judicial system; and enforce laws, court decisions, and penalties.
The Government has made progress in strengthening the judicial sector in recent years. A new penal code that harmonizes the legal system was approved in June 2005 and promulgated in July 2005. The new code, which contains elements from both the French legal system and Anglo-Saxon common laws, is designed to improve the delivery of judicial services and protect human rights. To help reduce bottlenecks in the system, the Ministry of Justice is recruiting and training magistrates.

In 2006, the Government made highly publicized efforts to enforce the rule of law and reduce corruption through the wider use of sanctions. It published information on anticorruption efforts on the prime minister’s Web site. It took action to clean the payroll of ghost workers, sanction misconduct in the judiciary system and procurement operations, and crack down on corrupt public officers. As part of this effort, there is an ongoing attempt to prosecute a number of top civil servants accused of embezzling public funds. A number of top public officials were dismissed and arrested. Also, forestry titles were withdrawn from three private operators who failed to pay their deposits, and regular consultations have been taking place between the ministries of forestry and wildlife, economy and finance, and justice for improving the monitoring of litigation cases.

The Government launched two important actions in the first quarter of 2006. It created an independent agency, the Commission Nationale Anti-Corruption (CONAC), to spearhead the anticorruption campaign, and it adopted a bill that requires public officials (including the president, the prime minister, ministers, high officials in government and public enterprises, and members of the National Assembly) to publicly disclose their wealth.

Since Cameroon reached the HIPC completion point, in April 2006, the anticorruption drive seems to have lost momentum. By the end of 2006, CONAC members had not yet been appointed and the decree regarding wealth disclosure had yet to be prepared. A rekindled effort is needed if the Government’s well-publicized anticorruption campaign is to remain credible; gain steam; and help improve governance, the business climate, and the effectiveness of the administration.
PART V

Medium-Term Prospects for Growth and Poverty Reduction
Important developments since 2003 when the Government of Cameroon began PRSP implementation, led to substantial revisions of Cameroon’s medium-term macroeconomic prospects as originally projected in the PRSP, and poverty reduction. The fiscal consolidation of 2005—to reverse slippages that occurred during the 2004 presidential election campaign—translated into higher taxes and a significant cut in the budget, which contributed to a slower growth rate than expected in the PRSP for the 2003–05 period. The delay in attaining the HIPC completion point dampened the business environment, contributing to sluggish investment and growth. On the positive side, attainment of the completion point in April 2006 allowed Cameroon to benefit from considerable additional resources from debt relief, which helped the Government relax budget constraints and increase spending to support the PRSP, steps that would imply brighter prospects for growth and poverty reduction.

Box 10.1
Cameroon’s Macroeconometric Model

Medium-term growth projections are obtained through policy simulations performed with the country macroeconometric model, SIPAE (Système Intégré de Projection des Agrégats Économiques). The growth path is determined by macroeconomic and sector policies that affect long-term productive capacity (human capital, infrastructure, and direct investment flows); short- and medium-term fluctuations in aggregate demand (monetary and fiscal policies); and the external environment (oil price and terms of trade). Other sources of information for assessing the medium-term growth profile include the sector strategy papers in priority areas such as education, health, rural sector, telecoms, and public work and the results of a comprehensive study on the sources of growth undertaken by the Government.

(continued)
An endogenous growth model was estimated to project short- and medium-term growth by sector. The determinants of growth include two components. The first includes the fundamentals of medium- and long-term production capacity, especially private physical capital driven by private investment; productive public capital, such as infrastructure; and human capital driven by performance in education, health, and the job market. The second includes factors causing short-term fluctuations in demand (budgetary and monetary policies) or supply (natural or business cycle shocks), which are also included in the equations for determining sector-based growth rates. Dynamic econometric methods (error-correction model) were used to estimate the equations.

The sector-based growth functions take the following generic form:

\[ Y = f(\text{Private capital, Human capital, Infrastructure, Policies, Shocks}) \]

The other components of the macro framework are determined by accounting equations and standard financial programming principles. The Medium-Term Budget Framework breaks resources into budget allocations by sector, according to exogenous codes reflecting government priorities.

