Cameroon

Yaoundé

**Key Figures**

- Land area, thousands of km²: 475
- Population, thousands (2005): 16,322
- GDP per capita, $ PPP valuation (2005): 2,585
- Life expectancy (2000-2005): 45.8
- Illiteracy rate (2005): 23.1
The economy recorded modest growth of about 2.8 per cent of GDP in 2005 (down from 3.5 per cent in 2004) and budget austerity prevailed after the government’s financial excesses in 2004, which had again prevented the economy reaching completion point. The 2004 indiscipline highlighted the flaws in the country’s governance and showed that domestic politics could call into question the government’s economic promises. The indifferent 2005 results also showed the strengths and weaknesses of Cameroon’s growth. Despite a vigorous private sector, growth was not universal but driven by a few export sectors and strong consumer demand. In many ways 2006 will be a turning-point. Completion point may now be reached, which has involved installing a government more friendly to business and inspiring greater confidence among development partners, with a clear road-map. The final stage of the Heavily Indebted Poor Countries (HIPC) Initiative qualification process will also arrive. The economy is expected to grow 4.3 per cent in 2006.

The government says it is determined to reach completion point and gain access to its advantages. Getting this budgetary leeway should revive public investment which will stimulate structural projects such as boosting national aluminium production capacity. After 20 years of disorganised structural adjustment and deteriorating infrastructure, completion point is seen as the start of a new era for the country, when its economic potential can be realised. But the country’s poor governance raises doubts. It is an area of huge challenge, with the need to tackle corruption, make administration more efficient and ensure good quality government policies over the long term.

Recent Economic Developments

The primary sector accounted for about 21 per cent of GDP in 2004 and grew slightly less in 2005 (3.9 per cent, compared with 4.2 per cent in 2004). Cash crops are a major source of growth. Food crops also well developed and have a thriving sub-regional market, especially in Nigeria, Gabon and Equatorial

![Figure 1 - Real GDP Growth and Per Capita GDP ($ PPP at current prices)](image-url)

Source: IMF and local authorities’ data; estimates (e) and projections (p) based on authors’ calculations.
Guinea. World prices for the country’s cash crops were quite good in 2005, especially for coffee, cocoa, bananas, rubber and wood. Most cash crops did well. Cocoa production was up 7 per cent and industrial palm oil 4 per cent. Rubber (up 4 per cent) benefited from the high world price of synthetic rubber linked to high oil prices which turned customers towards natural rubber. Good prices paid to cotton farmers by the government and increased yields boosted cotton production 26 per cent to 120 000 tonnes in 2005. With world demand stagnant, banana exports were stable at around 278 000 tonnes. Coffee production (mainly robusta) fell 8 per cent.

Cameroon has major agricultural potential, especially for cash crops, but substantial investment and reforms are needed to exploit it further. Rubber cultivation suffers from the small sizes of farms and cocoa has an ageing labour force and production facilities. The best hope is perhaps banana exports, which have received substantial investment from the French Compagnie fruitière de Marseille and the CDC group which makes the fruit internationally competitive. But with worldwide trade preferences crumbling, especially privileged access to the European Union (EU) market, further productivity and phytosanitary efforts must be made to stay competitive.

Cattle-raising, which provides a direct living for nearly 62 500 households, also benefits from a thriving sub-regional market. But prices are still too high, especially for local consumers, and the sector needs more modern slaughtering and distribution facilities.

The timber industry is an important part of the economy (15 per cent of exports in 2004\(^1\)). Strong growth of 15.8 per cent in 2004 was followed by a significant slowdown to only 2.1 per cent in 2005, partly because of the government's reorganisation of the sector. Some forestry firms lost their licences for tax fraud and illegal felling. But the sector’s prospects are quite good in coming years. Fifteen new forestry concessions were issued in the second half of 2005. New felling could result from successful cobalt mining in the forest areas and the opening of the Lom Pangar dam in 2009/10.

The secondary sector — 26 per cent of GDP (including oil) — was the main drag on growth in 2005, declining about 0.8 per cent after very modest growth of 0.5 per cent in 2004.

Oil production is falling but is still a key economic sector along with cash crops and wood. It was 4 per cent of GDP in 2004 and production in 2005 was reckoned as 30.1 million barrels, a drop of 8 per cent (from 32.7 million) from 2004 that affected GDP. This natural decline in output is about 20 per cent a year but major investment in residual recovery is postponing the estimated total depletion date of 2017 and a 6 per cent production recovery is expected in 2006. But the country must come to terms with the fact that its oil deposits will run out. Metals and natural gas offer more hope. A fairly large gas field has been found at Sanaga that could supply the planned thermal power plant at Kribi. Two bauxite exploration permits have been issued to the Hydromine Company in the Minim Martap and Ngaoundal areas. These deposits could supply the Alucam smelter, especially after it has increased its capacity, and could also be exported if a deep-water port were built at Kribi and the local railway adapted to carry it. The Geovic Company may begin cobalt mining in the forest area at the end of 2006, though no firm plans yet exist.

