AFRICAN DEVELOPMENT BANK

PROJECT: **COMPETITIVENESS AND ECONOMIC GROWTH SUPPORT PROGRAMME (PACCE)**

COUNTRY: **CAMEROON**

APPRAISAL REPORT

ECGF/RDGC DEPARTMENTS

November 2017

Translated Document

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CURRENCY EQUIVALENTS
(September 2017)

UA1	=	CFAF 784.04
UA1	=	EUR 1.20
UA1	=	USD 1.41
EUR 1	=	CFAF 655.96
USD 1	=	CFAF 554.72

FISCAL YEAR
1 January - 31 December

WEIGHTS AND MEASURES

1 metric tonne	=	2 204 pounds (lbs)
1 kilogramme (kg)	=	2.200 lbs
1 metre (m)	=	3.28 feet (ft)
1 millimetre (mm)	=	0.03937 inches (”)
1 kilometre (km)	=	0.62 mile
1 hectare (ha)	=	2.471 acres

ACRONYMS AND ABBREVIATIONS

ADF	African Development Fund
ADD	Agricultural District Delegation
AfDB	African Development Bank
ARMP	Public Contracts Regulatory Agency
ARSEL	Electricity Sector Regulatory Agency
CNPS	National Social Welfare Fund
CONSUPE	Ministry in charge of Supreme State Audit
CSP	Country Strategy Paper
DGEPIP	General Directorate of the Economy and Public Investment Programming
EDC	Electricity Development Corporation
FEICOM	Special Council Support Fund for Mutual Assistance
GCI	Global Competitiveness Index
GDP	Gross Domestic Product
GESP	Growth and Employment Strategy Paper
HDI	Human Development Index
ICT	Information and Communication Technology
IDEV	Independent Development Evaluation
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
MINADER	Ministry of Agriculture and Rural Development
MINDCAF	Ministère of Public Lands, Land Registry and Land Affairs
MINEE	Ministry of Energy and Water Resources
MINEPAT	Ministry of the Economy, Planning and Regional Development
MINEPIA	Ministry of Stockbreeding, Fisheries and Animal Industries
MINFI	Ministrt of Finance
MINMAP	Ministry of Public Contracts
MINTP	Ministry of Public Works
MINTSS	Ministry of Labour and Social Security
MPC	Multi-partner Committee
PAP	Priority Actions Plan
PEFA	Public Expenditure and Financial Accountability
PFMP	Public Finance Modernization Plan
PFSC	Public Finance Sector Committee
PIB	Public Investment Budget
PLANUT	Emergency Three-year Plan
PPBME	Planning, Programming, Budgeting, Monitoring and Evaluation
REA	Rural Electrification Agency
RF	Road Fund
RMF	Road Maintenance Fund
SME	Small and Medium-size Enterprise
SONATREL	National Electricity Transmission Company
TFP	Technical and Financial Partner
UA	Unit of Account
UNCTAD	United Nations Conference on Trade and Development
WB	World Bank

LOAN INFORMATION

Client Information

Borrower	:	Republic of Cameroon
Sectors	:	Public Finance, Transport, Electricity and Agriculture
Executing Agency	:	Structural Reforms Implementation Monitoring Committee
Amount	:	EUR 180 million
Arrangements	:	A tranche of EUR 180 million to be disbursed in 2017

2017-2019 Financing Plan in EUR million

Source of Financing	2017	2018	2019	Total
AfDB Loan	180	180 (*)	180 (*)	**540**
World Bank	152	76	76	**304**
European Union	27	27	27	**81**
AFD	81	81	81	**243**
Total Financing	**440**	**364**	**364**	**1168**

(*)Indicative amount to be confirmed

AfDB Financing Information

Loan Currency	**Euro**
Interest Rate Type	Fully Flexible Loan
Tenor	25 years
Grace Period	5 years
Repayment	Consecutive half-yearly instalments after expiry of the grace period
Interest Rate	Base Rate + Financing Margin + Loan Margin + Maturity Bonus This interest rate should be more than or equal to zero.
Base Rate	Floating (six-month EURIBOR which resets on 1 February and 1 August). A free option is offered to fix the base rate.
Loan Margin	80 basis points (0.8%)
Financing Margin	Bank financing margin which resets on 1 January and 1 July and applied on 1 February and 1 August with the base rate.
Maturity Bonus	0.20%
Front-end Fee	0.25% of the loan amount payable on or before the date of signature of the Loan Agreement.
Commitment Fee	0.25% per annum on the undisbursed amount, commencing 60 days following the date of signature of the Loan Agreement and payable on each interest payment date.

Timeframe - Main Milestones Expected

Activities	Dates
Appraisal	September 2017
Negotiation	October 2017
Approval	November 2017
Effectiveness	November 2017
Disbursement	December 2017
Supervision	March 2018 and June 2018
Closing Date	December 2018
Completion Report	December 2020

EXECUTIVE SUMMARY

Programme Overview	▪ **Programme Name:** Competitiveness and Economic Growth Support Programme (PACCE) ▪ **Implementation Period:** November 2017–December 2018 ▪ **Programme Cost:** EUR 180 million - Lending from the AfDB Window ▪ **Financial Instrument:** General Budget Support (GBS) ▪ **Sectors:** Public Finance, Transport, Electricity and Agriculture
Programme Outcomes and Beneficiaries	PACCE aims to contribute to laying the foundations for accelerated, resilient and inclusive economic growth by improving the public finance management (PFM) framework and strengthening the governance and competitiveness of productive sectors (transport, energy and agriculture). Specifically, it seeks to support implementation of the Cameroon GESP in respect of which the private sector will play a key role in the economic sectors and will contribute to economic diversification and job creation for the benefit of the population, particularly youth and women.The specific programme objectives are to: (i) improve the quality of public expenditure; and (ii) strengthen the governance and competitiveness of productive sectors, namely the agro-pastoral and fisheries, transport and energy sectors.
Alignment with the Bank's Priorities	The programme will contribute to financing the development of the agricultural, electricity and transport sectors and improving the quality of life of the population within the framework of the Bank's High-5s. It is aligned with the 2015-2020 Country Strategy Paper, which hinges on two pillars: (i) strengthening infrastructure for inclusive and sustainable growth; and (ii) strengthening sector governance to ensure the efficiency and sustainability of transformative investments. It is also aligned with the two thrusts of the Bank's 2013-2017 Private Sector Development Strategy. PACCE is also consistent with the 2014-2018 Governance Action Plan (GAP II), particularly the pillars concerning public sector economic management and sector governance.
Needs Assessment and Justification	Cameroon is richly endowed with natural and human resources to support its sustainable development. However, the country is currently grappling with a deficit in growth-enabling backbone infrastructure. This situation increases factor costs, limits economic competitiveness and the attractiveness of other non-extractive sectors to private investment, thus reducing the possibilities of diversifying the economy towards sectors with a real job-creation potential, such as agro-industry. By improving the quality of expenditure, particularly in the transport and energy sectors, strengthening the governance and competitiveness of productive sectors, the programme will help to address the above-mentioned key challenges, thus stimulating strong and inclusive growth, reducing unemployment, especially youth unemployment, and reducing regional and social disparities. The Bank's assistance is justified by the need to support the priority PFM and economic transformation reforms undertaken by the Government within the framework of the implementation of the Three-year Emergency Plan (PLANUT), derived from the Growth and Employment Strategy Paper (2010-2020 GESP).
Harmonization	The design of PACCE benefited from close coordination with other technical and financial partners (TFPs) operating in Cameroon. Specifically, the programme will serve as a link between the IMF's Extended Credit Facility approved in June 2017 and the budget support of the European Union (EU) approved in July 2017 for PFM and sector governance reforms. PACCE also includes a number of reform measures that are common to the World Bank programme which is being approved. It focuses on resource mobilization, the reform of public enterprises and social inclusion. In addition, Cameroonian authorities have established a Interministerial committee to oversee the implementation and monitoring of structural reforms. Furthermore, TFPs have established a Public Finance Sector Committee and thematic and sector groups covering the transport, energy and agricultural sectors to further strengthen the harmonization of the interventions of various donors.
Bank's Value Added	The Bank is a key partner in governance and economic reforms in the regional member countries grappling with exogenous shocks caused by the collapse of oil prices. The Bank drew on this experience in the design of PACCE. The Bank's value added will stem from: (i) support for the implementation of a cross-cutting reforms programme to enhance public finance consolidation amid oil shocks and create conditions conducive to the diversification of the economy; (ii) the provision of financial resources needed by the country to continue reforms and reduce macroeconomic vulnerability due to growing fiscal deficits and rising domestic and external financing costs; and (iii) the support provided by PACCE to help the authorities in domesticating CEMAC guidelines.
Contribution to Gender Equality and Women's Empowerment	Fiscal consolidation and the improvement of the quality of expenditure will benefit women and vulnerable groups as greater budgetary flexibility would provide more resources to finance social expenditure and public investments which are essential for boosting growth and employment. Furthermore, reforms to improve access to domestic and regional markets, electricity and financing will contribute to promoting youth employment, reducing gender inequalities and supporting the economic empowerment of women who account for a significant part of the agricultural workforce.
Policy Dialogue and Related Technical Assistance	Despite the absence of a reform-support programme, the Bank has maintained close political dialogue with Cameroonian authorities through its investment operations in key sectors, namely transport, agriculture and institutional support in the business climate and PFM domains. Dialogue will continue under PACCE in order to monitor the implementation of the agreed reforms and provide counselling and technical assistance to the authorities, particularly for PFM and the backbone infrastructure development programme.

RESULTS-BASED LOGICAL FRAMEWORK

Country and Programme Name: Cameroon – Competitiveness and Economic Growth Support Programme (PACCE)
Programme Goal: Create conditions conducive to the improvement of competitiveness and the accelerationof sustainable economic growth

	RESULTS CHAIN	PERFORMANCE INDICATORS: Indicators (including CSI)	Baseline	Target	MEANS OF VERIFICATION	RISKS/ MITIGATION MEASURES
IMPACT	More inclusive, sustained, sustainable and job-creating economic growth	GDP growth rate	4.5% in *2016*	5.0% in *2020*	MINFI/MINEPAT	
		Global Competitiveness Index	119th out of 138 countries (2016)	116th out of 138 countries (2020)	GCI	
OUTCOMES	**Outcome 1:** Improved public investment strategic planning and management	PEFA Indicator – PI 11: Public investment management	D in 2016	B in 2020	MINEPAT/MINFI	
		PEFA Indicator – PI 16: Prospects of catering for expenditure under the budget	D in 2016	B in 2020	PEFA 2020	
		PEFA Indicator – PI 24: Public procurement management	D+ in 2016	B in 2020	PEFA 2020	
	Outcome 2: Increased access to factors of production (electricity and transport) and enhanced economic diversification	Portion of the road network tarred	10% (2013)	17% (2020)	MINTP	
		Electricity connection	89th position in the Doing Business Report in 2017	70th position in the Doing Business Report in 2020	Doing Business	
		Growth rates in the agro-pastoral and fisheries sub-sectors	4.5% in 2016	7% in 2020	MINADER MINEPIA	
OUTPUTS	**COMPONENT I: STREAMLINING THE PUBLIC FINANCE MANAGEMENT FRAMEWORK**					
	Sub-component 1.1:Improving the Public Finance Management Regulatory and Institutional Framework					
	Revising the legal and regulatory framework for public finance management	CEMAC guidelines domesticated into national legislation	Draft instruments have been forwarded to the CEMAC Head Office for consideration	Draft instruments relating to the domestication of CEMAC guidelines into national legislation are forwarded to the CEMAC Head Office (2017)	MINEPAT	**Risk 1: Worsening fiscal deficit** **Mitigation measure:** A macroeconomic and budgetary plan has been agreed upon with the IMF and various donors, including the Bank, and actions to streamline expenditure and mobilize additional resources are envisaged.
	Revising the public procurement system framework	Public Procurement Code	A draft Public Procurement Code has been submitted to the President of the Republic	The Public Procurement Code and implementing instruments are adopted (2018)	MINMAP ARMP	
	Conducting procurement audits for 2013 and 2014	Public procurement audits	Procurement audits for 2011-2016 are ongoing	Audit reports are published; recommendations are implemented (2017)	ARMP	
	Establishing a public procurement information system	Public procurement data processing master plan	Absence of a public procurement data processing master plan. Coexistence of several parallel systems in MINMAP and ARMP	A data processing master plan is adopted (2017)	ARMP	
	Sub-component 1.2: Strengthening the Public Investment Strategic Planning and Management Framework					
	Stabilizing the level of public investment expenditure as a % of GDP in the medium term	Share of investment expenditure in the budget between 2017 and 2019	The share of public investment expenditure was 8.3% of GDP in 2016	The share of public investment expenditure is capped at 6% and 7% of GDP (2017-2019)	MINEPAT	**Risk 2: Upsurge in socio-political tensions in the run-up to elections.**