### TABLE 10.1
Actual, Estimated, and Sectoral Growth Rates under the Baseline Scenario, 2001–15

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<td>3.5</td>
<td>4.0</td>
<td>4.7</td>
<td>5.0</td>
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<tr>
<td>Nonoil GDP</td>
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<td>4.9</td>
<td>4.9</td>
<td>2.9</td>
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<td>4.0</td>
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<td>4.1</td>
<td>4.4</td>
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<td>3.5</td>
<td>3.4</td>
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<td>4.3</td>
<td>4.3</td>
<td>4.8</td>
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<td><strong>1.7</strong></td>
<td><strong>–1.8</strong></td>
<td><strong>2.5</strong></td>
<td><strong>4.3</strong></td>
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<td></td>
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<tr>
<td>Livestock, farming, and hunting</td>
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<td>2.6</td>
<td>2.0</td>
<td>4.8</td>
<td>4.4</td>
<td>3.0</td>
<td>3.0</td>
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<td>3.0</td>
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<tr>
<td>Fishing</td>
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<td>2.9</td>
<td>2.3</td>
<td>2.1</td>
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<td>2.0</td>
<td>2.5</td>
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<td>Forestry and forest products</td>
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<td>9.0</td>
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<td>Secondary sector</td>
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<td>3.4</td>
<td>4.4</td>
<td>4.3</td>
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<td>Mining</td>
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<td>–4.9</td>
<td>–9.1</td>
<td>–9.7</td>
<td>8.8</td>
<td>3.6</td>
<td>–1.0</td>
<td>–1.0</td>
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<td>Manufacturing industries</td>
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<td>2.9</td>
<td>3.8</td>
<td>1.6</td>
<td>1.9</td>
<td>3.5</td>
<td>6.8</td>
<td>5.7</td>
</tr>
<tr>
<td>Electricity, gas, and water</td>
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<td>6.9</td>
<td>2.1</td>
<td>2.6</td>
<td>3.0</td>
<td>13.4</td>
<td>3.0</td>
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<tr>
<td>Public work</td>
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<td>5.7</td>
<td>4.3</td>
<td>8.4</td>
<td>1.1</td>
<td>2.1</td>
<td>3.5</td>
<td>5.1</td>
<td>6.5</td>
</tr>
<tr>
<td>Tertiary sector</td>
<td>8.5</td>
<td>7.3</td>
<td>7.4</td>
<td>6.6</td>
<td>3.0</td>
<td>3.8</td>
<td>4.4</td>
<td>5.2</td>
<td>5.8</td>
</tr>
</tbody>
</table>

*Source: Authors and Cameroon authorities.*
buoyant, fashion and continue to gradually improve the business climate. However, nothing should be taken for granted. Even this prudent baseline growth path represents a challenge, as it requires reversing the declining trend since 2003 and raising the growth performance of the past five years by 1.5 percentage points.

As the experiences of other countries have demonstrated, Cameroon could achieve even higher growth (6–7 percent) if the Government would resolutely accelerate implementation of its reform agenda in order to create an enabling environment for private sector–led growth. Indeed, counterfactual policy simulations from the baseline scenario show brighter prospects for growth under the assumption of a more buoyant pace of reforms coupled with targeted public investment in growth-enhancing sectors such as human resources (education and health) and infrastructure. The result would be a marked increase in the rate of human and infrastructure capital accumulation and hence a higher growth rate (roughly 1 percentage point above the baseline scenario) (table 10.2).

Medium-Term Outlook for Public Finance

Revenue and Spending

Nonoil revenues are predicted to reach 13.6 percent of GDP by 2010, far higher than the estimated 12.7 percent for 2006 (table 10.3). This increase will allow revenue to remain at roughly 17.2 percent of GDP between 2006 and 2015, despite the decline in oil’s contribution. Total spending is kept roughly in check over the entire period (2006–15), at 15.1 percent of GDP, as the PRSP–related increase in noninterest spending is compensated for by reduced interest payments from debt relief. Consequently, the overall fiscal balance (on a commitment basis and excluding grants), is expected to stabilize at about 1 percent of GDP between 2010–15.