The manufacturing sector grew about 4.7 per cent in 2005 (down from 5.6 per cent in 2004) but its components performed variously. Aluminium output was expected to increase 6 per cent, with production of nearly 90 000 tonnes, buoyed by good world prices and better (though still inadequate) electricity supply. The agro-food sector was badly hit by an estimated 4.7 per cent decline in household consumption. Beverages fell 14.5 per cent in the first half of the year after a drop in sales, aggravated by imposition of excise taxes, which in turn badly affected the local sugar industry. Cement (98 per cent of it for housing

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1. This includes unprocessed logs and sawn logs.
construction) was also depressed by poor household demand and declined 2 per cent, a significant departure from its average 8 per cent annual growth over the past decade.

The manufacturing sector, though based on a robust private sector, has many structural problems. Electricity is expensive and in short supply and the sector was weighed down in 2004 by debts owed to it by the government. Local industries also have to face very aggressive competition from Asia, government failure to stop smuggling and thus unfair competition from the informal sector. Local firms in agro-food (Sosucam), textiles (Sicam), plastics (Plasticam), tobacco and batteries (Pilcam) are in great difficulty.

Electricity output was up 3.3 per cent in 2005, however, as a result of higher rainfall and the opening

Source: Authors’ estimates based on Ministry of Finance and Economy data.
of thermal plants at Limbe and Logbaba (Douala). Industrial demand, meanwhile, declined sharply.

Overall growth in 2005 was largely driven by the still very vigorous services sector, which grew 4.7 per cent (5.4 per cent in 2004) and contributes nearly 45 per cent of GDP. Telecommunications recorded a 51.6 per cent increase in subscribers, especially for mobile phones (up by 53.7 per cent), partly as a result of extended coverage by mobile phone operators and Camtel. But telecommunications infrastructure is still not good enough to support the kind of quality call-centres Senegal has built up. Projects have been launched to modernise infrastructure, including a fibre-optic network along the Chad-Cameroon pipeline which will be connected to the undersea SAT3 international cable off Douala.

The transport sector had a mixed year, with port traffic up 4.6 per cent and rail up 5.1 per cent (in Camrail’s turnover) but with a 22.8 per cent drop in air passenger traffic due to the problems of the national airline Camair.

Cameroon has major tourist potential but infrastructure needs upgrading and expanding. The tourist law is to be updated and a sector strategy is being drawn up. Overnight hotel stays were down 10 per cent in first-half 2005 and employee numbers fell by 6 per cent. Trade and distribution turnover slumped 14 per cent as a result of diminished household purchasing power and competition from Asia, including in the informal sector.

The economy’s growth is traditionally driven by domestic demand, although the country has many good raw material exports. This dual aspect of its growth explains why the 2.8 per cent growth in 2005 was indifferent, though not a disaster. Very slack domestic conditions were a major drag on growth. Domestic demand, which is partly driven by the government, suffered from the budget rigour imposed in an effort to reach completion point in 2006 and only rose an estimated 3.8 per cent in real terms in 2005. An increased tax burden, up from 9.3 per cent of GDP (2004) to 10.4 per cent in 2005, hit private consumption (which only rose 1.7 per cent by volume) in particular. Government investment was sharply up, by 61 per cent in volume, due to recovery from the fall in 2004 and to major public works (such as roadsurfacing), while private investment (up 11 per cent by volume) remained focused on oil, railways, telephones and construction (notably the oil depot at Limbe). Net external demand boosted growth in 2005, despite 0.9 per cent fewer exports by volume mainly due to a drop in oil exports. The contribution of net external demand partly made up for the small rise in private consumption, while oil revenue, helped by good world prices, partly funded public demand, which rose 8.7 per cent in real terms.

Reaching completion point, which seems possible in 2006, should further boost public investment (67 per cent) and consequently private investment (11 per cent) that year. Construction of the Lom Pangar dam (between 2007 and 2010) could help expand the Alucam smelter’s capacity (from 100 000 to

<table>
<thead>
<tr>
<th>Table 1 - Demand Composition (percentage of GDP)</th>
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<tbody>
<tr>
<td>1997</td>
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<td>-----------------------------------------------</td>
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<tr>
<td><strong>Gross capital formation</strong></td>
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<tr>
<td>Private</td>
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<tr>
<td><strong>Consumption</strong></td>
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<tr>
<td>Public</td>
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<tr>
<td>Private</td>
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<td><strong>External sector</strong></td>
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<tr>
<td>Exports</td>
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<td>Imports</td>
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Source: Ministry of Finance and Economy data; estimates (e) and projections (p) based on authors’ calculations.
260 000 tonnes) and the firm’s building of a $900 million hydroelectric power plant at Nachtigal.

Other major investments are expected, such as the building of an 86 billion CFA francs thermal power plant at Kribi, cobalt processing plant (by Geovic), a new cement plant at Limbe and major road projects. Paying off arrears of the public domestic debt and recruiting new public sector staff in priority sectors could boost household purchasing power and ease the tight financial situation of companies. But any effect on household consumption would not be felt until 2007. A one-off increase in oil production is expected in 2006, which should result in a 1.9 per cent volume increase in exports and a positive contribution of net external demand to 2006 growth, which is expected to be about 4.3 per cent.