Strengthening the monitoring of transformative investment projects	List of backbone projects and implementation reports	The list of transformative investment projects and their implementation reports are available, but not published	The list and implementation reports are available on the website of MINEPAT (2017)	MINEPAT	**Mitigation measure:** The Government has established dialogue mechanisms, notably a National Commission for the Promotion of Bilingualism and Multiculturalism to mitigate tensions in the English-speaking regions.
Operationalizing the project maturation framework	Regulatory instrument giving legal effect to the revised Guide	The Guide has already been revised	The new guide is operational (2017)	MINEPAT	
Revising the compensation framework for infrastructure development	Legal instrument relating to the revision of the regulatory and institutional framework	The diagnostic study on the regulatory and institutional mechanism for the revision of the framework is ongoing	The regulatory and institutional instrument is signed (2018)	MINDCAF/ MINEPAT	
COMPONENT 2: STRENGTHENING THEGOVERNANCE AND COMPETITIVENESS OF PRODUCTIVE SECTORS					
Sub-component 2.1: Strengthening Governance in the Transport and Energy Sectors					
Instituting performance contracts in road infrastructure management	Standard BDs that include the obligation of results in road infrastructure maintenance contracts	Absence of standard BDs that include the obligation of results in road infrastructure maintenance contracts	Standard BDs are approved and the first contracts that include the obligation of results are signed	MINEPAT/MINTP	
Providing resources for road maintenance	2018 and 2019 Finance Act	Inadequate resources to finance road maintenance	At least CFAF 55 billion is allocated to the Road Fund in 2018 and 2019	MINFI	
Promoting private sector participation in the electricity sub-sector	Concession agreement concluded with a private operator	Draft agreement under discussion with a private operator	The concession agreement is signed (2017)	MINEE	
Strengthening the institutional framework for electricity transmission	Concession agreement for the management of the electricity transmission network	The draft concession agreement is being discussed	The concession agreement for the management of the electricity transmission network is signed (2018)	MINEE	
Sub-component 2.2: Strengthening Agro-pastoral Sector Competitiveness					
Strengthening the legal and regulatory framework of the livestock and agriculture sub-sectors	Omnibus bill on the livestock sub-sector	An omnibus bill has already been prepared	The bill is tabled before Parliament (2018)	MINEPIA	
	Decree reducing the age of slaughter cattle to 24 months	The draft decree is being prepared	The decree is signed	MINEPIA	
	Amended system of distribution of subsidies and sibsidized agricultural input	Transparent Distribution of subsidies and inputs; discourages private sector operators.	System of distribution of subsidies and sibsidized inputs validated by regulation	MINEPIA	
Strengthening the legal and regulatory framework for the fisheries and aquaculture sub-sectors	Omnibus bill on fisheries and aquaculture	An omnibus bill has already been prepared	The bill is tabled before Parliament (2018)	MINTSS	
Establishing a social safety net for youth operating in the agro-pastoral and fisheries sub-sectors	Strategy to encourage the taking out of a CNPS voluntary insurance policy	Low social safety net for youth operating in the agro-pastoral sector	Strategy adopted and an awareness campaign launched (2017)	MINTSS/CNPS MINADER/ MINEPIA/Civil Society	
Financing–Loans: AfDB - EUR 180 million; World Bank – EUR 152 million; EU – EUR 27 million; and AFD – EUR 81 million.					

REPORT AND RECOMMENDATION OF BANK GROUP MANAGEMENT TO THE BOARD OF DIRECTORS CONCERNING A PROPOSAL TO GRANT A LOAN TO THE REPUBLIC OF CAMEROON TO FINANCE THE COMPETITIVENESS AND ECONOMIC GROWTH SUPPORT PROGRAMME (PACCE)

I. INTRODUCTION: THE PROPOSAL

1.1 **Management hereby submits the following proposal and recommendation to grant a EUR 180 million AfDB loan to the Republic of Cameroon** to finance the Competitiveness and Economic Growth Support Programme (PACCE). This is the first of three programme-based General Budget Support (GBS) operations covering the 2017-2019 period for an indicative total financing of EUR 540 million. The proposed operation is a response to the request submitted to the Bank in November 2016 by the Government of Cameroon amid the deterioration of the country's public finance due to the drastic and continuous fall in oil prices. The objective of the operation is to preserve macroeconomic and budgetary stability and contribute to laying the foundations for robust, resilient and inclusive economic growth by improving the public finance management (PFM) framework and strengthening the governance and competitiveness of productive sectors (transport, energy and agriculture).

1.2 **The Government has embarked on a vast medium- and long-term reform** programme that seeks to accelerate growth, reduce unemployment and alleviate the incidence of poverty (cf. Letter of Development Policy, **Annex 1**). The Bank will, through this programme-based budget support operation, support the implementation of the major related reforms over a three-year period (2017-2019, **Annex 2**). Cameroon, like other CEMAC member countries, is facing major structural challenges due to: (i) the large contribution of oil, cocoa and wood exports (the three main exports) to the trade balance and public finance; (ii) the low competitiveness of the Cameroonian economy owing to high factor costs, which prevents agriculture in particular from serving as a substitute to oil revenues and thereby sustaining growth and employment; (iii) an unattractive investment climate; (iv) the quantitative and qualitative deficit of basic infrastructure (roads and rural roads, market infrastructure, energy, water, ICT, etc.) which are essential for stimulating production; (v) low access to financing, especially by SMEs; and (vi) the lack of competitiveness of the agricultural sector that could replace the oil windfall in sustaining growth and employment.

1.3 **The design of this programme-based operation took into account the need for the Bank to contribute to addressing the above-mentioned challenges and to supporting reforms aimed at promoting accelerated, sustainable and inclusive growth in Cameroon.** Given the impact of such reforms on the economy, particularly macroeconomic stability, the GBS is a suitable instrument as it will help, in the short term, to reduce cash flow pressures, build up foreign exchange reserves to support the currency, and create a fiscal space to enable the Government to continue to implement the budget smoothly. It also considered the need to harmonize the Bank's support with that of other technical and financial partners such as the IMF, the World Bank and the European Union (EU) which, in 2017 provided, through their respective (three-year) programme-based operations, support to the Cameroonian State budget[1]. The programme was formulated based on an on-going dialogue with the Government and discussions with other stakeholders, including the private sector and civil society organizations (CSOs). In addition, the implementation of some of the reforms envisaged under this programme will be supported by the Bank, which seeks to improve budget management and the impact of public expenditure in the energy and transport sectors.

1.4 **By providing support to Cameroon, the economic giant of the CEMAC zone, PACCE will impact the entire sub-region. This operation is perfectly in line with the strategy that was defined in December 2016 by the Heads of State of CEMAC member countries and the managers of regional institutions,** namely: (i) sustained public finance re-adjustment; (ii) restoration of sound

[1] Cf. Technical Annex III.

monetary policy; and (iii) launching of major structural reforms to support economic diversification. In this connection, the financial assistance provided through this reform programme will help to (i) adjust regional imbalances and re-create the fiscal space needed by CEMAC member countries to revive their economies; (ii) maintain the external stability of CEMAC; and (iii) preserve the integrity of its monetary system. However, such return to sub-regional macroeconomic stability will only be possible and viable if all the CEMAC member countries undertake, in a concerted manner, to pursue a solid reform programme[2].

II. COUNTRY CONTEXT

2.1 Political Situation and Governance Context

2.1.1 **Cameroon continues to enjoy relative political stability but is faced with social unrest stemming from claims in the Anglophone part of the country.** The political situation has remained stable compared with the situation, on average, throughout the continent and it has improved with respect to Central Africa, since the serious socio-political crisis of 2008[3]. Implementation of the constitutional reform initiated in 1996 continued in 2013 with the establishment of the Senate. This culminated in the establishment of the bicameral Parliament comprising an upper house (the Senate) and a lower house (the National Assembly). The nearly 30% representation of women in the political sphere meets the Beijing Summit requirements. In response to the socio-political unrest in the English-speaking North-West and South-West Regions of Cameroon[4], the Government initiated dialogue with a view to easing the tension. This should facilitate the holding of peaceful presidential elections scheduled for 2018.

2.1.2 **Regarding governance, Cameroon has made significant progress in recent years, but there are major weaknesses.** In October 2013, Cameroon achieved EITI compliant status. To enable the judicious exploitation of its natural resources, in compliance with international norms and standards of transparency, a new Mining Code was adopted in 2017. The country's public administration is one of the best structured in Central Africa. However, according to Transparency International, Cameroon's Corruption Perceptions Index has hardly improved[5]. The Mo Ibrahim Index of African Governance (IIAG) also shows that governance did not improve in 2016[6]. The decline in IIAG is due mainly to the deterioration of the scores related to issues of security and the rule of law as well as participation and human rights. In addition, the assessment of policies and institutions through the CPIA indicator reveals a virtual stagnation and even a downward trend in public policy quality indicators. Only economic management (+12.5%) and social inclusion policy indicators are improving.

2.2 Recent Economic Developments and Macroeconomic and Budget Analysis

2.2.1 **After a long period of resilience to shocks, the most robust and diversified economy in the CEMAC zone, is showing the first signs of losing steam.** Since the 2008 crisis and despite unfavourable international economic conditions, the Cameroonian economy experienced steady GDP growth, inching up from 3.3% in 2010 to 4.6% in 2012 and then to 5.8% on average over the 2013-2015 period. Besides oil production, growth was mainly driven by the primary sector (especially subsistence farming) and by all tertiary sector branches (notably transport and telecommunications) as well as domestic and external demand components (final consumption, investment and exports). The GDP growth rate remained positive but decelerated by more than one percentage point, from 5.9% in 2015 to 4.5% in 2016 (see Graph 1).

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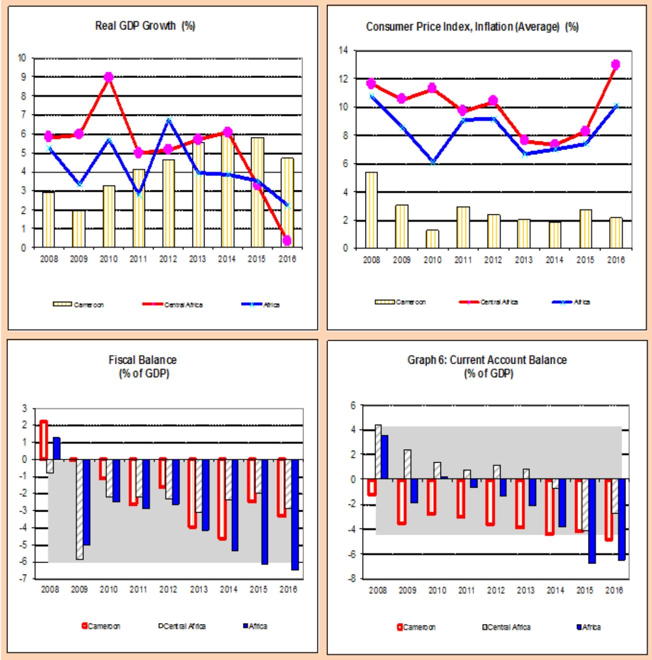
[2] To date, Congo and Equatorial-Guinea have not yet concluded macro-budgetary stabilisation programmes with the IMF.
[3] According to data from the AfDB Statistics Department and the World Economic Forum (WEF) 2013.
[4] The secessionnist demands that surfaced in the English-speaking parts of the country in 2016, against a backdrop of spatial non-inclusion, have resulted in tensions and loss of human life with effect from September 2017.
[5] It has even deteriorated with a score that dropped from 27 to 26 out of 100 between 2014 and 2016.
[6] The country was ranked 38th out of 54 countries. Its score even dropped slightly to 45.7 out of 100, below the African average of 50.0.