Financing requirements appear moderate over the entire period. Indeed, the resources expected from the conclusion of the Paris Club negotiations and from additional debt forgiveness by bilateral donors, including France (under the contrat désendettement développement), are envisaged to cover most of the financing requirements. The authorities could also borrow from the regional bond market to finance residual requirements in the future. Such borrowing must be kept in check, however, because of the risk of crowding out private investment.
### TABLE 10.2
Average Annual Growth, 1994–2015

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<tr>
<td>Private capital per capita</td>
<td>1.7</td>
<td>1.2</td>
<td>4.6</td>
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<td>Government capital per capita</td>
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<td>Infrastructure per capita</td>
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<td>4.6</td>
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<td>–0.1</td>
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<td>Human capital per capita</td>
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<tr>
<td>Past GDP growth per capita</td>
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<td>0.1</td>
<td>0.5</td>
<td>0.4</td>
<td>0.5</td>
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<tr>
<td><strong>Estimated long-term GDP growth per capita</strong></td>
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<td><strong>2.4</strong></td>
<td><strong>2.0</strong></td>
<td><strong>2.0</strong></td>
<td><strong>1.3</strong></td>
<td><strong>2.4</strong></td>
<td><strong>2.0</strong></td>
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<tr>
<td>Population (labor force)</td>
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<td>2.7</td>
<td>2.7</td>
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<td>2.7</td>
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<td>Total factor productivity</td>
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<td>0.4</td>
<td>–2.5</td>
<td>1.1</td>
<td>2.4</td>
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<tr>
<td><strong>Total GDP</strong></td>
<td><strong>4.6</strong></td>
<td><strong>2.8</strong></td>
<td><strong>5.8</strong></td>
<td><strong>7.1</strong></td>
<td><strong>4.6</strong></td>
<td><strong>2.8</strong></td>
<td><strong>5.8</strong></td>
<td><strong>7.1</strong></td>
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Source: Authors.
<table>
<thead>
<tr>
<th></th>
<th>Actual (%)</th>
<th>Estimates (%)</th>
<th>Projected (%)</th>
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<tr>
<td>Revenue, excluding grants</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>oil</td>
<td>4.8</td>
<td>4.9</td>
<td>4.2</td>
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<tr>
<td>non-oil</td>
<td>12.9</td>
<td>13.0</td>
<td>12.6</td>
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<tr>
<td>Expenditures</td>
<td>16.9</td>
<td>16.0</td>
<td>15.5</td>
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<td>current</td>
<td>13.6</td>
<td>13.3</td>
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<tr>
<td>capital</td>
<td>3.3</td>
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<td>2.1</td>
</tr>
<tr>
<td>Expenditures excluding interests</td>
<td>13.7</td>
<td>13.4</td>
<td>13.2</td>
</tr>
<tr>
<td>Overall balance on a commitment basis (without grants)</td>
<td>0.9</td>
<td>1.8</td>
<td>1.3</td>
</tr>
<tr>
<td>Overall balance on a commitment basis (with grants)</td>
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<td>2.2</td>
<td>1.8</td>
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<tr>
<td>Overall balance on a cash basis (excluding grants)</td>
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<td>–3.2</td>
<td>0.9</td>
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<tr>
<td>Overall balance on a cash basis (with grants)</td>
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<td>–2.9</td>
<td>1.4</td>
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<tr>
<td>Primary balance</td>
<td>4.0</td>
<td>4.7</td>
<td>3.7</td>
</tr>
<tr>
<td>Primary non-oil balance (% non-oil of GDP)</td>
<td>–0.8</td>
<td>–0.4</td>
<td>–0.7</td>
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</table>

Source: Authors and Cameroon authorities.
Medium-Term Expenditure Framework

Total expenditures are expected to remain steady at 15.1 percent of GDP by 2010, with the increase in noninterest spending absorbed by reduced debt services from debt relief. The increase in primary spending is consistent with the PRSP priorities, with capital spending showing steady improvement between 2004 and 2007. PRSP priority sectors (education, health, and productive infrastructure) will remain the main beneficiaries of the increase in capital spending.

The PRSP envisioned increasing the education share of primary spending from 17.7 percent in 1995–2000 to 25.2 percent in 2007. The health sector’s share of the primary budget was also expected to rise, from 7.8 percent in 2003 to 9.7 percent in 2007. The projected trend is encouraging, although still below what is required to achieve the MDG targets (figure 10.1 and table 10.4).