**Macroeconomic Policies**

**Fiscal Policy**

The country’s finances have been fairly chaotic for the past five years. Cameroon was declared eligible in October 2000 for the HIPC Initiative and completion point was set for March 2003, only to be postponed when the time arrived and the 2000-03 three-year agreement with the IMF suspended. The government began a major effort in early 2005 to normalise relations with its funding sources, especially the IMF, and thus complete the HIPC process. It signed a monitoring programme with the IMF in early 2005, followed by a poverty reduction and growth facility (PRGF) for 2005-08 with a new completion point target of first-half 2006. The first review of the programme in September 2005 showed progress had been made, especially in respect of the national budget. Cameroon also met all the CEMAC (Central African Economic and Monetary Community) convergence criteria in 2004, except that relating to the accumulation of debt payment arrears. All criteria should be met in 2005.

Extensive budgetary excesses occurred in 2004 as elections neared. The budget deficit had reached 0.6 per cent of GDP while the IMF agreement provided for a 2.2 per cent surplus. The government was behind in repaying its domestic and external debt (about 13 billion CFA francs) to its suppliers, mainly in construction, and reimbursing VAT to forestry exporters and others. The HIPC special account was also in arrears (79.9 billion CFA francs) at the end of December 2004.

After this indiscipline, an effort was made to restore order in public accounts in 2005. Current expenditure was held to the level agreed in the monitoring arrangement, especially the government wage bill, which was reduced 5.9 per cent from 2004. These changes gave the government enough room to increase capital spending 65 per cent, to 260 billion CFA francs (3 per cent of GDP, up from 160 billion in 2004), though this was below the target of 285 billion.

Government revenue also greatly increased, by 19.8 per cent, as a result of high oil export earnings (394 billion CFA francs, compared with 276 billion budgeted for) but also of higher non-oil earnings (1 108 billion CFA francs instead of a predicted 1 057 billion). More company tax was collected, especially from services (telephone firms), and government revenues also rose from higher taxes and better collection. This budgetary discipline enabled the government to pay off by the end of October 2005 43.4 billion CFA francs of its arrears to the HIPC account, using some of the oil income. Regular payments to it were made on time in 2005.

Oil revenues have also been used to service domestic debt and pay off some of the 2004 arrears. The government did a new audit in October 2005 of this debt, estimated at 1 500 billion CFA francs at the end of 2004. A repayment plan has been drawn up.

The 2006 budget, based on an expected oil price of $48 a barrel and 4.2 per cent GDP growth, should enable continued efforts at reform so as to reach completion point. The anticipated rise in oil production will bring in 30.7 per cent more revenue from that...
source and non-oil income is expected to rise 7.5 per cent. A total 13.7 per cent increase in government revenue is expected. Current expenditure should rise moderately (8.6 per cent), which is stable in relation to GDP (12.4 per cent). The budget includes some leeway through money from the HIPC fund if completion point is reached. So capital spending will be much higher (74 per cent) and also in relation to GDP (4.8 per cent of GDP, up from 1.9 per cent in 2004). The 2006 budget indicates the government’s firm intention in coming years to make substantial public investment, especially in sectors very directly linked to production capacity.

Despite these efforts, the country’s public finances have persistent structural weaknesses. They remain very dependent on oil revenue (26.2 per cent of total revenue, except grants, in 2005) at a time when production in falling. The tax burden meanwhile is only 10.4 per cent, mainly because of the narrow tax base, largely the result of the large informal sector. Economic partnership agreements (EPAs) with the EU in 2008 will also reduce customs revenue. Current expenditure is a huge 80 per cent of total government spending, with the wage bill alone 31 per cent of this total in 2005. Capital expenditure (only 20 per cent of total spending) is never entirely disbursed, showing major absorption problems that could hamper implementation of future investment plans. So-called “sovereignty” expenditure is unquestionably excessive (35 per cent of total spending, including 25 per cent on defence), especially compared to outlays on education (29 per cent), health (5 per cent) and infrastructure (10 per cent).

However progress has been made, especially in monitoring spending and transparency of public accounts. The 2006 budget was presented to parliament before the start of the budget session, enabling thorough examination of it, something new in Cameroon. The draft budget execution law for 2004 was also presented to parliament at the end of 2005. An action plan is being drawn up to implement the Extractive Industries Transparency Initiative (EITI) and the government has promised not to use surplus oil revenue to finance recurrent spending. An integrated budget management system was introduced in January 2005 that provides running accounts, including monthly updates on budget execution that compare commitments and disbursements. Efforts have also been made to improve execution of capital spending through a medium-term expenditure framework (MTEF) in construction, health, education and rural affairs. But the greatest progress has been in incorporating HIPC spending into the