2.2.2 **Though moderately expansionist, the fiscal policy of financing major backbone projects conducted in a context of falling oil revenue has led to an increase in budget deficits.** The fiscal deficit[7] rose from 2% of GDP in 2015 to 6.5% in 2016, reflecting an increase in public expenditure of 1.6% of GDP and a decrease in revenue of 1.9% of GDP (of which 0.9% in oil revenue). The deficit was financed through the issuance of Eurobonds worth USD 750 million, treasury bonds on the regional banking market, and Central Bank (BEAC) statutory advances to the tune of 0.5% of GDP. The fall in the price of the major export commodities (oil, cocoa and timber), coupled with that of the volume of their output led to an 18% drop in export revenue between 2015 and 2016. However, due to a decline in imports resulting from import substitution in the public works and civil engineering sector, the current account deficit contracted from 4.1% in 2015 to 3.6% in 2016. The level of foreign exchange reserves dropped slightly due to the effect of the deficit and lack of control over the repatriation of export earnings. This led to a decrease in reserves equivalent to 3.7 months of imports in 2016 compared with 6 months in 2015. Inflation (2.2% in 2016 against 2.8% in 2015 and 1.9% in 2014) will continue to be maintained below the 3% convergence threshold in the CEMAC zone throughout the programme duration.

Graph 1: Key Macroeconomic Indicator Trends



Source: AFDB Statistics Department, African Economic Outlook, March 2017

2.2.3 **Cameroon's level debt remains bearable but a more cautious and rigorous debt management is necessary to minimise the risk of debt overhang.** The slump in the prices of crude oil, which is the country's main export product, has, since 2015, led to the deterioration of the ratio of the net present value of debt to goods and services exports. Despite a debt-to-GDP ratio below the CEMAC threshold of 70% of GDP, the financing of backbone infrastructure projects through commercial loans led to a sharp increase in public debt, reaching 34.1% of GDP in 2016 against 15.6% in 2012. According to the debt sustainability analyses conducted jointly by the International Monetary Fund and the World Bank in 2015 and 2016, the country's risk of debt distress has increased from "moderate to high[8]". These findings call for more cautious and rigorous debt management. To mitigate the risk of debt distress, the institutional framework for debt management has been strengthened. The opinion of the National Public Debt Committee (CNDP), which was a consultative body at its inception, became mandatory in 2016 and a condition precedent to any decision to borrow[9].

2.2.4 **The signing of an economic and financial programme with the IMF augurs well for the stabilization of the macroeconomic framework in the medium term.**The fiscal policy underpinning the Extended Credit Facility (ECF) concluded with the IMF is restrictive[10].Thus, public investment expenditure is expected to stabilize gradually from about 8.8% of GDP in 2016 to 7.3% in 2017 and then to 6.7% in 2019 at the end of the programme. Revenue (including grants) is expected to grow moderately from 16.3% of GDP in 2016 to 16.7% in 2017 and then to 17.6% in 2019. Recourse to concessional loans will be strictly regulated and limited by the CNDP which includes the IMF. Similarly, the tightening of BEAC's monetary policy by making lending conditions more stringent and

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[7] Payment order basis.
[8] The public debt-GDP ratio rose from 18.7% in 2013 to 33.0% in 2015, 34.1% in 2016 and could reach 34.9% in 2017. However, it is below the CEMAC ceiling of 70%.
[9] Henceforth, only financing agreements with a reasoned opinion of the CNDP are submitted to the Head of State for approval.
[10] It was concluded on 26 June 2017, more than a decade after the previous one that led to the completion point of the HIPC Initiative in 2006.

improving bank liquidity control should limit the use of commercial loans by the State to finance its infrastructure projects. The public debt is therefore expected to stabilize over the 2017-2020 period at the 2017 benchmark (36.1%), while avoiding the accumulation of domestic debt arrears.

2.2.5 **Medium-term growth prospects remain positive but the downward trend could continue in 2017, with a growth rate of 3.7%, before picking up in 2018.** This trend could be attributable to the continued contraction in oil and gas production activities. Crude oil prices on the world market which are still far below the 2014 reference level do not augur well for investments in the exploration of new fields and/or exploitation of new deposits. The economic recession hitting Nigeria (Cameroon's main trading partner in Africa) and which could spread to the other five neighbouring CEMAC member countries does not stimulate demand. However, the economy could rebound in future due to the ripple effects of the Economic Partnership Agreement (EPA) with an increase in exports to the European Union, a rise in energy supply resulting from increased power generation by new hydroelectric power dams or power plants financed by independent power producers (IPPs). In addition, sylviculture, the development of agro-industrial value chains and the reduction of imports to the benefit of local industries[11] are expected to boost growth.

2.3 Economic Competitiveness

2.3.1 **The competitiveness of the Cameroonian economy is constrained by high factor costs and delays in the implementation of reforms to improve the business environment.** The Global Competitiveness Index improved only slightly from a score of 3.4 in 2012 to 3.75 in 2014 on a scale of 1 to 7. The Cameroon Business Forum (CBF) has been established as a platform for discussions between the Government and the private sector which is expected to identify second-generation reforms in a consensual manner. However, weaknesses persist regarding the institutional, legal and regulatory framework of the business environment due to high factor costs in the transport, ICT and energy sectors in Cameroon. The shortage of electricity, which results in load shedding and the irregular supply of electricity to households and agro-industries impedes industrial processing activities and the creation of decent jobs. The poor quality of the road and rail networks, the high cost and inadequate supply of ICT products and the poor performance of the Port of Douala result in additional costs for economic operators and jeopardize the competitiveness of Cameroon in relation to other African countries. The foregoing also limit access to domestic and regional markets as well as the country's ability to attract foreign direct investments to non-extractive sectors. Aware of these challenges, the Government is allocating substantial budgetary resources for the development of road and power infrastructure[12]to reduce the cost of factors of production. With a results-based PFM (cf. 5.1.5), the Government is focusing on efficiency and efficacy to improve the quality of investment expenditure, particularly in the productive sectors (cf. 5.1.9).

2.4. Inclusive Growth, Poverty Situation and Social Context

2.4.1 **The country's economic growth over the last few years has had a positive but modest impact on poverty reduction but still falls short of national targets and Sustainable Development Goals (SDGs)[13]**. The results of the Fourth Cameroon Household Survey (ECAM4) show that the poverty line was lowered by 2.4 percentage points between 2007 and 2014, from 39.9% to 37.5% compared with 40.2% in 2001. However, inequalities have widened. The Gini coefficient of the entire country reached 0.44 in 2014 compared with 0.39 in 2007 and 0.40 in 2001. The incidence of poverty in urban areas has decreased, from 18% in 2001 to 12.2% in 2011 and then to 8.9 % in 2014 according to ECAM4. The incidence of poverty has decreased the most in the East, Littoral and Centre Regions. Conversely, the incidence of poverty in rural areas has increased since 2001, from 52.1% to 55% in 2007 and to 56.8% in 2014. Regarding gender, challenges persist in terms of empowerment. These include low access to credit, due to lack of collateral, and land, in some parts of the country, a fairly

[11] Cement imports are declining sharply in favour of those of clinker which is used by new cement factories to produce cement locally.
[12] Two hydroelectric power dams have been built as part of the implementation of PLANUT.
[13] Sustainable Development Goals (SDGs), cf. Technical Annex VI.

low level of representation in high-level positions in government services and management positions in the private sector. This situation constitutes a challenge to rethink public policies, particularly concerning decentralization and regional development. To address this situation, with the support of partners, including the Bank, the country is focusing on economic diversification in the agro-sylvo-pastoral[14] and fisheries[15] value chains in the various regions of the country in order to promote more inclusive and job-creating growth. PLANUT, which is currently being implemented, aims to provide the regions with socio-economic infrastructure (roads, hydroelectric dams etc.) so as to build the capacity of the poorest segments of the population[16] to generate income and thus meet their basic needs.

III. GOVERNMENT'S DEVELOPMENT AGENDA

3.1 Government's Development Strategy and Medium-term Priorities

3.1.1 The country's priority development thrusts are defined in the Growth and Employment Strategy Paper (GESP) covering the 2010-2020 period. This strategy which stems from the 2035 Development Vision seeks to: (i) raise annual average growth to 5.5% over the 2010-2020 period;(ii) reduce underemployment from 75.8% to less than 50% in 2020; and (iii) reduce the monetary poverty rate from 39.9% in 2007 to 28.7% in 2020. To achieve the aforementioned objectives, the Government is planning to implement, in a coherent and integrated manner, a three-thrust strategy, comprising: (i) a growth strategy; (ii) an employment strategy; and (iii) a strategy to improve the governance and strategic management of the State. Following a mid-term review of Vision 2035 outcomes and considering the risk that its objectives may not be achieved, the Government decided in 2015 to implement PLANUT in order to accelerate economic growth. This plan prioritizes major infrastructure projects in the transport and energy sectors to accelerate progress towards achieving Vision 2035 objectives. The priority development thrusts defined in GESP, which are complemented by PLANUT, are a coherent and credible framework for achieving Vision 2035 development objectives.

3.2 Obstacles to the Implementation of the National Development Plan (GESP)

3.2.1 **Cameroon is richly endowed with natural and human resources to support sustainable development. However, the country is plagued by a backbone-infrastructure deficit.** This situation increases factor costs and limits the attractiveness of non-extractive sectors to investment, thus reducing the possibilities of transforming and diversifying the economy towards agro-industry and, hence, creating jobs. The energy sector regulatory framework impedes private investment and prevents the country from developing its hydroelectric, gas and thermal power potential. Concerning transport infrastructure, resources earmarked for road maintenance are inadequate and do not help to slow down deterioration of the road network. Yet, Cameroon's geographical position makes it the principal transshipment and freight-traffic country for landlocked countries (Chad and CAR).

3.2.2 **In spite of the significant amount of the allocations, the effectiveness of public investment should be improved, particularly for** the development of road infrastructure and electric power. The reforms programme envisaged by the Government for the next three years and the major investments planned under PLANUT with the support of PTFs, including the Bank, will progressively remove the aforementioned constraints.

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[14] In 2016, the Bank approved the Agricultural Value Chains Development Project (PD-CVA) which targets three commodity sectors (plantain, pineapple and oil palm).

[15] The Bank is considering a second project for the development of livestock production and fish farming value chains.

[16] Regarding social protection, the Government is, with the support of the World Bank, implementing a pilot social safety net project that will be subsequently generalized by targeting the most vulnerable areas and social groups.

3.3 Consultation and Participation

3.3.1 **GESP was prepared through a participatory process.** The Government organized participatory consultations to solicit the views of the population on the status of implementation of the previous strategy (PRSP). The impact of policies and proposals for improvement were reflected in the design and implementation of GESP. The Government has already initiated consultations with all stakeholders to prepare the second-generation GESP.