Productive infrastructure’s share of the primary budget increased markedly between 2001 and 2003, rising from 10.2 percent to 15.5 percent. The share of productive infrastructure is also projected to steadily
### TABLE 10.4
Actual, Estimated, and Projected Sectoral Growth under the Medium-Term Expenditure Framework, 2001–15

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<tr>
<td><strong>Percentage of GDP</strong></td>
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<td>2001–2015</td>
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<td>Education</td>
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<td>0.2</td>
<td>0.1</td>
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<td>2.0</td>
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<td>2.5</td>
<td>2.7</td>
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<td>0.9</td>
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<td>1.0</td>
<td>1.1</td>
<td>1.2</td>
<td>1.2</td>
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<td>2.0</td>
<td>2.0</td>
<td>1.9</td>
<td>1.6</td>
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<td>2.3</td>
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<td>2.5</td>
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<td><strong>Percentage of primary expenditure</strong></td>
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<td></td>
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<td>2001–2015</td>
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<tr>
<td>Education</td>
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<td>23.9</td>
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<td>24.3</td>
<td>25.2</td>
<td>27.1</td>
<td>28.0</td>
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<td>7.3</td>
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<td>7.7</td>
<td>7.8</td>
<td>9.1</td>
<td>9.7</td>
<td>11.3</td>
<td>12.5</td>
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<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.0</td>
<td>1.7</td>
<td>1.7</td>
<td>2.2</td>
<td>2.2</td>
</tr>
<tr>
<td>Productive infrastructure</td>
<td>10.2</td>
<td>11.8</td>
<td>15.5</td>
<td>14.0</td>
<td>14.1</td>
<td>15.1</td>
<td>15.7</td>
<td>16.1</td>
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<td>Rural sector</td>
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<td>6.9</td>
<td>6.3</td>
<td>6.5</td>
<td>7.2</td>
<td>7.1</td>
<td>7.3</td>
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<tr>
<td>Defense and security</td>
<td>13.8</td>
<td>15.5</td>
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<td>13.9</td>
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<td>10.9</td>
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<tr>
<td>Other ministries and institutions</td>
<td>16.2</td>
<td>17.7</td>
<td>20.7</td>
<td>18.0</td>
<td>17.7</td>
<td>16.6</td>
<td>15.5</td>
<td>14.0</td>
<td>13.3</td>
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<tr>
<td><strong>Total ministries</strong></td>
<td>72.4</td>
<td>81.6</td>
<td>91.9</td>
<td>83.9</td>
<td>86.1</td>
<td>84.9</td>
<td>86.1</td>
<td>88.8</td>
<td>91.4</td>
</tr>
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</table>

Source: Authors and Cameroon authorities.
Box 10.2
Cameroon’s Macro-Micro Simulation Model

Cameroon’s macro-micro model for growth-poverty simulation comprises two essential modules. The first is a detailed macroeconomic model that can simulate growth outcomes and ensure overall macroeconomic consistency. The second is a micro simulation model (PAMS), (Essama-Nssah 2005) built on household survey data, which was developed by the World Bank and adapted to the conditions of Cameroon. The model provides an integrated macro-micro framework with three layers: a macro module interfaced with SIPAE; a labor module with a breakdown into different labor categories (skilled and unskilled in urban and rural sectors, traded and nontraded); and a poverty module that can project poverty and inequality indexes based on sector-based distribution of growth and the related labor market developments.

PAMS Framework

Layer 1: SIPAE framework

Layer 2: Disaggregated production, labor market, and transfers

Layer 3: Household survey data (ECAM II)

The model was calibrated on the 2001 household survey data. The table below compares the estimated poverty indexes with those derived from the ECAM survey. Estimated national, rural, and urban headcount indexes are close to the observed indicators. In contrast, the Gini indexes calculated by the model differ markedly from those derived from the survey. The difference reflects the fact that the model essentially derives within-group Gini indexes only, neglecting between-group inequalities.
increase over the next few years to reach 17 percent of primary expenditure and 2.7 percent of GDP by 2015.