<table>
<thead>
<tr>
<th>Year</th>
<th>Total revenue and grants</th>
<th>Tax revenue</th>
<th>Oil revenue</th>
<th>Total expenditure and net lending</th>
<th>Current expenditure</th>
<th>Excluding interest</th>
<th>Wages and salaries</th>
<th>Interest</th>
<th>Capital expenditure</th>
<th>Primary balance</th>
<th>Overall balance</th>
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<td>2005</td>
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<td>10.4</td>
<td>4.4</td>
<td>15.3</td>
<td>12.3</td>
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<td>1.6</td>
<td>3.0</td>
<td>3.6</td>
<td>2.0</td>
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<tr>
<td>2006</td>
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<td>11.0</td>
<td>5.4</td>
<td>17.2</td>
<td>12.4</td>
<td>10.9</td>
<td>4.6</td>
<td>1.4</td>
<td>4.8</td>
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<td>1.0</td>
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<tr>
<td>2007</td>
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<td>11.0</td>
<td>4.3</td>
<td>16.9</td>
<td>12.7</td>
<td>11.5</td>
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<td>1.2</td>
<td>4.2</td>
<td>1.5</td>
<td>0.3</td>
</tr>
</tbody>
</table>

a. Only major items are reported.
Source: IMF and Ministry of Finance and Economy data; estimates (e) and projections (p) based on authors’ calculations.

3. HIPC funds available for investment should be 90 billion CFA francs in 2006, 80 billion in 2007 and 69 billion in 2008, including respectively 39, 49 and 56 billion under a C2D (debt relief and development contract) agreement with France.
budget. The advisory committee of funders which monitors HIPC spending had opposed a broken-down allocation of HIPC money in the budget (and thus without its prior agreement), requiring it to be discussed with the committee after the budget was approved, after which the government would decree its sector allocation. This process tended to slow down disbursement of HIPC funds. To solve the problem, the government and the committee agreed in March 2005 on a list of projects, costing 450 billion CFA francs that could be paid for out of the HIPC account. These projects can now be budgetised upstream, and this was done in the 2006 budget.

Monetary Policy

The CFA franc is pegged to the euro and so Cameroon's monetary policy, which is in the hands of the Bank of Central African States (BEAC), depends largely on eurozone policy. The BEAC lowered its intervention rates by 25 basis points in September 2005. At the end of the year, the standard tender rate was 5.5 per cent and the repo rate 7.25 per cent. The final household consumption expenditure price index should be about 1.8 per cent in 2005, despite fairly big increases in so-called “controlled” items (such as electricity and oil) of around 7 per cent. Cameroon does not do any refining, so the world price of refined oil was partly (and with a delay) passed on to the pump price and domestic gas was also more expensive. The pump price rose 16 CFA francs in August 2005 and then 4 CFA francs a month between October and December. This in turn significantly pushed up the price of transport, and (mainly for tax reasons) prices of tobacco and beverages rose. However these increases were broadly offset by lower prices for other items.

External Position

The merchandise trade balance was in surplus in 2003 (0.8 per cent of GDP) and 2004 (1.7 per cent). First-half 2005 results suggested this would continue and reach about 2.2 per cent for the whole year despite a 30 per cent drop in volume exports of oil. But this fall was more than offset by the rise in world prices, so that oil exports by value rose 4.3 per cent in first-half 2005 year-on-year. Value exports of aluminium rose 22.4 per cent over the same period (and 8.7 per cent by volume), cocoa by 1.3 per cent and sawn logs by 7.4 per cent. Coffee exports slumped 21 per cent by value and cotton 45.3 per cent (as a result of smaller volume and also lower world prices).

Cameroon is fortunate to have a fairly strong and diversified export sector, which in 2004 included oil (40 per cent of the total), raw cocoa (9 per cent), raw cotton (5.8 per cent), aluminium (3.6 per cent), coffee (3 per cent), bananas (3 per cent) and, since quite recently, sawn logs (14 per cent) and wood products (17.6 per cent). But the export sector is still very dependent on raw materials, some of which (especially cotton) are having problems or are experiencing falling output (oil). The country is also at the mercy of volatile world prices4 and very dependent, too, on imports of final consumption goods, semi-finished products and machinery.

Cameroon's main trade partners remain the EU countries (56.6 per cent of exports and 42.8 per cent of imports in 2004), with which it has a trade surplus. China has become a fiercely competitive supplier and was in third place after France and Nigeria in 2004 (it was eighth in 2001). But it is not yet a major buyer of Cameroonian raw materials.

Cameroon trades little with other CEMAC countries (which bought 4 per cent of its exports and provided 3.5 per cent of imports in 2004), illustrating the difficulty of regional integration. Yet it is to be hoped this will not hinder negotiations for an EPA between the EU and CEMAC. The second (“regional”) phase of these talks was due to start in January 2006, aiming to come up with a full draft agreement by the end of 2007. Impact studies are still being done, especially to measure the consequences of an agreement for Cameroon.

