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PERFORMANCE AUDIT REPORT

CAMEROON

STRUCTURAL ADJUSTMENT LOAN
(LOAN 3089-CM)

STRUCTURAL ADJUSTMENT CREDIT I
(CREDIT 2576-CM)

ECONOMIC RECOVERY CREDIT
(CREDIT 2627-CM)

June 10, 1999

Operations Evaluation Department

Currency Equivalents

Currency Unit = CFA Franc
The CFA Franc (CFAF) is tied to the French Franc (FF) at the rate of 100 CFAF = 1 FF
(50 CFAF = 1 FF prior to January, 1994)

Average Exchange Rate (CFAF per US$)

1985	=	471.1	1992	=	280.4
1986	=	386.6	1993	=	265.4
1987	=	318.8	1994	=	435.0
1988	=	291.7	1995	=	518.6
1989	=	315.4	1996	=	501.8
1990	=	300.7	1997	=	540.5
1991	=	268.6			

Abbreviations and Acronyms

ADB	African Development Bank
BCD	Banque Camerounaise de Developpement
BEAC	Banque des Etats de l'Afrique Centrale
BPPBC	Banque de Paris et des Pays-Bas - Cameroon
CAMAIR	Cameroon Airlines
CAMBANK	Cameroon Bank
CAMDEV	Cameroon Development Corporation
CAMSUCO	Cameroon Sugar Company
CFAF	CFA Franc
FF	French Franc
FONADER	Fond National de Developpement Rural
ONCPB	Office National de Commercialization des Produits de Base National Marketing Board)
PAGE	Projet d'Appui a la Gestion Economique (Economic Management Support Project)
PIP	Public Investment Program
SCDP	Societe Camerounaise de Depots Petroliers
SCB	Societe Camerounaise des Banques
SDR	Special Drawing Rights
SIGIPES	Systeme Informatique de Gestion Integre des Personnels de L'Etat de la Solde
SNH	Societe Nationale d'Hydrocarbures
SNI	Societe Nationale d'Investissements
SOCAPALM	Societe Camerounaise des Palmiers
SODECOTON	Societe de Developpement du Coton du Cameroun
SONARA	Societe Nationale de Raffinage
SONEL	Societe Nationale d'Electricite
REGIFERCAM	Regie des Chemins de Fer du Cameroun
UDEAC	Union Douaniere et Economique des Pays de l'Afrique Centrale

Fiscal Year

July 1 - June 30

Director-General, Operations Evaluation:	Mr. Robert Picciotto
Acting Director, Operations Evaluation Department:	Mr. Ruben Lamdany
Manager, OEDCR:	Mr. Ruben Lamdany
Task Manager:	Ms. Alice Galenson

The World Bank
Washington, D.C. 20433
U.S.A.

Office of the Director-General
Operations Evaluation

June 10, 1999

MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

SUBJECT: *Republic of Cameroon - Structural Adjustment Loan (Loan 3089-CM), Structural Adjustment Credit (Credit 2576-CM) and Economic Recovery Credit (Credit 2627-CM)*

Attached is the Performance Audit Report on the Structural Adjustment Loan (SAL, Loan 3089 for US$150 million equivalent, approved in FY89), the Structural Adjustment Credit I (SAC, Credit 2576 for US$50 million equivalent, approved in FY94) and the Economic Recovery Credit (ERC, Credit 2627 for US$75 million equivalent, approved in FY94) for the Republic of Cameroon. The SAC had a supplemental credit (Credit 2576-1) for $51 million equivalent, approved in FY94; the ERC had a supplemental credit (Credit 2726-1) for $32.8 million equivalent, approved in FY95.

The third tranche of the SAL ($50 million equivalent) was cancelled (replaced by the SAC) and the SAL was closed on June 30, 1994. The SAC was closed on June 30, 1994, fully disbursed, and the supplemental credit closed on March 24, 1995. The ERC was closed on June 30, 1995, fully disbursed, and the supplemental credit was closed on December 20, 1995.