Prospects for Poverty Reduction

Growth-poverty simulations were performed using the Government’s macroeconomic model and the World Bank’s “Poverty Analysis Macroeconomic Simulator” (PAMS) (box 10.2). The baseline macroeconomic framework described in table 10.1 suggests that the incidence of poverty would be about 33 percent in 2015, down from 40 percent in 2001 but short of the MDG target of 24 percent. Under the accelerated reforms scenario, the higher growth rate (7 percent during 2010 to 2015) and its broader distribution would reduce the poverty rate to the MDG target by 2015.

Risk Assessment

Risk assessment was performed using the World Bank’s 123PRSP model (Charlier et al. 2006). The results of the counterfactual simulations exercise give reasons for guarded optimism but also concern over the medium-term outlook should the reform agenda stall (box 10.3). Even under favorable external conditions, failure to sustain reforms—that is, to improve budget execution and the delivery of key public services, in particular energy—

### Box 10.2 (continued)

<table>
<thead>
<tr>
<th>Poverty in Cameroon in 2001</th>
<th>ECAM 2001</th>
<th>PAMS indicator base year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Item</td>
<td>Urban</td>
<td>Rural</td>
</tr>
<tr>
<td>p0</td>
<td>22.1</td>
<td>49.9</td>
</tr>
<tr>
<td>p1</td>
<td>6.3</td>
<td>18.3</td>
</tr>
<tr>
<td>p2</td>
<td>2.7</td>
<td>9.3</td>
</tr>
<tr>
<td>Gini</td>
<td>40.6</td>
<td>36.9</td>
</tr>
</tbody>
</table>

Source: Authors’ computation based on data collected by INS.

Note: One important shortcoming of the PAMS is that prices are not modeled; wages are set exogenously, and the labor market, including the market for skilled workers, is not necessarily clear. p0 = poverty incidence; p1 = poverty depth; p2 = poverty severity.
Box 10.3
Assessing the Impact of Short- and Long-Run Shocks to Income Distribution and GDP Growth Using the 123PRSP Model

The 123PRSP model (Devarajan and Go 2003) is an easy-to-use general equilibrium model, linked to the SIPAE (the macroeconomic model of the DAE). It measures the impact of economic policies on poverty through two main transmission channels: the intensity of growth (average GDP growth rate) and the distribution of growth between traded and nontraded goods.

123PRSP Framework

- **Real growth**
  - Endogenous growth
  - VAR Model
  - **Financial module**
    - Macro framework derived from SIPAE

Micro

Sectoral

Macro

Household module

The model include several modules:

- **Short-run and long-run shocks to the GDP path.** Short-run shocks to GDP are derived from a VAR economic growth model that shows the dynamic variation (for the following five years) of the GDP growth rate in response to an increase of 1 percent in the terms of trade or public expenditures. Long-run shocks to GDP are derived from an endogenous growth model in which the potential GDP growth rate depends on four key variables: macroeconomics policies (primarily commercial policies that affect the degree of liberalization of trade and fiscal and monetary policies), human capital, physical capital and infrastructure, and outside shocks.

- **Relative prices and factor costs.** GDP variance data and the information contained in the macroeconomic framework provided by the DAE are inserted into the 123PRSP model to determine the evolution of relative prices and wages.

Source: Authors.

Note: VAR = vector auto regresive; CGE = computable general equilibrium.
Box 10.3 (continued)

- **Impact on poverty and household income distribution.** GDP growth and price trend data are applied to the household module built from the ECAM II survey data to measure the impact of shocks and policies on spending and revenues on each income decile.

### Breakdown of Expenditure and Revenue by Decile

<table>
<thead>
<tr>
<th>Decile</th>
<th>Expenditure on domestic goods</th>
<th>Expenditure on imported goods</th>
<th>Total expenditure</th>
<th>Wages</th>
<th>Revenue from domestic goods</th>
<th>Revenue from exported goods</th>
<th>Total revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decile 1 (poorest)</td>
<td>85.4</td>
<td>14.6</td>
<td>100.0</td>
<td>12.5</td>
<td>78.6</td>
<td>8.9</td>
<td>100.0</td>
</tr>
<tr>
<td>Decile 10 (richest)</td>
<td>75.5</td>
<td>24.5</td>
<td>100.0</td>
<td>41.7</td>
<td>53.9</td>
<td>4.4</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>79.5</td>
<td>20.5</td>
<td>0</td>
<td>21.5</td>
<td>71.8</td>
<td>6.7</td>
<td>100.0</td>
</tr>
</tbody>
</table>

