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Peace-Work-Fatherland
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Markets

The Financing of Infrastructure Development

Cameroon Presentation
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Introduction (1/3)

Brief presentation of the Cameroonian economy

- GDP growth around 3% on average between 2006 and 2010;
- Slight increase of the growth rate to more than 4% from 2011;
- Oil GDP representing on average 5% approximately of total GDP;
- Oil revenues representing on average 31% of total revenues;
- Inflation rate under control around 2 %
- Public debt ratio below 20% of GDP since attaining the completion point of the HIPC initiative
- In 2012, 16.2% of the total debt constituted trade credit to CFAF 350 billion, or approximately USD 700 million and 7% of Government bonds corresponding to CFAF 150 billion CFA FRANCS, or USD 300 million
- Capital representing approximately 33% of total revenues.
- **Annual Investment rate less than 5% of GDP over years**

Années	2006	2007	2008	2009	2010	2011	2012
PIB à prix courant (milliards de USD)	18,1	20,5	21,7	23,7	23,4	24,6	28,2
PIB Pétrolier	1,8	2,0	1,9	1,7	1,4	1,4	1,9
PIB non pétrolier	16,2	18,6	19,8	22,0	22,1	23,2	26,2
Croissance annuelle (en %)							
PIB à prix constant	3,2	3,3	2,9	1,9	3,2	3,8	5,6
PIB Pétrolier	7,7	8,1	1,8	13,6	12,3	11,7	30,2
PIB non pétrolier	2,9	4,1	3,2	2,8	4,0	4,5	4,7
Recettes totales et Dons (en milliardde USD)	8,62	4,20	4,59	4,13	3,93	4,28	5,11
Recettes totales	3,49	3,96	4,40	3,94	3,78	4,08	4,93
Recettes pétrolières	1,24	1,32	1,68	1,09	1,01	1,11	1,60
Recettes non pétrolières	2,25	2,63	2,71	2,85	2,77	2,97	3,33
Dons	5,13	0,25	0,19	0,19	0,14	0,20	0,18
Dépenses totales	2,64	3,23	4,08	4,14	4,07	4,57	4,99
Dépenses courantes	2,12	2,42	2,90	3,20	3,23	3,33	3,63
Salaires	0,81	0,91	1,17	1,35	1,28	1,31	1,48
Dépenses de capital	0,53	0,82	1,22	0,94	0,85	1,24	1,37
Dépenses s/financements extérieurs	0,12	0,13	0,21	0,16	0,20	0,30	0,33
Solde global, base ordonnancements (hors dons)	0,12	0,72	0,32	- 0,20	- 0,29	- 0,49	- 0,06
Dépenses en capital/PIB	2,9%	4,0%	5,6%	4,0%	3,6%	5,0%	4,8%
Dettes publiques totales (millions de USD)	3 836	3 549	2 843	3 168	4 377	4 377	4 377
Credits commerciaux (millions de USD)	42	84	116	147	211	391	710
Emprunt obligataire (millions de USD)	-	-	-	-	405	387	302
Dettes publiques / PIB	21,2%	17,3%	13,1%	13,4%	15,0%	16,2%	16,4%



Introduction (2/3)

Due to the weakness of the level of investment since the beginning of the 1990s and in the aftermath of the first eligibility of Cameroon at the Club of Paris, the Government undertook several actions for the development of its infrastructure to support its growth after reaching the completion point of the Highly Indebted Poor Countries' (HIPC) Initiative,

These actions are among others:

- The drafting of the document dubbed "Vision 2035 of Cameroon" to become an emerging country.
- The implementation of the Growth and Employment Strategy Paper, for a prosperous and well equipped State with lasting infrastructures;
- The need for research and transfer of technology to boost growth;
- The recurrent recourse to commercial and other credits forms of external and domestic debt for the financing of the infrastructures needed. This, as an alternative to Official Development Assistance which is showing a decreasing trend, with an acceleration since the financial crisis of 2008;
- The discard of the advances from the Central Bank (BEAC); they had the main disadvantage of escalating inflation.