In the late 1980s, Cameroon experienced a massive deterioration in its balance of payments stemming from sharply deteriorating terms of trade and declining oil exports, coupled with strong appreciation of the CFA franc. The primary objective of the 1989 SAL was to initiate a program to reverse the accompanying severe decline in Cameroon's GDP and realize a positive rate of per capita output growth by 1995. The instrument for achieving this outcome was to be a comprehensive structural reform package entailing the eventual withdrawal of the state and its agents from direct involvement in the production of commercial goods and services and re-orientation of the Government's role towards support for a vigorous private sector. At the same time, the Government was to strengthen its role in reducing poverty. The 1994 ERC supported the Government's January 1994 decision, in conjunction with its 12 CFA zone partners, to devalue the CFA franc by 50 percent. Specifically, the credit was to provide balance-of-payments and budgetary support to the Government on the understanding that it would continue, and broaden, the structural adjustment process.

The outcome of the SAL was severely compromised by: (1) the deepening depression stemming from a continuing deterioration in the balance of payments, (2) the Government's resulting greatly intensified financial difficulties, (3) lukewarm ownership of structural reform on the part of the political elite and little understanding of the process among the general public, and (4) the overwhelming of a weak administration by the demands of the adjustment process. The SAL had relied on internal wage and price compression to lower Cameroon's real exchange rate, revive exports, and initiate an economic turn-around, but this proved totally unrealistic. Only about two-thirds of the planned reform measures were either started or implemented, although progress was achieved in cutting the Government's excessive wage and salary bill, eliminating QRs, reforming tariffs and taxes (following the devaluation), liberalizing the marketing of agricultural exports, initiating the restructuring of the banking sector, and partially liberalizing the labor market. However, institutional reforms were very limited, and the Government's increasingly tenuous fiscal position, coupled with the deepening depression, undermined planned budgetary and civil service reforms, as well as reforms in the public enterprise and financial sectors. The third tranche of the SAL was canceled in 1994 when Cameroon's per capita GDP dropped below the IBRD lending cut-off level. It was replaced by SAC 1, subject to the same pre-conditions.

The ERC was prepared and approved quickly and disbursed in one tranche with limited explicit conditionality, but on the understanding by the Bank that reforms begun under the SAL/SAC would be continued and broadened. The Government initially interpreted the lack of explicit conditionality as an indication that the credit was primarily a reward for devaluing, and delayed most further reform until the Bank made it clear that the Government's compliance with its Memorandum on the Economic Recovery Program was a trigger for any substantial future Bank lending. The Government eventually brought its finances under control, implemented tax and tariff changes, further liberalized prices, and carried out some reforms in the forestry, petroleum, health and education sectors. However, institutional reforms again lagged.

The outcome of the SAL/SAC is rated as highly unsatisfactory, downgraded from the PCR unsatisfactory rating. The sustainability of the reforms is upgraded from unlikely to uncertain, since the Government's ownership of reform has strengthened and is unlikely to be reversed, even if it remains less than whole-hearted. The rating of institutional development impact is confirmed as negligible. Both Bank and borrower performances were affected by the institutional arrangements governing exchange rate policy at the time, and this mitigating factor was taken into account in the ratings. Bank performance is downgraded from satisfactory to unsatisfactory, reflecting its initiation of structural adjustment in a situation of unresolved balance-of payments crisis, which severely compromised the prospects for success, and its unrealistic reliance on internal wage and price compression to restore balance-of-payments equilibrium. Borrower performance is also rated unsatisfactory.

The outcome of the ERC is confirmed as marginally satisfactory, and sustainability as uncertain. Institutional development impact is rated as negligible, since, in the two key areas where it was sought—the reorganization of the civil service and reform of public procurement—little real progress occurred. Bank performance is confirmed as satisfactory and borrower performance as unsatisfactory.

The main lessons from the SAL/SAC experience are that: (1) it was a mistake to launch structural reform without first resolving Cameroon's severe balance-of-payments crisis; (2) greater external sensitivity is required to the adjustment needs of small countries tied to larger countries by fixed exchange rates; (3) backing by the borrowing country's political elite and public, together with adequate Bank leverage, are highly important pre-conditions for successful structural adjustment; (4) basic institutional changes can be extremely difficult to implement without supportive accompanying changes in ideology and attitudes in the borrowing country; (5) evaluation of project implementation capacity needs greater attention; (6) greater continuity of Bank staff involvement in structural adjustment programs would be helpful; and (7) the Bank's anti-poverty efforts need to be more realistic, better focused, more sustained and more consistent. The main additional lesson from the ERC is that the Bank should make fully explicit from the outset *all* of the conditions attaching to a loan or credit, including, where applicable, the contingency of future Bank lending levels on the outcome of the project.

