

**Cameroon: Poverty Reduction Strategy Paper—Progress Report—
Joint Staff Advisory Note**

The attached Joint Staff Advisory Note (JSAN) on the Poverty Reduction Strategy Paper Progress Report for Cameroon, prepared jointly by the staffs of the World Bank and the IMF, was distributed with the member country's Poverty Reduction Strategy Paper (PRSP) Progress Report to the Executive Boards of the two institutions. The objective of the JSAN is to provide focused, frank, and constructive feedback to the country on progress in implementing its Poverty Reduction Strategy (PRS).

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

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INTERNATIONAL DEVELOPMENT ASSOCIATION
AND
INTERNATIONAL MONETARY FUND

CAMEROON

**Annual Progress Report on the Poverty Reduction Strategy
Joint Staff Advisory Note**

Prepared by the Staffs of the International Development Association (IDA) and the
International Monetary Fund (IMF)

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I. OVERVIEW

1. **The fourth annual progress report (hereafter, “the Report”) on the implementation of the Poverty Reduction Strategy (PRS) provides a generally candid review of achievements and obstacles in implementation during 2006.** Nevertheless, while the Report raises a number of important implementation constraints, it is rather descriptive in nature and makes few specific proposals at a strategic level to address them in the period ahead. In addition, notwithstanding existing data constraints, the examination of poverty and living conditions is noteworthy, though more could have been done to analyze poverty indicator outcomes.

2. **The current Report incorporates to a limited extent staff recommendations from the previous Joint Staff Advisory Note (JSAN).** Among the most important recommendations were the need for an assessment of the quality of investment, a more comprehensive discussion of issues related to the use of interim HIPC debt relief, and an in-depth discussion of policy intentions and the budget in the period ahead. Of these areas, some progress was made on the use of interim HIPC assistance, and the Report contains a discussion of the use of HIPC resources by sector. Staffs suggest that following the completion point, the tracking of HIPC relief be incorporated within the overall public expenditure management framework.

3. **The ongoing preparation of an updated PRS provides an opportunity to address more forcefully growth bottlenecks in Cameroon.** The next PRS should reflect on the accomplishments and shortcomings of the first PRS, in close collaboration with stakeholders. It should clearly delineate the reasons behind the inability of some policies to attain their

intended objectives and the revisions made to ensure that the country's poverty reduction goals can be met. An effort should also be made to prioritize the programs that are included in the PRS.

II. STRATEGIC PILLARS FOR POVERTY REDUCTION

A. Promoting a Stable Macroeconomic Environment

4. **The Report covers a period of good external and fiscal performance, but accompanied by a significant decline in economic growth.** High oil prices and production have supported oil activities and, combined with a significant increase in timber exports, improved the external current account. Nonoil economic activity remained weak, reflecting increased competition from low-cost producers, under-execution of public investment, and declining productivity related to the slow pace of public enterprise restructuring. Although the Report suggests that growth increased during 2006, subsequent data revisions following its preparation reveal that the growth rate had actually declined. In any event, growth remains too slow to make a significant dent on poverty.

5. **The Report highlights the improvement in the fiscal position and management, but could have been more candid about the challenges that remain.** The improvement in the fiscal position in 2006 reflected strong oil revenues and good expenditure management, despite the one-time re-emergence of extra-budgetary spending. Steps were also taken to further strengthen revenue administration. Notwithstanding progress in fiscal policy implementation, concerns about budget execution and the attainment of growth and poverty reduction objectives remain. In this regard, the Report could have provided an assessment of the extent to which the fiscal strategy is appropriately focused on reviving growth. In addition, it could have discussed the extent to which the PRS has been instrumental in formulating budget policy. The Report could have given more recognition to the need for additional nonoil revenues as a way of mobilizing resources to increase priority spending and accelerate growth, while safeguarding fiscal sustainability. In addition, the Report could have discussed the extent to which spending composition is appropriate for meeting the country's growth and poverty reduction objectives while suggesting more specific ways to accelerate the execution of the investment budget, particularly the foreign and debt-relief financed components. Finally, the Report could have discussed the 2007 policy intentions and the budget, and provided reassurances regarding the authorities' commitment to avoid future extra-budgetary spending.