Introduction (3/3)

- The financial markets in the sub region are still at a very early stage, notably through the creation of the Douala Stock Exchange (DSX) and there are plans to convergence with the exchange of securities in Central Africa and DSX
- The improvement of the business environment, the implementation of a new investment code to make Cameroon attractive to investors looking for higher yields.
- Improving the management of public finance after the HIPC initiative;
- the set-up of the National Public Debt Committee (CNDP) for better coordination of the administrations in charge of the debt management.



I- Overall Objectives of Development (1/2)

The main orientations of the Government over the period 2010-2020 are listed as follows: an annual average growth of non-oil GDP by 5.7%, an increase of more than 1.7 point of growth per year

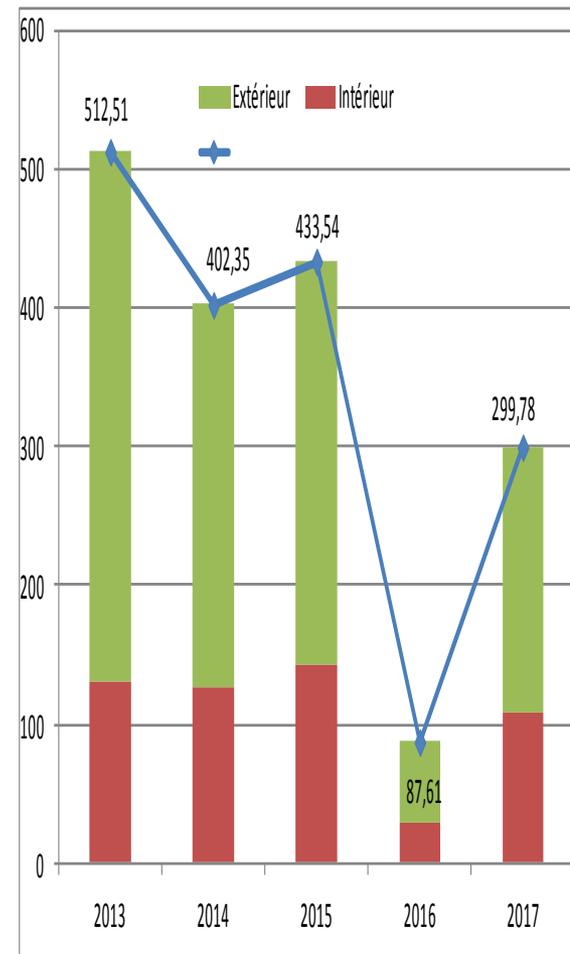
- The main assumptions adopted in the medium term and the overall objectives are among others:
- Enhancement of agricultural production as a result of the implementation of various programmes i.e. the mechanization of agriculture.
- Improvement of energy supply in the short term with the implementation of the urgent energy supply programme through gasoil, the Kribi Gas Plant and in the medium term the introduction of other energy infrastructure activities;
- Up surge in oil production including the improvement of the extraction rate of the old wells (important revenue expected in 2016) and the exploitation of new discovered wells ;
- Enhancement of the industrial production through, the good performance in energy supply, in transport infrastructure and further actions to improve the business environment.
- Improvement of transport infrastructure, which includes the construction of major road projects and rehabilitation of major roads and bridges ;



Overall Objectives of Development (2/2)

- As indicated in the graph below, the cumulative financing need over the period 2013-2017 is estimated at USD 3.4 billion, i.e. an average of USD 900 million per year over the first three years.
- In 2016, according to the positive performance of oil revenues, the financing gap amount will drop to USD 160 millions, but a year later, the deficit will rise up to about USD 600 millions; such is the amount to be raised .
- Thus, the financing of the implementation of development infrastructure projects should occur through diverse funding channels for quality indebtedness
- In addition to trade credits, especially credits export, the Government should issue debt more especially through financial markets (domestic and regional) in order to:
 - Diversify funding sources and investment instruments;
 - Move from a static to a dynamic and efficient debt management system under cost and risks control;
 - Modernize the financing system of National Treasury;
 - Participate to strengthen of public debt securities issuance

• Financing gap over the period 2013-2017





II-Funding Channels

- **A- Global Framework**

In Cameroon, the financing of infrastructure development through the government bonds issuance and trade credits is legally framed by domestic texts also well regional.