Table 1 : Linkage between the GESP, CSP and PACCE

GESP (2010-2020)		CSP (2015-2020)	(PACCE 2017-2019)
Strategic Objective		**Strategic Objective**	**PACCE Strategic Objective**
Promote inclusive growth and poverty reduction.		(i) Strengthen infrastructure for inclusive and sustainable growth; and (ii) enhance sector governance for effective and sustainable transformative investments.	Preserve macro-budgetary stability and create conditions conducive to the improvement of competitiveness and acceleration of sustainable economic growth.
Priority Thrusts		**Priorities**	**Programme Components**
Thrust 1:	**Accelerated growth strategy** *(an annual average of 5.5% over the 2010-2020 period)*	• Develop agro-pastoral and fishery value chains and diversify sources of growth	• Support for the streamlining of expenditure
Thrust 2:	**Strategy for improving the governance and strategic management of the State** *(reduce underemployment from 75.8% to less than 50% in 2020)*	• Improve sector governance and increase public expenditure effectiveness	• Enhancement of governance and competitiveness in productive sectors
Thrust 3:	**Employment strategy** *(reduce the poverty rate from 39.9% in 2007 to 28.7% in 2020)*	• Improve competitiveness and increase regional trade	

IV. BANK SUPPORT FOR THE GOVERNMENT'S STRATEGY

4.1 Linkage with Bank Strategy

4.1.1. **PACCE is aligned with the two pillars of the Country Strategy Paper covering the 2015-2020 period, namely:** *(i) Strengthen Infrastructure for Inclusive and Sustainable Growth; and (ii) Enhance Sector Governance for Effective and Sustainable Investments*. The proposed budget support programme directly operationalizes three of the Bank's High-5s which focus on energy, agriculture, transport and regional integration. It indirectly contributes to the other two High-5s by stimulating industry and improving the living conditions of the population. Through the public finance management reforms envisaged, PACCE will contribute to enhancing the efficiency and efficacy of public expenditure. In addition, the removal of institutional and regulatory constraints in the agricultural sector will contribute to developing agro-pastoral and fishery sector value chains through private investments which will stimulate the creation of jobs, especially for the youth. Similarly, regulatory reforms in the electricity sector will increase investments to meet energy demand by industries and households. The reform of the road maintenance framework will contribute to enhancing the sustainability of transport infrastructure, opening up production areas and hence increasing regional trade in agro-industrial products destined for the large Nigerian market in the ECOWAS zone and intra-CEMAC trade. PACCE will therefore help to achieve the green and inclusive growth objectives set forth in the Bank's Ten-Year Strategy (2013-2022). Thus, it is consistent with the 2014-2018 Human Capital Strategy. The linkage between PACCE, the CSP and the Government's Development Strategy (GESP) is summarized in Table 1 below.

4.2 Compliance with Eligibility Criteria

4.2.1. **Cameroon has met the preconditions for the use of the budget support instrument as presented in Technical Annex I.** Despite the regional and internal political and security crises in the

English-speaking parts of the country, the overall political situation has not worsened. To address the exogenous economic shocks caused notably by the fall in the prices of oil and some agricultural raw materials below their 2014 benchmark and the ripple effects of the decrease in foreign exchange reserves, the Government concluded an Extended Credit Facility (ECF) with the IMF to progressively stabilize major macroeconomic balances in the medium term. The budget support operations being appraised by the Bank, the World Bank, the AFD and the EU, eleven years after the implementation of HIPC-I, underscore the Government's resolve to resume the implementation of the reforms needed to transform the country's economy and reduce regional disparities and poverty. Concerning the fiduciary risk, the PFM reform trajectory is positive thanks to the efforts made by the Government of Cameroon with the support of TFPs. In addition, the design of PACCE took into account the principle of harmonization of interventions between TFPs.

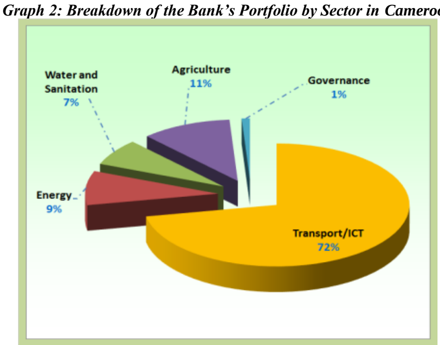
4.3 Collaboration and Coordination with Other Partners

4.3.1. **Budget support programmes, including PACCE, are coordinated at two levels.** *At the first level, the Government coordinates the budget support operations of key TFPs (IMF, AfDB, World Bank, EU and AFD). To that end, it set up a* ***"Committee in charge of Monitoring the Implementation of Structural Reforms for the Promotion of Inclusive Growth and Poverty Reduction in Cameroon".*** This committee, which is established within the Ministry of the Economy, Planning and Regional Development (MINEPAT), and comprises multi-sector experts, is placed under the authority of the Secretary-General of MINEPAT. Before holding technical discussions with this committee and sector ministries within the framework of the PACCE appraisal mission, high-level discussions were held between the ministers in charge of the economy and finance and TFPs on conditions precedent to the provision of their budget support. *At the second level, TFPs ensure coordination within Multi-Partner Committee Exchange/Thematic Group (public finance, energy, transport[17], agriculture, etc.) Platforms.* The reform measures supported by PACCE in the four sectors selected, namely public finance, agriculture, transport and energy, presented in the matrix attached as Annex 2, were discussed, harmonized and agreed upon within the TFPs[18] and with the Government in order to create synergy and complementarity and facilitate the monitoring of the reform matrix of all TFPs.

4.4. Linkage with Other Bank Operations

4.4.1. **As at end-June 2017, the Bank Group's portfolio in Cameroon comprised 23 projects for total commitments of UA 1.03 billion (USD 1.43 billion).** This amount is broken down as follows: UA 689.92 million (USD 975.14 million – 67%) for the national public sector (13 operations); UA 214.58 million (USD 303.29 million – 21%) for the multinational public sector (6 operations); and UA 123.62 million (USD 174.72 million – 12%) for the private sector (4 operations). The Congo Basin Forest Fund (CBFF) portfolio in Cameroon consists of 2 active projects for an amount of EUR 1.96 million (USD 2.18 million). ***The breakdown of the public projects portfolio by sector is shown in Graph 2.*** The disbursement rate of the portfolio of lending operations (excluding the private sector) stands at 32.3% and the portfolio performance is considered satisfactory, with a score of 2.36 in 2014 on a scale of 3, which shows an upward trajectory.

Graph 2: Breakdown of the Bank's Portfolio by Sector in Cameroon



4.4.2 **The reforms supported by PACCE will help to strengthen the impact of the Bank's portfolio in Cameroon and its future national and regional lending operations in the agricultural,**

17 Since 2016, the Bank has been the leader of the "Transport Infrastructure" Cluster. Previously, the Bank was the leader of the Public Finance Sector Committee (PFSC) during the 2010-2015 period.

18 The TFPs providing financial support (Bank, IMF, World Bank and EU) worked in close collaboration to harmonize their reform matrices. Each TFP focused on the domains in which it has a comparative advantage in view of its investment projects in the sector and/or the level of policy dialogue with the authorities (Cf. Technical Annex III).

energy, transport and public-finance-management sectors. As shown in Graph 2, the Bank's operations in the transport/ICT and energy infrastructure as well as in the agricultural sectors in Cameroon account for 92% of the portfolio. The impact of all road projects in the portfolio presented in Technical Annex IV will be improved, thus contributing to opening up the production areas located along inter-State corridors and boosting trans-border trade. In the energy sector, PACCE will, through the reform of the institutional and regulatory framework of the electricity generation, transmission and distribution segments, enhance the impact of public (PREREDT, Lom Pangar, etc.) and private (AES-SONEL, KPDC and Dibamba) sector projects financed in the form of PPPs, as well as future electricity interconnection projects and the construction of the Nachtigal hydroelectric dam. In the agricultural sector, PACCE will, through the reform of the seed policy, the method of management of slaughterhouses and the framework law on fisheries and aquaculture, strengthen the impact of on-going projects (Grassfield Rural Infrastructure and Participatory Development Support Project and the Agricultural Value Chain Development Project – PD-CVA) and the Livestock and Fish-Farming Value Chains Development Project (PD-CVE) under consideration, thus contributing to diversifying the economy, accelerating growth and creating jobs. Furthermore, the implementation of PACCE will be supported by reforms seeking to improve public expenditure effectiveness through technical assistance to public and semi-public entities.

4.4.3 **Concerning lessons learned from previous operations,** PACCE recommends the reform of the project maturation, road maintenance and local road sector enterprise consolidation framework to promote the sustainability of road investments. This was one of the main recommendations made by the Independent Development Evaluation (IDEV) Department following its evaluation of the Bank Group's assistance to Cameroon during the 2004-2013 period, particularly the Governance Reform Support Programme (PARG) that was approved in December 2006, and its contribution to the country's development. PACCE, which is a three-year programme-based support operation, will enable the Bank to maintain an inclusive dialogue (State, private sector, civil society and other TFPs) on reforms to ensure their effective implementation. Lessons were learned from the factors that adversely affected the performance of the previous programme (see Table 2 below) and they have been reflected in the design of PACCE.

Table 2: Lessons Learned from Previous Bank Operations in the Country

Main Lessons Learned	Measures Taken to Reflect in the Programme the Lessons Learned
(i) Ensure the realistic evaluation of reform implementation timeframes, taking into account the capacity of the Government.	PACCE has retained only the reform measures that are feasible within the short- and medium-term programme timeframe.
(ii) Ensure that the ministries in charge of the implementation of reforms own the reform programme from the design phase.	PACCE is a reform programme designed and being implemented by the authorities.
(iii) Avoid overloading the programme with many measures and logical framework indicators.	PACCE has selected only a limited number of measures.
(iv) Maintain good communication between the Bank and the Borrower during the implementation of the operation.	To ensure proper programme implementation monitoring, and at the request of TFPs, the Government set up a Structural-Reforms-Implementation-Monitoring Committee and thematic or sector groups of the Multi-Partner Committee (MPC).

4.5. Analytical Works Underpinning the Operation

4.5.1. **The design of PACCE benefited from the results of studies carried out by the Bank and other technical and financial partners** as well as the conclusions and recommendations of the public expenditure review studies conducted by the Bank[19], and economic and sector study reports prepared by other TFPs and the Cameroonian authorities themselves, including the 2010-2020 GESP mid-term

[19] These are: 1. Review of Public Expenditure in the Energy Sector, ref: ADB/BD/IF/2014/216- ADF/BD/IF/2014/171; 2. Review of Public Expenditure in the Road Transport Sector ref: ADB/BD/IF/2015/248- ADF/BD/IF/2015/184; and 3. Analysis of the Public Investment Management Framework ref: ADB/BD/IF/2017/69 -ADF/BD/IF/2017/44.

review report. The preparation of this operation also took into account the World Bank's 2016 Country Economic Memorandum, IMF reports and the European Union-funded 2017 PEFA Review. The main recommendations of the analytical works seek to: (i) promote stronger and more inclusive growth by improving the productivity of enterprises; (ii) strengthen public finance management in order to sustain macroeconomic stability in the medium term; and (iii) streamline the public investment programme to improve efficiency and efficacy so as to enhance the competitiveness of the Cameroonian economy.

V. THE PROPOSED PROGRAMME

5.1 Programme Goal and Objective

5.1.1 **PACCE seeks to support the implementation of GESP which strives to accelerate growth and reduce unemployment and the incidence of poverty.** To that end, the proposed programme is aimed at: (i) strengthening the fiscal position of the State by streamlining public expenditure in order to create the fiscal space needed to finance priority investments; and (ii) creating favourable conditions for sustainable and inclusive growth by strengthening the governance and competitiveness of productive sectors through improvement of the efficiency and quality of road and energy infrastructure as well as the legal, regulatory and institutional framework.

5.2. Programme Components

5.2.1. **The reform package in this programme hinges on two interdependent and complementary components.** Component 1 which aims to streamline the public finance management framework will help to reinforce macroeconomic stability, create fiscal space, prioritize public investment projects, and stimulate growth. The measures proposed in Component 2, focusing on the enhancement of governance and competitiveness of productive sectors, will contribute to reducing factor, transport and electricity access costs, attracting private investments, stimulating growth through the development of agro-industry and strengthening fiscal consolidation measures by increasing tax revenue derived from a more vibrant private sector. PACCE is a balanced programme that combines PFM, public investment, sector governance and economic competitiveness reforms.

Component I: Streamlining the Public Finance Management Framework

5.2.2 **The first programme component comprises two sub-components, namely:** (I.1) Improving the PFM Regulatory and Institutional Framework; and (I.2) Strengthening the Public Investment Strategic Planning and Management Framework. The objective of this component is to enhance the efficiency and efficacy of expenditure within the PFM regulatory and institutional framework in order to create fiscal space, thereby ensuring public-finance sustainability and creating favourable conditions for the continued implementation of the backbone infrastructure development programme included in PLANUT.