B. Growth and Economic Diversification

6. **The Report presents the government's efforts to diversify Cameroon's economy by implementing programs in the rural, industrial, and financial sectors, and by pursuing private sector development, infrastructure development and regional**

integration. Staffs agree that these are relevant areas but urge further analysis to assess the efficacy of envisioned strategies. The authorities should also consider other market-based and non-discriminatory policies that address structural bottlenecks to economic diversification and growth. While the Report outlines a number of growth obstacles, it does not take a critical view of the extent to which current policies are pro-growth. In staffs' view, improving the quality and rate of execution of public investment, deepening financial intermediation, strengthening the business environment, encouraging regional trade integration and trade liberalization more generally, and improving governance would go a long way toward removing impediments to growth.

7. **The Report highlights a renewed focus on agricultural development.** The staffs note the creation of a Coffee Development Fund, and an increase in the fee for the National Cacao and Coffee Office as elements of the Government's strategy to promote agricultural production. At the same time, the contribution of the government to these institutions, the levies on agricultural producers, and the level of public services rendered should be carefully assessed. Future Reports should include an in-depth discussion of policies that address issues of land tenure, low labor and agricultural productivity, high transport costs, low access to electricity and water, inadequate marketing services and infrastructure, and insufficient research and extension services.

8. **New initiatives are being considered in the area of industrial policy.** Staffs see promising avenues in some aspects of the industrial policy package such as the promotion of sub-contracting industries and the development of norms. Nevertheless, they suggest that the next PRS analyze price and nonprice competitiveness factors and the changes needed to improve the business climate and enhance the role for the private sector. Staffs urge the authorities to use a market-based approach in the development of the sector and avoid picking winners and losers in the process. Cost-benefit analysis of major agro-industrial operations should be undertaken, while prioritization of these operations should be considered within a medium-term strategy consistent with the macroeconomic framework.

9. **Certain aspects of financial sector reforms warrant careful monitoring.** Staffs urge caution in new attempts to increase public interventions in the financial sector, notably the proposed establishment of an Agricultural Bank of Cameroon. Staffs consider an improvement of the judicial system and land registries, the strengthening of accounting and auditing standards, and an expansion of the information base to enable banks to better price risks as essential for broadening credit access. Furthermore, the supervision of microfinance institutions would need to be enhanced to provide appropriate protection to depositors. The development of the financial market should also facilitate the provision of long-term capital. Staffs encourage the authorities to finalize a financial sector plan by end-December 2007, building on the recommendations – shared by the authorities – of the June 2007 Financial Sector Assessment Program (FSAP) mission.

10. **The development of the private sector should be pursued with more vigor.** Staffs urge the use of business climate surveys and international benchmarks in the government's preparation of a more effective private sector development strategy. In particular, staffs see significant benefits in establishing a results-oriented private-public dialogue. Offering additional tax incentives to stimulate private sector investment is unlikely to yield the intended results in a cost-effective manner.

11. **Staffs concur with the emphasis on infrastructure development and regulatory reform.** They welcome the adoption of the law on Public Private Partnerships (PPP) and urge the authorities to proceed speedily with the issuance of its implementation decree. At the same time, the authorities should carefully assess the value-for-money of such projects and their consistency with macroeconomic stability, while fully accounting for the associated contingent liabilities. In addition, they suggest that the government pursue its public divestiture program and public enterprise restructuring efforts.

12. **Easing energy supply constraints should be a priority.** The Report underscores the importance of rural electrification and describes a number of projects that can help address energy shortages. Staffs are of the view that progress toward increasing power supply can be accelerated among others by: (i) improving long-term strategic planning and adhering to the investments sequencing outlined in a least cost development strategy; (ii) ensuring a transparent pricing mechanism in the sector without expanding subsidies to the aluminum industry beyond their current level; (iii) improving the coordination of all stakeholders; (iv) strengthening the capacity to undertake environmental impact assessment of planned investments; (v) establishing a dedicated project implementation unit for the development of the planned Lom Pangar regulating dam, should the latter be confirmed as an element of the least cost development plan; and (vi) establishing an appropriate institutional framework for rural electrification.

13. **Progress in the information technology and communication (ICT) sectors has been satisfactory.** The Report highlights the completion of the sectoral strategy, the strengthening of the legal and regulatory framework, and improvements in infrastructure development. Staffs note the rapid development of the private mobile phone network, and initial investments to increase access to ICT services in rural areas. Staffs encourage the acceleration of reforms in the telecommunications sector by completing the privatization of the national telephone company, CAMTEL.