Contents

This report was prepared by Derek White (consultant) with Alice Galenson as the Task Manager. Geri Wise provided administrative support.

Preface

This is a Performance Audit Report on the Cameroon Structural Adjustment Loan (SAL, Ln. 3089-CM) and first Structural Adjustment Credit (SAC I, Cr. 2576-CM) in the combined amount of US$150 million, and the Economic Recovery Credit (ERC, Cr. 2627-CM) in the amount of US$75 million. The SAL was approved in June, 1989, SAC I in March, 1994, and the ERC in June, 1994.

The SAC had a supplemental credit (Credit 2576-1) for $51 million equivalent, approved in FY94; the ERC had a supplemental credit (Credit 2726-1) for $32.8 million equivalent, approved in FY95. The third tranche of the SAL ($50 million equivalent) was cancelled (replaced by the SAC) and the SAL was closed on June 30, 1994. The SAC was closed on June 30, 1994, fully disbursed, and the supplemental credit closed on March 24, 1995. The ERC was closed on June 30, 1995, fully disbursed, and the supplemental credit was closed on December 20, 1995.

The PAR is based on the Project Completion Report (PCR) for the SAL/SAC I and the Implementation Completion Report (ICR) for the ERC, President's Reports for these projects and related projects, other Bank documents, including related legal documents, relevant non-Bank documents, project files, and interviews with Bank staff in Washington.

In addition, an OED mission visited Cameroon in July, 1998, and discussed the projects and Cameroon's overall structural adjustment record with Cameroonian officials, academics, political figures, and Bank Resident Mission staff. Their cooperation and assistance are gratefully acknowledged.

The draft PAR was sent to the Region and Borrower for comments. No comments were received from the Borrower; comments received from the Region are reproduced as Annex A to the report.

Ratings and Responsibilities

Performance Ratings

	Structrual Adjustment Loan/Credit (Ln. 3089/Cr. 2576)	*Economic Recovery Credit (Cr. 2627)*
Outcome	Highly Unsatisfactory	Marginally satisfactory
Sustainability	Uncertain	Uncertain
Institutional Devt. Impact	Negligible	Negligible
Borrower Performance	Unsatisfactory	Unsatisfactory
Bank Performance	Unsatisfactory	Satisfactory

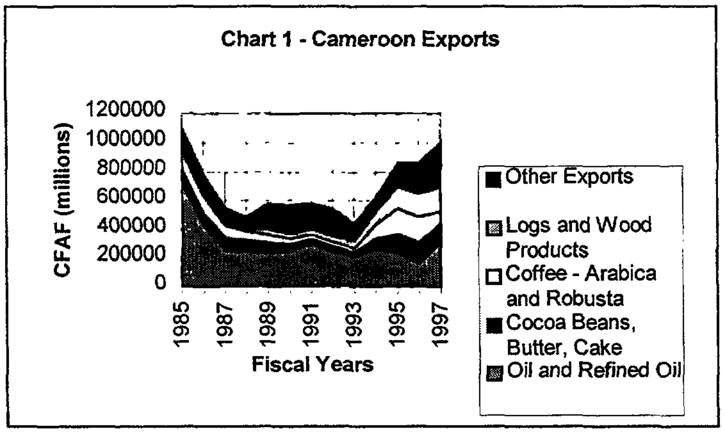
Key Project Responsibilities

	Structrual Adjustment Loan/Credit (Ln. 3089/Credit 2576)		
	Task Manager	*Division Chief*	*Director*
Appraisal	Peter Hanson	Pierre Landell-Mills	Michael Gillette
Completion	Brendan Horton	Jerôme Chevallier	Serge Michailof

	Economic Recovery Credit (Cr. 2627)		
	Task Manager	*Division Chief*	*Director*
Appraisal	Jacob Kolster	Luis Derbez	Oliver Lafourcade
Completion	Brendan Horton	Jerôme Chevallier	Serge Michailof

1. BACKGROUND

1.1 Prior to the mid-1980s, Cameroon enjoyed strong economic growth, averaging 7 percent per annum during 1960-85. After 1978, growth was propelled by rising oil production and oil-revenue-financed public and private spending. Government and public enterprise investment, much of it grandiose and uneconomic, grew rapidly. By FY85, oil production represented 15 percent of GDP, and oil accounted for 45 percent of government revenues and almost two-thirds of merchandise exports. With its buoyant revenues, the Government maintained a balanced budget, built up deposits in the banking system (thereby helping finance expanded private activity) and accumulated external reserves. Oil production peaked at 8.9 million metric tons in FY85 and subsequently began to decline. By FY95, the share of oil output in GDP had dropped below 8 percent.