Sub-component 1.1: Improving the Public Finance Management Regulatory and Institutional Framework

5.2.3. ***Context and challenges:* export commodity prices plummeted within the context of increased expenditure related to security and humanitarian activities as well as the implementation of an ambitious public investment programme.** This situation has exerted great pressure on public finance and forced the country to embark on fiscal consolidation in order to sustain macroeconomic stability and create the fiscal space required to finance the public investment programme. For a long time, the quality of public expenditure in Cameroon has been deteriorating for a long time owing to the absence of a suitable regulatory and institutional framework for public-finance management (PFM). In a context of limited public resources, Cameroon has to improve the quality of expenditure by enhancing the efficiency and efficacy of its regulatory and institutional framework so as to continue to ensure an adequate level of public investment in line with the 2035 Vision of an emerging country outlined in GESP.

5.2.4. ***Recent actions implemented by the Government:*** Cameroon has embarked on the reform of its public finance management (PFM) system since 2007. This led to the adoption in December 2007 of the Act governing the Financial Regime of the State (LFRS). This law, which is a significant innovation of the country's financial, budgetary and accounting framework, introduced the notion of results-based management. The debt management framework has also improved with the establishment in 2008 of the National Public Debt Committee (CNDP) whose opinion must be sought on all matters relating to contracting public debt and granting State guarantees. In spite of these positive developments, the PFM system continues to face many challenges. An evaluation of the financial management system carried out in 2017 using the PEFA method noted that the performance of the PFM system is still inadequate to ensure fiscal discipline.

5.2.5. **The major weakness is the continued existence of exceptional procedures such as the release of funds, imprest funds and direct interventions,** which make budget regulation and cash management difficult. There are also weaknesses in budgetary risk management resulting from insufficient supervision and monitoring of public establishments and local and regional authorities. Regarding strategic planning, delays in preparing and adopting sector strategy papers have impacted the alignment of programme budgets with GESP priorities. There has been quite contrasting trends in the public procurement system since the establishment of the Ministry in charge of public procurement (MINMAP) in 2011. Access to information on public procurement is insufficient, the collection and production of statistical data are non-exhaustive and unreliable, and the principle of separation of the regulation, control and execution functions is not observed. In addition, budget controls are characterized by a plethora of *a posteriori* control bodies with overlapping mandates and lack of coordination between these entities (CONSUPE, DCOB, MINMAP, MINEPAT, inspection services of ministries, etc.). To address the many challenges mentioned above, the Government is implementing a public finance modernization plan covering the 2016-2018 period, which will be followed by another one covering the 2019-2021 period, following the 2017 PEFA assessment.

5.2.6. **Measures supported by this programme: to improve the PFM framework, the proposed programme will support measures that seek to mainstream the public expenditure quality and streamlining requirements into the PFM regulatory and institutional framework in** Cameroon**.** They are: (i) transmission to CEMAC of draft instruments domesticating CEMAC guidelines into the national legislation **(Prior Measure #1)**; (ii) establishment of the integrated budgetary and accounting management software package; (iii) adoption of the new Public Procurement Code; (iv) conduct and publication of public procurement audits for 2013 to 2016; and (v) preparation of a public procurement data processing master plan.

5.2.7 **Expected outcomes: the reforms supported by PACCE will enable Cameroon to**: (i) strengthen the culture of public management underpinned by programme- and results-based budgeting; (ii) improve speed and transparency in public procurement to reduce the incidence of corruption; and (iii) enhance transparency in public finance management.

Sub-component 1.2: Strengthening the Public Investment Strategic Planning and Management Framework

5.2.8. **Context and challenges: the challenge facing the Government of Cameroon is to rationalize its budgetary choices, improve the quality of capital expenditure and intensify its efforts to mobilize revenue[20].** In spite of their high level, (8% of GDP on average, and 35% of the budget over the 2014-2016 period). The State's capital expenditure has not been producing all the

[20] The International Monetary Fund's Extended Credit Facility (ECF) and the World Bank's budget support mainly back tax reforms that seek to mobilize more public revenue. The Bank focuses on the streamlining of public expenditure.

expected impact on growth. There are major shortcomings in capital expenditure planning, programming and budgeting. A high number of projects entered into the capital expenditure budget (CEB) have not reached the required level of maturity to ensure timely implementation. The very limited budget resources allocated by sector ministries for project studies and the low capacity of their studies departments to internally prepare projects are the main obstacles to the availability of mature projects in the CEB. Furthermore, the bottlenecks in the network, upstream and downstream of execution of the expenditure, adversely affect the PFM, raise the costs and delay attainment of the objectives. In addition, the quality of capital expenditure under the CEB remains one of the major impediments to enhancing competitiveness of the economy and to placing it on the path to a more rapid growth commensurate with its potential. In the area of public investments, where the Bank is deeply involved in Cameroon, expenditure quality is affected by three major factors, namely: (i) the limited maturity of ongoing projects; (ii) bottlenecks in the public procurement process; and (iii) delays in the compensation of populations under infrastructure projects.

5.2.9 **Recent actions implemented by the Government: in addition to the actions outlined above (5.2.4), the Government has implemented a public finance modernization plan** adopted in 2009 and updated in 2012. Over the past five years, the plan has helped to make significant progress in public-investment strategic planning. The major innovations introduced are: (i) the adoption of multi-year budget management by preparing medium-term budget frameworks (MTBFs), the medium-term expenditure framework (MTEF) and programme budgets as of 2013; (ii) the establishment of an Inter-ministerial Programme Review Committee (CIEP); and (iii) the establishment of planning, programming, budgeting and monitoring and evaluation units (PPBS) in sector ministries.

5.2.10 **Measures supported by this programme: considering the share of public sector capital expenditure in the State budget, PACCE will support measures that seek to strengthen the planning and management framework in order to improve expenditure quality and impact**. The measures are: (i) stabilization of the investment expenditure level in the medium term to achieve macroeconomic sustainability **(Prior Measure #2)**; (ii) strengthening transformative investment project monitoring through regular publication of the list of projects and project implementation reports; (iii) preparation of guidelines for the second phase of Strategic Vision 2035; (iv) adoption of the revised Guide which is the framework for investment project maturation **(Prior Measure #3)**; and (v) revision of the regulatory and institutional framework for compensation under infrastructure project implementation.

5.2.11 **Expected outcomes: the reforms supported by PACCE will help to**: (i) control and reduce the State's capital expenditure cost through technical supervision provided by the Project Maturation Guide; (ii) standardize the format and terminology of projects to be included in the CEB; (iii) reduce the number of abandoned construction sites, especially in rural areas, and decentralized management projects; (iv) raise the investment budget execution rate to at least 70% in 2020, as against less than 50% in 2014; and (v) improve the impact of the State's capital expenditure, including those financed by the Bank.

Component II: Strengthening the Governance and Competitiveness of Productive Sectors

5.2.12 **To accelerate economic transformation and diversification, the Government of Cameroon is investing huge amounts of money in the development of road and electric power infrastructure.** However, private investments are also required to supplement public investments given the huge infrastructure needs. This component will support the Government's approach which seeks to enhance: governance in the transport and energy sectors (II.1); and the competitiveness of the agro-pastoral sector (Sub-component II.2) in order to render these sectors more attractive to the private sector. This will improve the supply and quality of transport and electricity services, while reducing their cost, which could free up key sectors with considerable wealth- and job-creation potential such as agro-industry.

Sub-component 2.1 Strengthening Governance in the Transport and Energy Sectors

5.2.13 **Context and challenges: Cameroon is at the crossroads of major roads linking many countries of the region**, including part of Nigeria, the continent's leading economic powerhouse. This geographic position is an asset that can enable the country to become a real regional hub in Central Africa. The transport sector is therefore an important link in Cameroon's economy and an essential support for the country's growth strategy. It comprises transport by road (the most widely used mode), air, rail and sea. It represents at least 10% of the tertiary sector of Cameroon's economy and accounts for about 4% of GDP. Convinced of the key role played by transport infrastructure in facilitating trade and promoting strong and sustainable growth, owing to the competitiveness that its good quality generates, Government's challenge is to continue making huge investments in the sector as part of the implementation of the Growth and Employment Strategy Paper (GESP). In addition, the Government is laying special emphasis on: (i) improving the framework for investment sustainability through the reform of the Road Fund for greater efficiency; (ii) empowering and reinforcing the road-project owner; (iii) reinforcing planning and programming by preparing and implementing an intervention strategy that prioritizes compliance with works standards instead of dispersing resources; (iv) enhancing governance in the public works and civil engineering sector; (v) organizing the private sector to establish a fabric of enterprises and efficient consulting firms; (vi) improving the legislative framework for compensating transport-project-affected persons; and (vii) using labour-intensive (HIMO) techniques as often as possible to reduce costs and promote employment in rural areas.

5.2.14 **The energy sector accounts for about 9% of Cameroon's GDP and it has a significant growth potential which makes the country a major player on the regional market. However, to attain the objectives laid out under the GESP, Cameroon must take up huge challenges.** Taking advantage of its considerable hydroelectric potential, considered as the third largest in Africa, Cameroon envisages under its Electricity Sector Development Plan (PDSE), to undertake various investments spread out in the country in order to raise its generation capacity to 3,000 MW by 2035. This ambitious target seeks to structurally absorb the electricity sub-sector's deficit, meet the power needs in the drive to attain the growth targets and transform the country into a net electricity exporter. To attain the said objectives, Cameroon must address major constraints, namely: (i) institutional and regulatory weaknesses due to failure to adopt implementing instruments in respect of the 2011 Electricity Act; (ii) weak capacity, in terms of both quality and quantity, of key players, namely the Ministry of Water Resources and Energy (MINEE), the Electricity Sector Regulatory Agency (ARSEL), the Electricity Development Corporation (ECD) and the Rural Electrification Agency (REA) and SONATREL; and (iii) concessions to private operators in the electricity generation and distribution segments with a view to increasing investments and ensuring financial balance of the sector.

5.2.15 **Recent actions implemented by the Government: to meet the above-mentioned challenges, the Government of Cameroon has since the 1990s been implementing many major institutional reforms in the transport and electricity sectors**. The Ministry of Public Works (MINTP) has been restructured with the setting up of two general directorates, namely: (i) the General Directorate of Infrastructure Works; and (ii) the General Directorate of Engineering Studies, to enable it to efficiently act as State engineer. The Government has embarked on the preparation and adoption of an integrated multimodal transport strategy; the adoption of a priority transport investment programme and the continuity of the transport logistics chain; the reinforcement of road maintenance; and the protection of the road heritage. Significant progress is also being made with regard to major reforms, especially the programming of road maintenance, financing of the maintenance with a view to ensuring total coverage of the network, the regular transfer of budget resources and establishment of the 2nd generation Road Fund.

5.2.16 **Concerning the electricity sub-sector, the Ministry in charge of energy (MINEE) prepared a Sector Strategy Paper in 2011**. In addition, the electricity sub-sector has an updated development plan since December 2014. Rural electrification investments are based on a master plan adopted in 1999. Regarding renewable energy, the Department of Renewable Energy and Power Control established in 2012 has embarked on the preparation of a national renewable energy development plan. This segment lacks an exhaustive database to present an overview of Cameroon's renewable energy potential (solar, wind, hydroelectricity, biomass and geothermal). The institutional mechanism is undergoing a number of reforms and actions, including the entry into force in 2011 of the law on electricity and the setting up of many players responsible for managing the heritage (EDC), developing rural electrification (REA), developing renewable energy and controlling power (relevant Department of MINEE), regulation (ARSEL); and the National Electricity Transmission Company (SONATREL) whose corporate management organs were recently established in 2016. A draft bill on renewable energy development, together with a proposal for the establishment a renewable energy development agency, was submitted to the Prime Minister's Cabinet and expected by end-2015. This seemingly balanced institutional mechanism is still facing weaknesses resulting from: (i) overlapping between the various players; (ii) the inexistence of implementing instruments of certain laws; and (iii) the absence of a fully operational transmission-network manager. There is a need to clarify the roles, powers and responsibilities of the electricity sub-sector key players in order to optimize investments made and actions undertaken. The above-mentioned shortcomings impact purchase conditions, the volume and price of energy which results from the obligation to connect each power producer.