The country has a current account structural deficit (about 1 per cent of GDP in 2004) mainly due

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4. These prices do not always move the same way, which is fortunate as Cameroon has a wide range of cash crops.
to the balance of services and income. The need for external funding, after including public borrowing, was 197.1 billion CFA francs (about 2.5 per cent of GDP). It is more than met (since currency reserves grew by 87.2 billion CFA francs in 2004) by already-obtained external debt rescheduling and relief (271.6 billion CFA francs in 2004). Foreign direct investment remains small (153.7 billion CFA francs, or 1.8 per cent of GDP) and was only 1 per cent of all FDI flows to Africa in 2003, according to UNCTAD. But it still funds about a third of the current account deficit and may increase in coming years with projects such as those of Alucam, a subsidiary of the international firm Alcan.

The country's external debt ratio in June 1999 (at Net Present Value) was 288.6 per cent of exports (205 per cent after treatment under Paris Club Naples terms). In these conditions, extra relief through the HIPC Initiative, required to reduce the debt stock (at NPV) to 150 per cent of exports, was set at $2 000 million in nominal value. Most of this relief will be coming from the Paris Club countries. Apart from the treatment of stock under Naples terms (67 per cent reduction in NPV on debt before cut-off date), the Club will also cancel $860 million under the HIPC Initiative. Some funders have decided to go further than this, such as France, Cameroon's main aid provider, under its C2D arrangement (debt relief and

Table 3 - **Current Account** (percentage of GDP)

<table>
<thead>
<tr>
<th>Year</th>
<th>Trade balance</th>
<th>Exports of goods (f.o.b.)</th>
<th>Imports of goods (f.o.b.)</th>
<th>Services</th>
<th>Factor income</th>
<th>Current transfers</th>
<th>Current account balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
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<td>-6.6</td>
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</tr>
<tr>
<td>2002</td>
<td>0.7</td>
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<td>-17.5</td>
<td>-2.1</td>
<td>-6.2</td>
<td>1.2</td>
<td>-6.3</td>
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<tr>
<td>2003</td>
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<td>17.3</td>
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<td>18.9</td>
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<td>2007 (p)</td>
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<td>-16.5</td>
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Source: BEAC and Ministry of Finance and Economy data; estimates (e) and projections (p) based on authors’ calculations.

Figure 4 - **Stock of Total External Debt** (percentage of GNI) and **Debt Service** (percentage of exports of goods and services)

Source: IMF and World Bank.
development contract). At completion point, the stock of debt will be reduced to 53 per cent of exports. Cameroon wants to use this comfortable position to seek funding whose soft terms do not fit the requirements of the 2005 three-year agreement with the IMF. It wants more money to fund key economic structure projects. Requests for such exceptions will be made to the IMF.

**Structural Issues**

**Recent Developments**

The macroeconomic situation improved significantly in 2005, but progress was slow in solving structural problems such as privatisation, reducing production costs and creating a better business climate.

Privatisation did not advance much in 2005. The main state firms to be divested are SNEC (water), Camtel, Sodecoton, Camair and the CDC agro-industrial complex. SNEC will be disposed of through a leasing arrangement and takers were to be sought at a meeting of investors at the end of 2005. The firm will be split into an entirely state-owned asset-holding company and a mostly privately-run management firm. Camtel will be put out to tender in mid-2006 with 51 per cent of its shares on offer. Camtel’s mobile phone licence will be divested at the same time as its fixed-line business in order to attract investors. The future of Sodecoton remains very unclear, in view of its difficulties because of very low world prices, but talks with the French firm Dagris are continuing. Privatisation of the CDC is set for 2007. Camair, which is in very bad financial state, could be split/wound up. Only its profitable part (maintenance) and its assets would be sold and the rest of the firm liquidated. The government was expected to announce a formal decision in January-February 2006.

The cost and quality of factors of production in Cameroon are key problems for local businesses, especially in respect of electricity. The national power company, AES-Sonel, has a franchise on generators that were expected to produce in 2005, after the opening of thermal plants in Limbe (85 MW) and Logbaba (13 MW), a total of 932 MW. Local businesses complain that power supplies are expensive and inadequate and the shortfall was estimated at 180 MW in 2004. The country has great hydroelectric potential which is poorly exploited. It is not sufficiently compensated for by adequate thermal capacity, which leaves the country at the mercy of the weather. The southern part of the national grid was badly hit in 2004 by drought in the Sanaga river valley, where the Songloulou (384 MW) and Edea (264 MW) plants produce 97 per cent of the country’s hydroelectric output. The Sanaga River has great hydroelectric potential but the retention basins cannot regulate the river flow throughout the year. So the Songloulou and Edea plants had a combined production shortfall of about 100 MW in 2004. Power cuts were also frequent because of the ageing supply network, with 2 985 MW not distributed between January and October 2005 because of technical problems. Electricity is rationed but also expensive because AES-Sonel has to make frequent and substantial rate adjustments to fund modernisation of the supply and transport network as well as upgrading the Edea plant, at a total cost of 350 billion CFA francs between 2005 and 2010.