14. **The Report could have discussed more extensively the role of regional trade integration in boosting efficiency and growth.** The staffs encourage the authorities to continue taking a leadership role in removing obstacles to the regional movement of goods and factors and expediting the reduction of the Common External Tariff (CET) to minimize

trade diversion. Accelerating reforms ahead of the gradual liberalization of imports in the context of the European Partnership Agreement (EPA) should help improve competitiveness.

C. Strengthening Human Resource Development and Bolstering Social Services

15. **Staffs note some achievements in the education sector.** These include the adoption of a comprehensive sector strategy, the availability of MTEFs, and Cameroon's eligibility for the Education for All – Fast Track Initiative (EFA-FTI). Nonetheless, staffs observe that with about 15 percent of the budget allocated to the education sector, Cameroon falls short of what is needed to achieve universal primary education by 2015. Staffs also encourage the authorities to emphasize learning outcomes.

16. **The Report provides information on achievements in the health sector, but remains too focused on inputs.** Staffs suggest that the next PRS include a systematic discussion of the government's pro-poor policies and how outcomes are differentiated by wealth quintile. Staffs realize that the latter might not be available for one year, but at least some mention of recent levels and patterns from the last Demographic and Health Survey (DHS) would have been useful. Staffs observe that there is no mention of the preparation of the Health Sector-Wide Approach (SWAp) or of the status of health sector reforms being proposed.

D. Improving Governance

17. **Staffs encourage the authorities to move swiftly towards the implementation phase of governance reforms.** The Report notes continued progress in the areas of procurement, the reform of the judicial system, and the fight against corruption. However, staffs believe that emphasis should be given to enforcing laws and securing the full functionality and independence of the anti-corruption bodies, namely the anti-corruption commission (CONAC) and the Chamber of Accounts. The annual progress reports and recommendations of these bodies should be regularly published. Staffs also stress the importance of developing the anti-corruption strategy envisioned in the Change Habits-Oppose Corruption (CHOC) program, led by a multi-stakeholder coalition, and defining monitorable and tangible indicators for the implementation of this strategy. Monitoring of the strategy should be done independently and the results published on a regular basis to give the public the opportunity to provide feedback on progress.

18. **Staffs acknowledge recent improvements in budget execution.** They encourage the authorities to consolidate progress in public finance management by: (i) adopting and implementing a comprehensive reform program for public finance management, consistent with the soon-to-be adopted finance organic law; (ii) making public the annual audit of the execution of public investment; and (iii) continuing annual audits of the implementation of the national procurement system while ensuring its independence through adequate funding.

19. **Staffs note that progress toward decentralization has been modest since the decentralization laws were promulgated in 2004.** For instance, the implementation decrees of the above laws and legal texts for the coordination mechanisms are still pending. Staffs urge progress in this area and in the development of a shared strategy and framework for implementing the decentralization agenda. Staffs advise that the next PRS discuss binding constraints on the financial sustainability of local development, including the maintenance of local infrastructures by communes. Staffs also urge acceleration of reforms at the government agency responsible for relations with provinces (FEICOM) in order to address stakeholders' concerns more effectively.

E. Monitoring and Evaluation Systems

20. **Staffs consider the monitoring and evaluation (M&E) systems to be broadly adequate.** The Report describes strong features of the M&E system for PRS implementation, including the involvement of non-governmental stakeholders (local communities and beneficiaries). Staffs urge strengthening these features while addressing gaps in the alignment with the budget cycle preparation and with domestic accountability institutions. Progress is also required towards the preparation of outcome indicators.

21. **The Report itself is silent on progress towards reaching the Millennium Development Goals (MDGs).** Given the availability of national and provincial progress reports on MDGs, staffs suggest that the next PRS discuss progress on key MDGs. Completion of the ongoing household survey and publication of the demographic census will be essential for the revision of the PRS.

III. CONCLUSION

22. **Staffs commend the authorities for the preparation of the Report.** In the sections above, the staffs have underlined several areas where PRS implementation could be strengthened. These may serve as input in the preparation of the next PRS. Overall, the upcoming PRS may need to focus more on results. Specific recommendations on a few priority areas are to:

- Further refine the strategy and policies to accelerate growth and reduce poverty.
- Highlight the link between the PRS and the budget, discuss budget execution during the reviewed period and assess the quality of public investment.
- Prepare and implement, with the help of development partners and the private sector, an indicators-based action plan to strengthen the business environment.
- Track a set of indicators that demonstrate progress in governance and anti-corruption efforts.
- Examine progress towards the attainment of MDGs.