5.2.17 **Measures supported by this programme: to enhance the competitiveness of the economy, PACCE will support the following measures**: (i) updating the road master plan and strengthening the road network protection legal framework; (ii) adopting a standard bidding document (BD) which includes the obligation of results in infrastructure maintenance contracts **(Measure precedent #4);** (iii) allocation and availability in the medium term of at least CFAF 55 billion in the 2018 budget for the Road Fund exclusively for road maintenance financing **(Measure precedent #5);** (iv) opening up the electricity sub-sector to the private sector by granting a long-term electricity distribution concession to a private operator, in line with the requirement to participate in sub-sector investments **(Measure precedent #6)**; (v) reorganizing the electricity sub-sector **(Measure precedent #7)**; and (vi) reinforcing the electricity transmission institutional framework to maintain and harmonize public transmission network facilities, ensure the availability of management data and provide interested parties with all information required for billing and payment for services provided. In addition, this measure will ensure connection to the public electricity transmission network and access to the said network under non-discriminatory conditions.

5.2.18 **Expected outcomes: PACCE will contribute to reducing the costs of transport- and electricity-related factors by**: (i) raising the execution rate of the road maintenance budget to at least 75% in 2020, against 41.9% in 2014; (ii) increasing the tarred portion of the road network from 10% in 2013 to 17% by 2020, that is tarring 350 kilometres of roads on average annually; (iii) improving electricity quality and quantity by involving private operators in the sector; (iv) improving energy transmission; (v) increasing the rate of connection of new subscribers in rural areas to the electricity grid to 40% in 2020, against 35% in 2014; (vi) adopting a new pricing policy to end or considerably reduce the electricity sub-sector's financial imbalances which lead to the accumulation of arrears and non-compliance with specifications by sub-sector players.

Sub-component 2.2 Strengthening Agro-pastoral Sector Competitiveness

5.2.19 **Context and challenges: The agro-pastoral and fisheries sector is one of the key engines of growth but it contributes less than its potential**. Indeed, the agropastoral and fisheries sectors contribue to the tune of 23% of GDP. It is the leading job creator (60%), supplier of foreign exchange and accounted for 37% of total exports, on average, between 2013 and 2016. The agricultural sub-sector presents a dichotomy in its structure, comprising cash crops for export[21], on the one hand, and subsistence crops on the other. The agro-industrialization process is currently being stepped up in

[21] Coffee, cocoa, cotton, palm oil, table bananas, tea, rubber, pineapples etc.

Cameroon thanks to the new processing units and capacity enhancement of the production units built in the wake of the improvement of power supply. These developments concern in particular the major export crops (cocoa, timber and cotton) which represent 40% of exports[22]. As for the stockbreeding sub-sector, it is made up of five key components[23]. Regarding the fisheries and aquaculture sub-sector in particular, it is characterized by low production which results in massive fish imports and an increase in the annual balance of payments deficit. The agropastoral and fisheries sector enjoys a significant growth margin based on the ECCAS[24] regional market and the large Nigerian market. Stepping up the pace of development of the different agro-industrial value chains requires overcoming the sector challenges as defined in the National Agricultural Investment Plan (PNIA, 2014-2020) which was validated in April 2014. This involves, *inter alia*: (i) an under-exploited potential whereas productivity gains are potentially high; (ii) the low level of processing of exports which does not allow the country to take advantage of the Economic Partnership Agreement (EPA); (iii) the highly increasing volume of staple food imports; (iv) the continued isolation of the production areas despite the efforts deployed by the Government; (v) the absence of legal and regulatory provisions governing the stockbreeding, fisheries and aquaculture activities; (vi) the absence seed policies and regulations; (vi) the absence of an incentive framework for abattoir management; (vii) the limited development of meteorological information systems; (viii) the continued existence of traditional systems such nomadic cattle grazing which is a source of conflict; and (viii) difficulties of access to credit by SME/SMIs and small holders owing to the absence of risk-sharing mechanisms.

5.2.20 **Recent measures adopted by the Government: strategically, GESP gives pride of place to agriculture**. Similarly, the law laying down the Financial Regime of the State (FRS) adopted in 2007 led, in 2013, to the adoption of the programme budget which, in turn, brought about results-based management (RBM). Since then, the Ministry of Agriculture and Rural Development (MINADER) has presented its budget using this new managerial approach which seeks to assess the ministry's performance in the implementation of the Rural Sector Development Strategy (RSDS). In the same vein, Cameroon, with the support of NEPAD, has prepared the National Agricultural Investment Programme 2014-2020 (NAIP 2014-2020). NAIP is the national framework for the harmonization and pooling of all operations (ongoing and future programmes and projects) carried out by public, private and international actors in the agricultural sector. It takes into account the needs, achievements, gaps to be bridged, search for financing and operation requirements within a seven-year period. All of these are guidelines for MINADER's action whose strategic objective is to consolidate Cameroon's role as an agricultural powerhouse in the sub-region where the rural sector is the engine of the national economy, ensuring the food security of the population and sustainable and environment-friendly development. With the support of TFPs, a value chain development approach has also been established, notably with PD-CVA, PEA-Jeunes for youth entrepreneurship, the Young Farmers Integration Support Programme (PAIJA) and PADMIR for micro-credit. Although the expected outcomes of these projects are considerable in terms of the agro-pastoral sector's contribution to GDP, household food security and major macroeconomic balances, they have not been able to sustainably transform the economy.

5.2.21 **Measures supported by this programme: to make the agro-pastoral and fishery sectors more attractive to private investments and, thus, sustainably impact their development, PACCE will support measures that enhance governance and competitiveness. These measures are:** (i) the preparation of the framework law on fisheries and aquaculture in order to lay down the conditions for carrying out this trade, set fishing equipment standards, define the conditions for importing spawners, provide incentives for the sub-sector, etc.; (ii) the preparation of the framework law on livestock production in order to lay down the conditions for carrying out this trade, define areas reserved for livestock production and transhumance routes, reduce farmer-breeder conflicts, define the conditions

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22 At the end, it was expected that utilization of the entire production capacity would make it possible to attain a processing rate of 40% in the case of cocoa amd 25% for cotton as against the current production rates of less than 20% and 5% for these two crops. .

23 (i) Cattle, (ii) sheep, (iii) goats, (iv) pigs and (v) poultry.

24 Economic Community of Central African States (ECCAS).

for animal transportation and meat distribution, and provide incentives for promoters; (iii) the formulation of a strategy to encourage young farmers to take out voluntary insurance policy; and (iv) the preparation of a draft decree reducing the age of slaughter cattle to 24 months, against the current 48 months, in order to boost private investments in the sub-sector where there is the progressive introduction of improved breeds and appropriate feeding **(Measure precedent #7)**.

5.2.22 **Expected outcomes: PACCE-supported reforms will contribute to**: (i) increasing the number of insured young farmers; (ii) increasing private investments in these sectors; (iii) establishing social bureaux in all municipal councils in the country to manage the voluntary insurance process; (iv) adopting a procedures manual for financing farmers' organizations; (iv) reforming the subsidy and input distribution system; (v) the availability of meteorological data; and (vi) providing 600 agricultural posts with meteorological data collection equipment.

5.3. Policy Dialogue

5.3.1. **PACCE will help to deepen the dialogue initiated over several years now with the authorities as part of the preparation and implementation of Bank operations in support of the country's development agenda described in GESP.** Under this operation, policy dialogue will focus on fiscal consolidation and economic transformation-related reforms through productive sectors (transport, energy and agriculture). This dialogue will take place within the context of close collaboration among TFPs and within the specific context of the "Public Finance" thematic group of which the Bank is a very active member. The dialogue will be backed by many analytical works already conducted[25].

5.4. Loan Conditions

Table 3 – PRIOR MEASURES AND INDICATIVE TRIGGERS

PRIOR MEASURES (2017)	INDICATIVE TRIGGERS (2018)	INDICATIVE TRIGGERS (2019)
Component 1: Streamlining the Public Finance Management Framework		
1. Transmission to CEMAC of draft instruments transposing CEMAC guidelines into national legislation **Evidence required**: *Copy of MINFI mail* **Status** : Implemented	1. Adoption by Government and tabling before the National Assembly (NA) of the bill to revise Law No. 2007/6 of 26 December 2007 laying down the Financial Regime of the State **Evidence required:** *Adoption instrument and letter of transmittal to NA*	1. Adoption of the implementing decrees of the law laying down the Financial Regime of the State, notably the adoption of the implementing instruments of LFRS relating to internal and external control **Evidence required:** *Implementing decrees*
2. Adoption of the revised Project Maturation Guide for better implementation of high impact public investment programmes **Evidence required:** *Letter of transmittal from MINEPAT* **Status:** Implemented	2. Issuance of a circular by the PM rendering the revised Project Maturation Guide enforceable **Evidence required : Circular**	2. Start of implementation of the new public finance reform plan **Evidence required:** *Regulatory instruments*
3. Stabilization of the investment expenditure level in the medium term **Evidence required**: *IMF programme TOFE* **Status** : Implemented	3. Stabilization of the investment expenditure level in the medium term **Evidence required:** *IMF programme TOFE*	3. Stabilization of the investment expenditure level in the medium term **Evidence required:** *IMF programme TOFE*
Component 2. Strengthening the Governance and Competitiveness of Productive Sectors		
4. Adoption of a standard BD which includes the obligation of results in infrastructure maintenance contracts **Evidence required**: *Copy of the letter of transmittal of the standard BD from MINTP to MINMAP* **Status:** Implemented	4. Decision through a regulatory instrument to reduce the timeframe for Road Fund payment of invoices presented by Contractors/Engineering Firms to 10 days **Evidence required:** *Regulatory instrument*	4. Revision of the compensation regulatory and institutional mechanism based on the recommendations of the study **Evidence required:** *Regulatory instrument*
5. Provision of at least CFAF 55 billion in 2018 and 2019 to the Road Fund **Evidence required**: *Copy of the budget framework letter from the PM* **Status:** Implemented	5. Signature by MINMAP, with a contractor, of at least one maintenance contract with a service level that complies with the standard BD **Evidence required:** *Signed maintenance contract*	
6. Signature of a concession agreement with a private sector operator **Evidence required**: *Copy of the signed concession agreement* **Status:** Implemented	6. Signature by ARMP of a decision categorizing public works and civil engineering sector contractors and engineering firms **Evidence required:** *Regulatory instrument*	5. Publication of new electricity rates **Evidence required:** new electricity rates published
7. Validation of the study on the reorganization of the electricity sector institutional and regulatory framework **Evidence required**: *Transmission by MINEPAT of the study validated by MINEE* **Status:** Implemented	7. Signature of concession agreement with SONATREL **Evidence required:** *Signed agreement*	6. Implementation of the recommendations made in the review of the subsidy and subsidized input distribution system **Evidence required:** *Regulatory instruments*
8. Adoption by decree of the reduction of the age of slaughter cattle to 24 months **Evidence required**: *Transmission by MINEPIA of the draft decree to the PM* **Status:** Implemented	8. Review of the subsidy and subsidized input distribution system **Evidence required:** *Report together with recommendations*	7. Operationalization of 600 agricultural posts with meteorological data collection equipment **Evidence required:** *Administrative instruments*

[25] Cf. § 4.5.1.

5.4.1 PACCE's prior measures for 2017 and triggers for 2018 and 2019 were selected based on their relevance and transformative status in the implementation of Cameroon's development agenda[26]. The measures are presented in Table 3 above.

5.5 Application of Best Practice Principles on Conditionality

5.5.1 PACCE design complied with the best practice principles on conditionality, namely: (i) ownership on account of the participatory design of the Programme in close collaboration with the authorities; (ii) coordination with other budget support TFPs, notably the World Bank and the EU; (iii) alignment of Bank support conditions with the Government's national priorities set forth in GESP; (iv) reduced number of conditions precedent to disbursement; and (v) alignment of Bank support with the country's budget cycle.