Major investment is planned over the next few years to relieve the energy shortages holding back the production sector, including projects such as expanding Alucam’s capacity. The government is negotiating with development partners for a long-term energy plan that should be ready in 2006. The Lom Pangar dam, on the Sanaga River, is expected to be completed by 2010, with the help of funders, and thus control the river and bring the Songloulou and Edea plants up to capacity, enabling them to generate together an extra 120 MW. New hydroelectric plants may be built on the river, such as the 300 MW plant planned at Nachtigal by Alucam to supply power for its increased production capacity. The Lom Pangar project has been held up by environmental problems that seem on the way to being settled, but its funding is not yet guaranteed. A

5. The subsided AES-Sonel rate is 50 CFA francs per KW/h, but SMEs sometimes have to pay over 80 CFA francs.
142.3 billion CFA francs dam is also planned on the Niem River at Memve’ele. Until this new capacity is installed, the country will increase its thermal generation capacity to as much as a third of total electricity output to avoid shortages from 2007 that could hit the economy very hard. A new 150 MW gas-fired plant is also planned at Kribi by AES-Sonel. The country could have nearly 1 500 MW of power available by 2010.

The Cameroonian banking sector is quite solid but not very developed. It largely comprises 10 banks in good shape. The loan coverage rate was 139 per cent in June 2005 and six of the banks had a liquidity ratio of over 200 per cent. Prudential ratios are steadily growing and almost all the banks meet the six key ratios set by the national banking commission. Despite exposure to the troubled agro-food and cotton sectors in 2005 and accumulation of the government’s domestic debt arrears in 2004, banking remained very profitable in 2005. Gross non-performing loans were a high 13.2 per cent however. Loans to the private sector, especially small and medium-sized businesses (SMEs), were very small. Loans to the economy were 81 per cent of all loans but only 10 per cent of GDP and focused on a few large borrowers. Long-term loans were only 0.35 per cent of the total. Fewer than 10 per cent of households had bank accounts. The microfinance sector is being reorganised and 260 out of 558 institutions identified had been officially approved by 20 September 2005. The Douala stock exchange had very little liquidity and the future of its shares operation is uncertain. But its bond dealings could be the key to its growth. Reorganisation of Campost, especially its financial services, is continuing.

The bad business climate is probably the biggest drag on growth of the otherwise vigorous formal private sector. Corruption is a worrying problem and Cameroon ranks very low on Transparency International’s index of perceived corruption, at 137th place among 159 countries. Some development partners are reluctant for this reason to certify the country has achieved completion point in 2006. The sacking in November 2005 of the head of the Fonds spécial d’équipement et d’intervention intercommunale (Feicom) seemed to show the government’s determination to crack down, however. Bureaucratic obstacles and slowness, as well as legal uncertainty, are other problems businesses have to face. The World Bank database Doing Business puts the country at 130th place out of 155 countries rated. It is especially complicated to start a business and taxation and non-compliance with contracts are other disincentives. Cameroon performs less well here than the average sub-Saharan country. The problem of “tax harassment” caused concern in the private sector in 2005, mainly because of increased arbitrary and excessive tax and customs inspections.

The private sector and the government seem to have built up a solid mutual distrust and the government made great efforts in 2005 to re-establish dialogue, starting with repayment of arrears on its domestic debt. It also tried to be more coherent, creating a single Ministry of the Economy and Finance responsible for managing the public investment budget. There seems more willingness, especially by the government, to consult the private sector, as shown by the August 2005 meeting of an interministerial committee expanded to include the private sector, a meeting of all the country’s main business operators in January 2006 and consultation of the private sector in drawing up the 2006 national budget. The poor business climate will also be tackled by the revised national governance programme being drawn up with the help of the UNDP, though with the very small leeway the government has with the budget, this dialogue may not be very substantial.

**Transport Infrastructure**

Transport-related costs for the production section were put at 11 per cent of all intermediate consumption in 2001. This problem of cost and the quality of infrastructure is important because Cameroon has a special position in regional integration as a transit country for neighbouring landlocked CEMAC countries (the Central African Republic, Chad and Congo).

Cameroon’s transport system is reasonably diversified and complementary. But infrastructures are inadequate and often in a bad state because of poor management and under-investment. Major government efforts were
made in the mid-1990s, with the donor-backed transport sector programme (that expired in 2004 and is being revised) to upgrade infrastructure, improve management and regulation and ensure stable funding to meet the country’s needs. Reaching completion point should boost these efforts.

The country has 50 000 km of roads, including 28 000 km of main roads (which are regularly maintained) and 5 000 km of surfaced roads. About 45 per cent of surfaced roads and 55 per cent of unsurfaced ones are considered satisfactory. The network has many weaknesses, including the bad state of roads to the north. The Yaounde-Ngaoundere-Garoua-Ndjamena road is not completely surfaced and is cut in many places and there is a dearth of roads from Douala along the Nigerian border. France’s C2D aid is to fund partial upgrading of the Yaounde-Garoua section. The very bad state of Douala’s urban infrastructure, especially traffic congestion, is also a major burden on the national and regional economy and a great paradox in view of the port-city’s key economic role. Funding road work is still generally a problem. The “second generation” private-public national road fund has done quite well with maintenance and, since quite recently, reconstruction, using an effective system of funding through transit taxes (road tolls, fines and weight charges) and a tax on fuel. But the fund has only 30 billion CFA francs of the 50 billion it needs just for maintenance and the total 80 billion including reconstruction as well. Funders, mainly France and the EU, should increase their contribution to it. Paying for new infrastructure still depends on development partner contributions.