There are thus:

- Regulations (Acts) of the Economic and Monetary Community of Central Africa (CEMAC);
- the legislation
- Statutory texts (decrees, orders, circulars etc.)

As the channels of funding used, there are the following:

- On the external front: ODA provided by countries partners, credits buyers through export and trade counters, Government bonds in foreign currency or those held by non residents
- On the domestic front, the classic indebtedness occurs from local banks but also through 03 securities markets, namely:
 - Sub-regional financial market (syndication);
 - Domestic financial market (syndication);
 - the free subscription Government securities market of the Member States of CEMAC (Auction).



II-B. Financing through bonds issuance (1/3)

In addition to bonds targeted for equipments issued by the national investment company in the 1980s, the Republic of Cameroon has implemented an issuance framework for public securities which yielded in 2010, the issuance of a 5-year bond comprising a yield rate of 5.6% net p.a..

- This first issuance of FCFA 200 billion (USD 400 million) was carried out by syndication through the Douala Stock Exchange (DSX) with the following characteristics:
 - 841 holders identified from 10 countries;
 - 20 317 969 titles subscribed 77% by commercial banks
- This issuance had basically two objectives:
- Meet the infrastructural needs;
 - Develop and boost national and sub-regional financial markets.



II-B. Financing through bonds issuance (2/3)

The table hereby shows the distribution of this loan per project.

It is clear that:

- 47.5% of resources is allocated to energy infrastructure making a total of CFAF 95 billion (USD 192 million), approximately 140 million US dollar for Lom Pangar dam;
- 21% of the resources, or USD 85 million have been oriented towards roads infrastructure resulting to USD 20 million for the second bridge over the Wouri.

Distribution by project

Projets	Quote-part de l'Etat		Poids
	Milliards de FCFA	Millions de USD	
Infrastructures en Eau et en Energie :	95,0	192,3	47,5%
1) Barrage de Memve'e (voies d'accès)	11,0	22,3	
2) Barrage Réservoir de Lom Pangar	68,5	138,7	
3) A dduction d'eau de Douala :	8,5	17,2	
4) Centrale à gaz de Kribi	7,0	14,2	
Infrastructures portuaires :	21,0	42,5	10,5%
5) Port en eau profonde de Kribi	21,0	42,5	
Projets miniers :	30,0	60,7	15,0%
6) Projet Cobalt et Nickel de Lomié, (Geovic)	30,0	60,7	
Projet de télécommunications :	4,5	9,1	2,3%
7) Construction de 3 200 km de fibre optique	4,5	9,1	
Infrastructures routières et d'ouvrages d'art :	42,0	85,0	21,0%
8) Deuxième pont sur le Wouri :	10,0	20,2	
9) Route Ayos-Bonis :	10,0	20,2	
10) Ring-Road ;:	12,0	24,3	
11) Pénétrantes de Kumba :	5,0	10,1	
12) A cquisition de matériel de génie civil pour le MATGENIE :	5,0	10,1	
Grands projets agricoles :	12,0	24,3	6,0%
13) A mélioration de la production du riz et du maïs à travers la	2,0	4,0	
14) Filières de production :	10,0	20,2	
Total emprunt obligatoire	200,0	404,9	100%



II-B. Financing through bonds issuance (3/3)

- On June 05, 2013, Cameroon operated its second government bond issuance by auctioning through the exchange securities of the Central Bank
 - On an initial target of an amount between 10 and 20 billion CFAF (20 and 40 million US dollar), CFAF 16 billion (USD 32 billion) have been mobilized;
 - 04 infrastructure projects will be partially financed from the resources of this operation, including works related to the construction of the Douala Yaounde Highway project, for an amount of 10 billion CFA FRANCS (being USD 20 million);
 - Maturity is 2 years, the Yield rate is around 4%.
- By June 15, 2013, the amount of bonds issued by the Republic of Cameroon amounts to CFAF 216 billion, being USD 430 million.
 - This category of outstanding debt amounted to CFAF 176 billion, or USD 350 million to 15/06/2013.
- The issue of international securities such as Eurobonds would be a future possibility for the financing of infrastructure