5.6 Financing Requirements and Mechanisms

5.5.1 The **Government's medium-term budget framework (2017-2019) shows a financing requirement of CFAF 1 257 billion**. External financing resources include concessional loan resources granted by the IMF under the Extended Credit Facility (ECF) and budget support in the form of loans from TFPs, totalling CFAF 515 billion in 2017. The Bank is the leading donor, providing 30.0% of the overall amount of financial support (cf. Table 4). According to the current fiscal outlook, revenue (from oil and gas) will fall below projections, and additional external financing, as stated in the proposed operation, is required to bridge the financing gap. Thus, the proposed operation will contribute to: (i) cushioning budgetary cuts in public investments which are required to support the growth programme, particularly for an economy currently facing a downturn; and (ii) reducing the use of more costly domestic financing which could crowd out access by the private sector to credit. The Government has included these resources (budget support) as financing projections in the 2017-2019 medium-term budget framework.

Table 4 – Financing Requirements and Sources of Financing for 2017-2019 (CFAF billion)

	2017	2018	2019	Total
1. Financing Gap	515	371	371	1.257
2. IMF Financing	178	95	95	368
3. Budget Support from other Donors				
AfDB	126	126	126	378
World Bank	123	62	62	247
European Union	22	22	22	66
France/AFD	66	66	66	198
4. Residual Financing Gap	0	0	0	0
Share of AfDB Financing (as %)	***24.4***	***33.9***	***33.9***	***30.0***

Source: IMF and Cameroonian authorities, July 2017

5.7 Application of Bank Group Policy on Non-concessional Debt Accumulation

5.6.1 **There is a rapid accumulation of public debt in Cameroon: the debt stock doubled to 36% of GDP in 2016 compared with its 2012 level.** According to the IMF debt sustainability analysis (DSA), the risk of Cameroon experiencing external debt distress remains high. The wide basic infrastructure gap is greatly increasing the need to contract often non-concessional external debt. Higher international lending rates and low absorption of already contracted debts call for a more prudent debt policy. Under reform programmes backed by the IMF and other TFPs, including the Bank, Cameroon's debt would remain on a sustainable trajectory if the country contracted only new debts intended exclusively for basic infrastructure (energy and transport).

VI. PROGRAMME IMPLEMENTATION

6.1 Programme Beneficiaries

6.1.1 **The programme beneficiaries are the State of Cameroon, through the ministries and government services** in charge of the economy and finance, agriculture and rural development,

[26] Cf. Table 4.

livestock and fisheries, public works and energy. Ultimately, the beneficiaries of the dividens of the economic growth accruing from sustainable job creation, particularly in the agro-pastoral sector, will be the citizens of Cameroon. The private sector, particularly SMEs, and especially those managed by women and youth in rural areas, are indirect PACCE beneficiaries. The programme measures dealing with the energy, transport and rural development sectors will enable the population to benefit, in the medium term, from greater access to electricity, better maintained roads, equitable access to public procurement and an environment that is conducive to the development of their activities.

6.2 Impact on Gender Issues, the Poor and Vulnerable Groups

6.2.1 **PACCE-supported reforms mainly seek to improve economic competitiveness and diversification which are the country's main external shock resilience factors**. By helping to support the macroeconomic framework and streamline public expenditure, the programme will enable the authorities to secure budget resources for vulnerable groups. The programme also aims to attract women and youth to agro-pastoral activities by facilitating access to farm inputs, seeds and farm credit through the establishment of a risk-sharing mechanism to facilitate bank involvement. Other measures relating to voluntary insurance are expected to enhance the social empowerment of youth through social safety nets in rural areas.

6.3 Environmental and Climate Change Impact

6.3.1 **PACCE is a reform policy support operation with no direct impact on the environment and climate change (Environmental Category III).** However, the Bank will ensure that the reforms implemented under Component II on economic competitiveness and diversification comply and/or are consistent with national policies and strategies for environmental and forest conservation to which the Government is very sensitive. The country is signatory to most international conventions on environment. The Government has adopted a National Action Plan to Combat Desertification which highlights the vulnerability of semi-arid (Sahelian) and coastal areas to climate change. Cameroon is engaged in the process of reducing emissions from deforestation and forest degradation (REDD+), particularly in the development of the REDD+ National Strategy. An anti-poaching strategy has been adopted to address increased poaching of large fauna, especially elephants. PACCE design took the country's major environmental conservation commitments into account. The reforms supported by the programme in the productive sectors (agriculture, transport and energy) will not have any negative impact on the environment and climate change. On the contrary, the programme supports better maturation of investment projects in these sectors, especially through the incorporation of environmental and social aspects in the design of the projects. One of the programme measures particularly concerns the improvement of the procedures for paying compensation to the population during infrastructure project implementation. Moreover, the measures aimed at better supervision of seed production and farm input distribution take environmental aspects into account.

6.4 Programme Implementation, Monitoring and Evaluation

6.4.1 **MINEPAT is responsible the implementation of the programme. It will coordinate reforms with the other ministries/agencies involved in the programme**. The Structural Reforms Implementation Monitoring Committee will ensure the technical coordination of the monitoring of programme implementation. In that connection, it will collect information on the status of reform implementation from the various entities. Although the country does not have a common reform matrix, the Bank will each year field two programme supervision missions based on a schedule which will be agreed with the other TFPs engaged in budget support operations. The Bank's country office in Cameroon will maintain permanent reform dialogue, notably through Multi-Partner Committee (MPC) technical committees and thematic groups.

6.5 Financial Management, Disbursement and Procurement Arrangements

6.5.1 **Country fiduciary risk assessment (CFRA):** the last assessment of Cameroon's public finance management performance (PEFA 2017) highlighted weaknesses in the budgetary process (cf. 5.1.5 and 5.1.9). **On the whole, the fiduciary risk level is deemed substantial owing to the persistence of these weaknesses**. However, with the support of TFPs, the Government of Cameroon has embarked on a vast programme for the reform of the public finance management (PFM) regulatory and institutional framework (cf. Sub-component 1.1) which will progressively implement measures for the medium-term mitigation of the moderate fiduciary risks identified.

6.5.2 Disbursement of the EUR 180 million loan will be subject to effectiveness of the loan agreement and submission to the Bank of the details of a dedicated account opened with the National Branch of the Bank of Central African States (BEAC). Considering the nature of the PACCE, which is a general budget support programme, the resources will be used within the public expenditure chain. The Ministry of Finance will be responsible for the financial and accounting management of PACCE resources, and will improve the implementation of its internal control procedures.

6.5.3 External audit of the application of funds: Cameroon's Audit Bench will audit PACCE's financial flows. The country's Audit Bench has the capacity required to audit PACCE's financial flows. However, this work will be based on terms of reference approved by the Bank. In addition, and as part of its public expenditure external control prerogatives, the Audit Bench will review the budget execution reports and settlement bills of each financial year in order to express its compliance opinion. The settlement laws of the 2017 to 2019 financial years and the Audit Bench's compliance opinion will be transmitted to the Bank as expeditiously as possible.

6.5.4 Procurement

6.5.4.1 Considering that this programme is a budget support operation, the expected resources will be commingled with State budget resources and used to finance the needs that will be expressed using the national procurement system governed by Decree No. 2004/275 of September 2004 and its amending and implementing instruments. It was therefore necessary to assess the state of the system and the level of risk associated with its use.

6.5.4.2 **According to the CFRA, the procurement aspect's risk level was deemed "high"** for various reasons, including the institutional framework[27], the control environment and the quality of the redress mechanism in particular. After sizing up the above-mention points concerning the system, the Government decided to remedy the situation by undertaking, among other things, to: (i) make up for the delays noted since 2010 and systematically resume the annual auditing of public procurements; (ii) adopt in 2018 a new public procurement code that clarifies the institutional framework, establishes the separation of essential functions such as regulation, control and execution, and institutes an independent complaints management mechanism.

6.5.4.3 **In light of these ongoing reform actions that will contribute to reducing the overall system risk to a reasonable level,** it can be said that, despite its "high" risk level, the national public procurement framework is currently on a positive trajectory which is a satisfactory basis for a budget support operation.

[27]As amended in 2012.

VII. LEGAL FRAMEWORK AND AUTHORITY

7.1 Legal Instrument

7.1.1 **The Bank (AfDB) will sign a EUR 180 million Loan Agreement with the Republic of Cameroon** for the implementation of PACCE.

7.1.2 **Conditions precedent to loan effectiveness**: effectiveness of the loan shall be subject to fulfilment of the conditions set forth in Section 12.1 of the General Conditions Applicable to Loan Agreements.

7.2 Conditions for Bank Intervention

7.2.1 **Conditions precedent to PACCE presentation to the Board**: it was agreed with the Government during programme consideration that the prior measures presented in point 5.4.1 (Table 3) should be implemented prior to programme presentation to the Bank's Board of Directors.

7.2.2. **Conditions precedent to disbursement:** the disbursement of the EUR 180 million single loan tranche shall be subject to fulfilment of the condition below:

- Transmit to the Bank evidence of the existence of a Treasury account opened at the Bank of Central African States (BEAC) acceptable to the Bank and intended to receive the loan resources.

7.3. Compliance with Bank Group Policies

7.3.1 **PACCE was prepared in accordance with the Bank Group Guidelines in force.** No waiver of these Guidelines has been requested in this proposal.

VIII. RISK MANAGEMENT

8.1. **Three major risks could affect the quality of the outcomes of this operation, namely:** (i) a widening fiscal deficit, especially due to falling export product prices and increased expenditure on security forces; (ii) upsurge in socio-political tensions, which may divert the authorities' efforts away from reform implementation (detailed analysis in Technical Annex III).

8.2. To mitigate the risk of a widening fiscal deficit, a framework was agreed with the IMF and the various donors, including the Bank, to consolidate the fiscal position by streamlining expenditure and mobilizing more non-oil revenue. Regarding the upsurge in socio-political tensions, it should be noted that the Government has established dialogue mechanisms, notably the National Commission for the Promotion of Bilingualism and Multiculturalism, to ease social tensions. Concerning the fiduciary risk, reforms embarked on by the Government with the support of TFPs, including the Bank, will strengthen the public procurement and financial management systems to mitigate this risk.

IX. RECOMMENDATION

9.1. In light of the foregoing, it is recommended that the Board of Directors approve a loan not exceeding EUR 180 million to the Republic of Cameroon to implement the Economic Competitiveness and Growth Support Programme under the conditions set forth in this report.

ANNEX I: LETTER OF DEVELOPMENT POLICY

(will be distributed separately)

ANNEX II: ECONOMIC COMPETITIVENESS AND GROWTH SUPPORT PROGRAMME (PACCE) MATRIX OF REFORM MEASURES

NB: In bold: prior measures already implemented by 15 October 2017

In italics: indicative triggers for presentation of the operation to the Board. They must be implemented not later than 31 March 2018. The other measures are Programme performance measures

Objectives	Reform Measures 2017	Reform Measures 2018	Reform Measures 2019	Expected Outcomes	Responsible Institutions
COMPONENT 1: STREAMLINING THE PUBLIC FINANCE MANAGEMENT FRAMEWORK					
Sub-component 1.1: Improving the Public Finance Management Institutional and Regulatory Framework					
Improve development policy implementation monitoring	**Transmission to CEMAC by the Government of all the instruments transposing CEMAC guidelines**	*Adoption by the Government and tabling before the National Assembly of the bill to revise Law No. 2007/6 of 26 December 2007 laying down the Financial Regime of the State*	Adoption of the implementing decrees of the law laying down the Financial Regime of the State, in accordance with the road map, notably the adoption of the implementing instruments of the LFRS relating to internal and external control	(i) Strengthening of t public management culture through results-based programme budgeting; (ii) speeding up and enhancing the transparency of public procurement with a view to curtailing cases of corruption; and (iii) enhancing transparency in public-finance management.	MINFI/DGB
		(i) Validation of the new 2017-2019 Public Finance Reform Plan following the PEFA 2017 assessment; (ii) Operationalization of the PFM integrated information system	Start of the implementation of the new Public Finance Reform Plan		MINFI/DGB
	Adoption of the 2013 and 2014 public procurement audit reports	Publication and dissemination of the 2013 and 2014 public procurement audit reports Preparation and adoption of the 2015 and 2016 audit reports	Publication and dissemination of the 2015 and 2016 public procurement audit reports Preparation and adoption of the 2017 and 2018 audit reports		ARMP/MINMAP
		Adoption of the Public Procurement Code	Adoption of the implementing instruments of the Code		ARMP/MINMAP
Sub- component 1.2: Strengthening the Public Investment Strategic Planning and Management Framework					
Improve public investment quality and impact	**Stabilization of the public investment expenditure level as % of GDP in the medium term**	*Stabilization of the public investment expenditure level as % of GDP in the medium term*	*Stabilization of the public investment expenditure level as % of GDP in the medium term*	(i) Control and reduce the public investment costs through technical supervision under the Project Maturation Guide; (ii) homogenization of the format and terminology of projects to be presented to	MINFI/DGB
	Half-yearly posting of the list of transformative investment projects and their	Half-yearly posting of the list of transformative investment projects and their 2017 implementation	Half-yearly posting of the list of transformative investment projects and their 2018 implementation reports on the website of MINEPAT		MINEPAT