*Source: Charlier and others 2006.*

### FIGURE 10.2

**Energy Scenario, 2000–15**

*percentage change from baseline scenario*

*Source: Authors.*
could reduce growth by as much as 2.5 percentage points relative to the baseline scenario. Indeed, as the PRSP aptly recognized, although Cameroon remains particularly susceptible to external risks, such as adverse shocks in the terms of trade or a protracted downturn in the global economy, the most prominent risk factors are internal. The main source remains the inconsistent implementation of reforms and the persistence of structural and growth-inhibiting rigidities.

Simulation results indicate that continued failure to resolve Cameroon’s energy problems would hurt growth, government revenue, and poverty reduction (figure 10.2). Should energy supply over the next five years increase by only half the planned level in the baseline scenario, the average GDP growth rate could drop by as much as half a point. This would entail revenue losses on the order of CFAF 20 billion per year, implying an equivalent cut in planned spending, a 1-percentage-point increase in the poverty rate relative to the baseline scenario, and a 2-percentage-point decline in household income over the next three years.
Failure to significantly improve public finance management would result in a low rate of execution of government budget and weaker growth and poverty outcomes. Specifically, simulation results indicate that a 66 percent rate of absorption of planned resources would lead to a drop of 1.5 percentage points in average GDP growth and a 2 percentage point increase in the poverty rate relative to the baseline scenario (figure 10.3). Household income would decrease by 4 percent over the next three years. The poorest quintile of households would be more affected than other groups, with their income dropping by 1 percentage point more than that of the richest quintile.

Failure to sustain and effectively implement the structural reforms (privatization, regulatory reforms, and similar measures) needed to improve the overall business climate would result in slower growth of human capital, infrastructure, and private investment. This would reduce medium-term average annual growth by as much as 2.5 percentage points from the baseline scenario, with alarming consequences for household income and poverty. Were this trend to continue beyond 2010, household income could drop 15 percent, hurting especially the poorest households, whose income would fall 16 percent (compared with 11 percent for the richest households).

These analyses give reasons for concern. At the same time, they provide reasons for guarded optimism, as they clearly indicate that a higher pace of poverty reduction is well within reach and primarily dependent on the Government’s willingness and capabilities to forcefully deepen reforms and swiftly implement policies. With rejuvenated resolve, the Government can well chart a brighter future for its people and significantly change the course of its destiny.

Note
1. This scenario assumes that the environment is characterized by a slowdown of financial reform that entails a slight deterioration of financial deepening; slow implementation of social sector reforms, which translates into lower education and health outcomes and thus a lower rate of accumulation of human capital; and continued delays in the privatization of key enterprises, which would result in smaller FDI flows and weaker delivery of infrastructure service relative to the base scenario.
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Cameroon has started to reap the benefits of sustained structural reforms after nearly two decades of economic challenges that extended into the 1980s. Growth of gross domestic product (GDP) has stabilized, productivity has improved, the private sector is expanding, and the shares of manufacturing and commerce in GDP have gradually risen, signs of progressive economic transformation. However, reform implementation has been haphazard and inconsistent, impaired by “bureaucratic inertia” and leaving key structural issues unresolved and infrastructure services inadequate. *Sustaining Reforms for Inclusive Growth in Cameroon* provides reasons for guarded optimism.

To improve the economy’s competitiveness, the Government of Cameroon needs to resolutely adopt growth-enhancing macroeconomic policies and competitive trade and financial policies in a regional framework to increase scale, spur competition, and reduce costs. Doing so requires developing sector strategies that will lead to good quality and cost-effective infrastructure services and adopting governance policies that promote a business-friendly legal and regulatory environment. To tackle the bureaucratic inertia and unleash the considerable potential of Cameroon’s private sector, the Government of Cameroon needs to reform its public administration and civil service, create a stable, yet dynamic, technocracy that can implement the reform agenda, and marshal the requisite political resolve to mobilize the entire administration around an inclusive and private-sector-led growth agenda.

*Sustaining Reforms for Inclusive Growth in Cameroon* will be of interest to policy makers, government officials, academics, and others working to reform economic policy in Sub-Saharan Africa.