Ports, which handle nearly 98 per cent of the country’s foreign trade (5.9 million tonnes in 2003), have undergone substantial reorganisation to improve their very weak performance in the period up until the late 1990s. The 1998 framework law led to the splitting of the national port management body into four autonomous ports (Limbe, Kribi, Douala and the river port of Garoua) that are supposed to compete and are regulated by a national ports authority. A one-stop shop (which is being computerised) has been opened to handle traffic at Douala and aims to reduce transit delays to seven days for imports and two for exports. Infrastructure is being upgraded under a joint project of the French Development Agency (AFD), the German development bank KfW and Japan. The port’s main industrial and commercial activities were privatised in 2003/04, with the container terminal franchised to the Bolloré consortium (Saga, SDV and Socopao) and to Maersk and tugboat and piloting services to the French firm Les Abeilles. The results have been mixed and facilities are still inadequate (15-17 days to process imports compared with 24 before the changes but far from the goal of seven), charges are still too high and land-lease methods need to be harmonised and rationalised. The government has also not rehabilitated the port’s warehouses as it promised. Substantial investment is needed to boost the country’s capacity to ship out its exports, especially because of the congestion in Douala and the fact that it is not a deep-water port. Two such ports will be built at Kribi and Limbe – at Kribi to export gas, iron, bauxite and cobalt and at Limbe (after completion of an oil depot being built there) to receive and service offshore oil rigs.

Cameroon has 1 200 km of railways, 90 per cent used for freight (maximum 1.8 million tonnes a year). About 1 million passengers a year also use the railway, which is vital for economic links with the north because of the bad quality of the roads in the region. The railway has been franchised since 1999 to Camrail (the Bolloré group) and its dilapidated track and rolling-stock have required a major donor-supported 65 billion CFA francs investment over the period 1999-2007. This has boosted freight traffic (mainly wood and containers). The network can make money but only with a 4 billion CFA francs annual government subsidy for the passenger service, which is structurally unprofitable, mainly because of competition from road transport, which people prefer between Yaounde and Douala, for example. Major economic projects in the next few years will require further substantial investment in the railways, including a line from Ngaoundere to Kribi to ship out bauxite and another from Edea to Kribi to carry the extra aluminium to be produced by Alucam. The Douala-Edea line could also be upgraded to carry the alumina needed for Alucam’s expansion of its capacity.
Seven airports handle most of the country’s regular air traffic (mainly those in Douala and Yaounde) and processed nearly 1 million passengers and 20,000 tonnes of freight in 2003. They are run by the joint-stock company Aéroports du Cameroon (ADC). Camair is in deep financial trouble that could mean its liquidation soon. Talks between Cemac and Royal Air Maroc have failed to set up a regional airline to replace the defunct Air Afrique and the issue of a proper air transport policy for Cameroon and the region remains.

Political and Social Context

The country’s politics settled down in 2005, after President Paul Biya’s re-election as president in October 2004, which was preceded by many excesses, including uncontrolled government spending. The government was reshuffled to bring in ministers likely to renew dialogue with the private sector and restore the confidence of development partners with the goal of reaching completion point. The new government made various promises that seemed very likely to convince the country’s funders to declare completion point in the first half of 2006. But these pledges may not be enough to overcome the mistrust felt by the private sector, whose rift with the government appears deep and long-term and covers (though does not correspond to) an ethnic division between the Bamileke and Beti peoples and a geographical divide between Douala and Yaounde. The population also faces a difficult economic situation, notably a reduction in purchasing power with its potential for social unrest.

The government is counting on the leeway it will get from completion point to fire up the economy and regain credibility. This bet may work economically but the bad governance problem could undermine it. Cameroon has no strong or credible opposition to make democratic transfer of power between parties very feasible, which prevents a change in the country’s top leadership. Corruption is still endemic, perhaps encouraged by the lack of democratic alternatives. Maintaining a good quality leadership in the face of political manoeuvring and electoral calculation, and an ability to fight corruption effectively, are two major requirements if the extra breathing-space gained by reaching completion point is to be best used. This is crucial for this ethnically, religiously and linguistically patchwork of a country whose unity cannot be taken for granted.

Cameroon was (at $862 per capita) a high-income sub-Saharan country in 2003 and ranked 13th out of Africa’s 48 states. Its education and health results are also better than those of the average sub-Saharan country. Yet it is still a poor country and the 2001 national household survey Ecam-II showed that 40 per cent of the population lived below the poverty-line (of 232,547 CFA francs per adult per year). The 2005 UN Human Development Index (based on the situation in 2003) put Cameroon at 148th place out of 177 countries. Poverty is probably growing in towns and cities because of a strong exodus from the countryside, insufficient public facilities and shortage of housing. The 1987 national population and housing census (RPGH) said 38 per cent of Cameroonians lived in urban areas. Now an estimated 50 per cent do so. Household access to services such as electricity is also rare and unevenly distributed among regions. The third national demographic and health survey (EDSC-III), carried out in 2004 and published in June 2005 said 52.8 per cent of all households had no electricity, including 84.5 per cent of those in the countryside. The national figure compared with 59 per cent in 1998 and 71 per cent in 1991.