Objectives	Reform Measures 2017	Reform Measures 2018	Reform Measures 2019	Expected Outcomes	Responsible Institutions
	2016 implementation reports on the website of MINEPAT	reports on the website of MINEPAT		under the PIB; (iii) reduction in the number of abandoned sites, particularly in the rural areas with respect to projects with devolved management; (iv) raising the capital budget implementation rate to at least 70% in 2020 as against less than 50% in 2014; and (v) improvement of the impact of public investments, including those financed by the Bank.	
	Preparation of the orientation document of the 2nd phase of Vision 2035	Validation of the orientation document of the 2nd phase of Vision 2035	Validation of second-generation GESP Preparation of a planning framework law for GESP II		MINEPAT
	Adoption of the revised Project Maturation Guide to make it more operational for sector ministries	*Issuance of a circular by the PM rendering enforceable the revised Project Maturation Guide*			MINEPAT/BPSS MINEPAT/DGE/DPP
		Validation of the diagnostic study on the regulatory and institutional mechanism for compensation during infrastructure project implementation	Revision of the compensation regulatory and institutional mechanism based on the recommendations of the study		MINTP
		Development of a dictionary of public policy implementation monitoring indicators (sector strategies and programmes)	Establishment of a project bank comprising investment project maturation monitoring functionalities		MINEPAT/MINFI/DGB
COMPONENT 2: STRENGTHENING THE GOVERNANCE AND COMPETITIVENESS OF PRODUCTIVE SECTORS					
Sub-component 2.1: Strengthening Governance in the Transport and Energy Sectors					
Make the electricity and transport sectors more profitable and attractive to the private sector		*Finalization of the updating of the road master plan and the road maintenance framework*	Tabling before Parliament of a bill on road network protection	(i) Raising the implementation rate of the road-maintenance budget to at least 75% in 2020 as against 42% in 2014; (ii) extension of the length of paved roads from 10% of the total length in 2013 to 17% by 2020, corresponding to paving an average of 350 km of roads per annum; (iii) increasing the quantity and quality of electricity by attracting private operators to the sector; (iv) improving power transmission; (v) raising the connection rate of new rural subscribers to the	MINTP/MINFI
		Conduct of a diagnostic study on the road maintenance institutional framework;	Report on the implementation of recommendations of the study		MINTP/MINPAT
		Decision through a regulatory instrument to reduce the timeframe for payment by the Road Fund of the invoices of Contractors/Engineering Firms to 10 days			MINTP
	Transmission by MINTP to MINMAP of the standard BD including the obligation of results in infrastructure maintenance contracts	*(i) Signature by MINMAP, with a contractor, of at least one maintenance contract with a service level that complies with the standard BD* (ii) *Signature by ARMP of a decision categorizing contractors and engineering firms of the public works and civil engineering sector*			MINMAP/ARMP

Objectives	Reform Measures 2017	Reform Measures 2018	Reform Measures 2019	Expected Outcomes	Responsible Institutions
	Confirmation by MINFI of the inclusion of CFAF 55 billion in the 2018 Finance Law for the Road Fund intended exclusively for road maintenance financing			power grid to 40% in 2020 as against 35% in 2014; and (vi) adoption of a new tarrif policy in order to eliminate or significantly reduce the financial imbalance of the electricity sub-sector which creates arrears and non-compliance of the actors with the ToRs.	MINTP
	Signature of a concession agreement with a private operator for a relatively long period, in line with the investment requirements in the sector	*Signature of a concession agreement with SONATREL in its capacity as electricity transmission network manager*	Publication of new electricity prices to reduce subsidies and the accumulation of arrears, and contribute to the sector's financial sustainability		MINEE
	Validation of the study on the reorganization of the electricity sector	Operationalization of SONATREL	Updating of the Electricity Generation, Transmission and Distribution Master Plan		MINEE
Sub-component 2.2: Strengthening Agro-pastoral Sector Competitiveness					
Make the agro-pastoral sector more attractive and profitable to the private sector by improving productivity	**Transmission to the PM's Office of the framework bill on livestock production**	Tabling of the framework bill on livestock production before Parliament		(i) Increase in the number of insured young farmers and creation of 250 social secretariats in cooperative and similar associations in the rural areas; (ii) stepping up private investments in these sectors; (iii) creation of social secretariats in all the communes of the country to manage the voluntary insurance process; (iv) adoption of a procedures manual to regulate the financing of farmer organizations; (iv) reform of the system of subsidy and input distribution; (v) availability of meteorological data; (vi) supplying 600 agricultural/ Agricultural District Delegation (ADD) stations with meteorological-data-	MINADER
	Transmission to the PM's Office of the framework bill on fisheries and aquaculture	Tabling of the framework bill on fisheries and aquaculture before Parliament	*Adoption of improved slaughterhouse management methods*		MINEPIA/SODEPA/ COUNCILS
	Preparation of the strategy to encourage young farmers to take out voluntary insurance policy	Validation and implementation of the awareness-raising and subscription strategy	Reinforcement of the cooperative fabric in municipal councils and establishment of social bureaux		MINTSS/MINADER/ MUNICIPAL COUNCILS/CIVIL SOCIETY
	Preparation and transmission to the PM's Office of a draft decree reducing the slaughter cattle age to 24 months in order to boost private investments in the sector	Adoption of the policy on animal semen by the Government	Tabling of the bill on animal semen before Parliament		MINEPIA
		Validation of the technical regulations on fish seeds for fish farming and animal semen (cattle and poultry) by the Government	Validation of the technical regulations on animal semen (pigs and small ruminants) by the Government		MINEPIA/IRAD
		Review of the subsidy and subsidized input distribution system (MINADER and MINEPIA)	*Implementation of the recommendations of the review on the subsidy and*		MINADER/MINEPI A

Objectives	Reform Measures 2017	Reform Measures 2018	Reform Measures 2019	Expected Outcomes	Responsible Institutions
			subsidized input distribution system	collection equipment; (vii) adoption of competitive industrial and municipal council slaughterhouse management methods, - (viii) creation of a database for the online registration of producers and cooperatives; and (ix) increased lending to farmers	
		Adoption of a risk-sharing mechanism to facilitate the involvement of banks in farm credit	Operationalization of the risk-sharing mechanism		MINFI/MINADER/ MINEPIA/MINEPAT
		Adoption of a meteorological data collection system in agricultural posts and Sub-divisional Delegations of Agriculture (SDAs) to promote index-based insurance and stabilize farmers' income; Operationalization of 50 agricultural posts with meteorological data collection equipment.	*Operationalization of 600 agricultural posts with* meteorological *data collection equipment*		MINADER

ANNEX III: RELATIONS WITH THE INTERNATIONAL MONETARY FUND

IMF Staff Concludes Visit to Cameroon (August 30, 2017)

End-of-Mission press releases include statements of IMF staff teams that convey preliminary findings after a visit to a country. The views expressed in this statement are those of the IMF staff and do not necessarily represent the views of the IMF's Executive Board. This mission will not result in a Board discussion.

- Economic growth continues to slow due to weaker activity in the oil sector. Cameroon's growth outlook is however positive, with a gradual rebound starting in 2018.
- Performance under the first ECF-supported program appears on track. Compliance with end-June targets will be assessed at the time of the first review in October.
- The budget framework for 2018 will need to incorporate a downward revision in oil and nonoil revenue as well as expenditure pressures while maintaining debt levels within program targets.

An International Monetary Fund (IMF) staff team, led by Corinne Deléchat, visited Yaoundé during August 22–29, 2017 to review recent economic developments and discuss the 2018 budget and medium-term budget framework.

On June 26, 2017, the IMF Executive Board approved a three-year arrangement under the Extended Credit Facility (ECF) with Cameroon for SDR 483 million (about US$666 million) or 175 percent of Cameroon's IMF quota, to support the country's economic and financial reforms (See Press Release 17/248).

The program will support the Cameroonian authorities' reform plan to rebuild fiscal and external buffers and lay the foundations for sustainable, private sector-led growth. It will also contribute to the collective effort of restoring and preserving external stability for the Central African Economic and Monetary Union (CEMAC). The Executive Board's decision enabled a disbursement of SDR124.2 million (about US$171.3 million) in early July. The remaining amount will be phased over the duration of the program, subject to semi-annual reviews.

At the conclusion of the visit, Ms. Deléchat issued the following statement:

"Economic growth for 2016 has been revised downward to 4.5 percent (from 4.7 percent) due to lower oil sector activity. Growth in 2017 is projected by staff to continue to decelerate to slightly under the initial projection of 4 percent, mainly owing to the continued decline in oil production and delays in the start of operations of the new natural gas field. Non-oil growth was supported by strong industrial production owing to improved energy supply and by a good performance of the primary sector, though other indicators such as private sector credit and tax revenue indicate weaker activity. Inflation remains low at 0.6 percent as of end-June (year-on-year). The trade balance continues to improve due to higher cocoa, timber and aluminum exports while imports have fallen somewhat.

"The economic outlook for 2018 is positive, albeit subject to downside risks. Growth should improve to about 4.2 percent, due to the entry into production of the new offshore natural gas platform. In the medium term, growth should gradually increase further to 5-5½ percent as key infrastructure projects are completed, including hydroelectrical power plants, the deep-sea port and roads. Construction related to the 2019 African Nations Cup (ACN) should also positively contribute to activity, albeit temporarily. External and domestic risks to this outlook include the possibility of a new round of lower commodity prices notably oil, cocoa and coffee, a resurgence of security challenges, and further delays in the coming on stream of large infrastructure projects.

“Pending confirmation during the first program review in October, performance under the ECF-supported program has remained in line with the end-June quantitative targets. In addition, the government has implemented key structural measures under the program, including the regular publication of the petroleum products price structure and enhanced cooperation between customs and tax administrations.

“However, budget implementation for the second half of 2017 could be impacted by an additional decline in oil production and revenue, and associated lower trade taxes. Non-oil revenue could also be under pressure from weaker activity. Given tight banking system liquidity, timely disbursement of planned external budget support will be key to ensure adequate budget financing. Nonetheless, staff considers that the program’s fiscal targets for the second half of 2017 remain within reach, provided cautious budget execution continues, along with additional tax collection efforts, and identification of contingency measures in case revenue shortfalls materialize.

“The preparation of the 2018 budget is progressing well and in accordance with the budget calendar. The authorities have revised their projections of revenue downward to take into account the lower contribution of the oil sector. The mission has urged them to revise their spending plans accordingly and endeavor to increase nonoil tax revenue by widening the tax base.

“The team will return to Yaoundé in October to conduct discussions for the first review of the Extended Credit Facility for Cameroon.

“The team met with Minister Secretary General at the Presidency Ferdinand Ngoh Ngoh, Minister Secretary General at the Prime Minister’s Office Seraphin Fouda, Minister of Finance Alamine Ousmane Mey, Minister of Economy, Planning, and Territorial Development Louis Paul Motaze, and other senior officials and representatives of the diplomatic community, development partners and private sector.

“The team wishes to thank the Cameroonian authorities for their warm hospitality, their excellent cooperation, and the constructive and frank dialogue”.

IMF Communication Department