II-C. Financing through trade credits (1/1)

Financing through commercial credits is not new. It has always been an alternative and important source for the financing of development infrastructures:

- Indeed, the Cameroon debt portfolio during its early days in the Paris Club in October 1988 testified the use of this mode of funding for infrastructure development. Nevertheless these funds with high market conditions helped to support some infrastructure projects, including the construction of the international airport of Yaounde (Export Credit led by a German bank) and many other transport infrastructures.
- Since 2006, after completion point of the HIPC initiative, followed by the financial crisis of 2008, Official Development Assistance is sharply declining and trade credits in several forms are offered to the developing countries for the realization of their infrastructure.
 - Number of projects thus funded by this way i.e. buyers-credits are in the following sectors: water and energy, Transport, construction, mining, telecommunications, agricultural mechanization, etc.;
 - The accumulated buyer-credits rose up to CFAF 1 354 billion (USD 2.6 billion) equivalent to 52% of the committed amount over the period from 2006 to 2012,
 - The interest rate related to these credits is generally variable with average maturities of 15 years;
 - These buyer-credits are often subject to the payment of an export risk premium or the issuance of strong banking guarantees



Limits and Perspectives (1/3)

A- Limits

Of course, as in all things, the financing for infrastructure development through issuing bonds or through trade credits present limits and obstacles.

(1) With regard to Government bonds, we can list the points above:

- The insufficient financial culture of potential investors due to low communication;
- The lack of a yield curve and the occurrence of short-term interest rates which are negative;
- No mastery of the determinants of borrowing costs;
- The high cost of borrowing not always correlated with the profitability of related projects;
- The mismatch between the maturity of the bonds (2-10 years) and the cost of infrastructure projects under (10 and over). Need to review the correlation between on the one hand the maturity of the loan and secondly maturity and the return on investment projects;
- The investor-based weaknesses geared towards credit institutions, faced with problems relating to compliance with prudential ratios, especially the sub-regional banks;
- The absence of a tax framework uniform for the CEMAC sub-region;
- The weak development secondary market in the sub-region either for the bonds issued by auctioning or by syndication;
- The low capacity absorption of investment projects;
- The inadequacy of qualified human resources and devoted for these new activities.



Limites et perspectives (2/3)

(2) As regards the Trade credit especially Export credits, it is worth noting that:

- The high exposure to the Exchange rate and interest rate risk, indeed these loans are denominated in foreign currencies and delivered to market variable interest rates;
- The expensive cost of these instruments compared to the ODA;
- Funding is mostly subjected to the payment of insurance premiums;
- The weakness position of borrowers during the negotiation because the funds have to be raised for the project implementation;
- The information asymmetry in terms of quality of the final products delivered;
- The partial financing of projects implicating the lender's dowpayment in some cases especially in the case of the export-credits.



Limites et perspectives (3/3)

B. Perspectives

In General, for a suitable infrastructure development through government bonds or export credits, it is essential to put in place reforms and take measures to circumvent previously referred obstacles, namely:

- For Government bonds:
 - the harmonization of the securities taxation in the CEMAC zone;
 - the strengthening of stakeholders capacities;
 - the pursuit of reforms aimed at cleaning up public finances to make them attractive for bonds issuance.
 - the adoption of the principles of bond issuance rating:
 - Regional rating: to help the countries to meet their commitments in FCFA
 - International rating which represents the capacity of the country to raise funds on the international markets.
- For trade credits / Export Credits:
 - strengthening the negotiating capacities of the recipient countries;
 - harmonization, development and coaching of a suitable negotiation process;
 - adoption of a model, for contracting trade credit following certain predefined conditionality

Ultimately, it is essential to thoroughly analyze the infrastructure projects and seek the appropriate type of instrument for the success of such development projects to the smallest possible cost.



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