Major efforts are still also needed in health and education, especially in the light of regional inequalities. Demand for education should remain very strong in coming years because the population is young, with 44.6 per cent below the age of 15, according to EDSC-III. This trend should continue as long as female fertility remains high (currently at 5 children per mother, down from 5.2 in 1998, 5.8 in 1991 and 6.4 in 1978). Ecam-II found a fairly high and rising literacy rate (68 per cent) for Africa (up from 47 per cent in 1987). Net school attendance was 77.8 per cent in primary and 32.8 per cent in secondary, according to EDSC-III. These figures hide major geographical imbalances, with 8.9 per cent of men having no formal education in urban areas, 25.5 per cent in the countryside and 44.3 per
Cameroon

Overall net primary enrolment is 87.5 per cent (urban) and 70.5 per cent (rural). These inequalities are even sharper at secondary level (48.3 per cent urban and 15.7 per cent rural). But gender inequality (measured by the gender parity index) in access to education is quite small, at 0.96 (urban) and 0.85 (rural). The gap is wider at secondary level (0.88 urban and 0.72 rural), but the trend seems positive. While 90.6 per cent of women over 65 have no education, only 27.4 per cent of girls between 6 and 9 have none. The government is making great efforts in education, with 29 per cent of the national budget earmarked for it. About 1 700 supply teachers were taken on in 2005 and 1 246 classes added in 2004/05. The government wants to reach the Millennium Development Goal (MDG) of universal access to primary education by 2015, though the quality of education should also be a concern, as there is currently an average of one teacher for every 63 pupils.

Cameroon’s health policy is largely based on a policy paper adopted in 2001 that identified sector strategies and included an expanded vaccination programme (EVP) for 2001-05. Government outlay on health was 5 per cent of total spending in 2005. An analysis compiled as part of EDSC-III showed that in 2004 the country had one hospital bed for every 442 people (down from 393 in 1990) and one doctor for every 5 673 people (an improvement on the 11 407 in 1990). Health performances are satisfactory in urban areas (at least compared with the rest of Africa) but not in the countryside, where conditions drag down national indicators. EDSC-III found that 47 per cent of households (25 per cent urban, 70 per cent rural) had no access to clean water. Infant mortality is still high and has been steady since the 1998 EDSC, at 29 deaths per 1 000 under the age of one month, 45 between one and 12 months and 144 among those under five years old. Again regional disparities are very large, with 68 per 1 000 in urban areas and 91 in the countryside.

Malaria and AIDS are the two main causes of death in Cameroon and the government is making special efforts to combat them. The country has 10 malaria impregnation centres, which is not enough. The price of treated mosquito nets was reduced from 5 000 to 3 500 CFA francs in 2004 but only 20 per cent of households have at least one (17 per cent in the countryside). The HIV/AIDS infection rate was put at 5.5 per cent in the 15-49 age-group by EDSC-III. The national anti-AIDS plan drawn up in 2000 is being revised for the period 2006-10. Nineteen new prevention and testing centres have opened and 53 538 people were tested in 2004, up from only 6 000 in 2003. The price of anti-retroviral (ARV) drugs was brought down from 7 000 to 3 000 CFA francs per dose in January 2005 and they are now given free to infected children. Infected pregnant women and newborn babies get free nevirapine. The cost of half-yearly follow-up tests of ARV patients has also been cut, from 18 000 to 16 000 CFA francs. EDSC-III showed how much work is still needed in publicising the disease, and how to avoid it by changing sexual behaviour and limiting the risk of passing it on.

Significant progress has been made in vaccination and in 2004 nearly half of all children between 12 and 23 months had received all the shots in the EVP (except yellow fever) and only 5 per cent had not been vaccinated at all. Only 36 per cent of children in this age group had been vaccinated in 1998.

The challenges of access to health and education and of fighting poverty are still enormous. Achieving the MDGs will require average annual economic growth of 7 per cent in the period 2000-15, which seems unlikely. But immediate progress can be made in making government anti-poverty efforts more effective and the details of the poverty reduction strategy paper (PRSP) in the national budget and the medium-term expenditure framework (especially long-term investment budgets) could be made more coherent. Use of anti-poverty funds must be improved, since their execution rates in 2004 were only 65 per cent (engagement) and 57.5 per cent (disbursement), according to the report on the PRSP’s implementation stage (January 2004 - March 2005). Statistical monitoring of PRSP implementation is also inadequate. The government seems to want to go further and modify its anti-poverty efforts with a “growth PRSP” with greater emphasis on infrastructure investment and private sector development, so the 2003 PRSP is expected to be revised.