1.2 After 1985, Cameroon was hit by a combination of highly adverse developments when, on top of the incipient decline in oil production and exports, the world prices of oil, cocoa, coffee and rubber fell. Furthermore, between FY85 and FY87, the CFA franc, tied at the fixed parity of CFAF 50=1 FF to the French franc, appreciated 48 percent vis-a-vis the dollar, in which commodity prices were expressed. The overall impact of these developments on oil and other export receipts in CFAF terms was devastating (Chart 1), with oil receipts alone falling 65 percent over FY85-87. As a result, the current account of the balance-of-payments swung from a surplus equal to 3.9 percent of GDP in FY85 to a deficit of 8.8 percent in FY87.[1] GDP declined 3 percent in FY87, 9 percent in FY88 and was expected to fall 6-7 percent in FY89. Investment dropped about 50 percent between FY86 and FY89 and imports about 40 percent.

1.3 The impact of the crisis on government finances was also severe. In FY87, the Government for the first time incurred a deficit, equal to 12 percent of GDP. This resulted mainly from a 28 percent fall in oil revenues between FY85 and FY87, still rising recurrent expenditures—particularly for wages, salaries and benefits—and the difficulty of rapidly curtailing public investment. The deficit was financed in part by the accumulation of domestic debt repayment arrears and the draw-down of the Government's domestic deposits in the banking

[1] The data in the body of the report in some cases differ significantly from those provided in Annex F, which have been compiled from government, Bank and IMF sources to provide a longer-term overview of Cameroonian economic developments. In the text, the data, some of which may have been preliminary, have been excerpted from contextually relevant Bank reports. It has not been possible to reconcile the discrepancies with the data in Annex F. It should be added that Cameroonian Government statistics are of poor quality. Only the broad movements recorded by the statistics should be assumed to be reliably described.

system. Both had the effect of reducing the liquidity of the banks and exacerbating the economic slowdown.

1.4 Cameroon's profound economic decline, linked to a large extent to the drop in oil production, prices and revenues, was far more severe than in the other CFAF countries and underlined the need to deal with the structural distortions that had arisen during the preceding period of oil-based, government-expenditure-driven economic growth. Also, it was evident that measures would have to be adopted to bring about much faster growth in private, non-oil exports—not merely to offset the impact of lower oil export receipts, but to satisfy the import requirements of renewed growth.

1.5 An immediate priority was to stabilize the Government's financial position and stem the accumulation of payment arrears to external creditors. Given the sharp decline in the Government's oil revenue base, this meant deep cuts in recurrent and capital spending, although the Government also tried to raise non-oil revenues. Beyond that, there was a need to implement a thoroughgoing reform of the budgetary process (so as to assure more effective allocation of increasingly scarce resources), to discharge redundant staff, to stop making payments to non-existent employees, and to eliminate the fiscal drag of chronic subsidies to inefficient public enterprises.

1.6 The Government initiated an austerity program in FY88 and succeeded in cutting the deficit to 6 percent of GDP. These efforts were supported in the second year by an IMF Standby, which aimed to reduce the deficit to 2 percent of GDP by cutting capital expenditures to a mere third of their average level of the previous two years. Government expenditures were slashed by 40 percent over FY88-89, but this led to a further slowdown in economic activity, the under-funding of social programs, and an accumulation of unfinished investment projects.

1.7 The Government also began to try to come to grips with its numerous structural problems. With Bank assistance, it had prepared comprehensive and detailed reform proposals, embodied in a 1989 *Declaration of Development Strategy and Economic Recovery*. This was supported by the Bank's Structural Adjustment Loan (SAL), identified in June, 1988, appraised in July, 1988, and, following two post-appraisals, approved by the Board in June, 1989.

2. THE STRUCTURAL ADJUSTMENT LOAN AND CREDIT

OBJECTIVES AND DESIGN

2.1 The stated objective of the SAL was to support government efforts to reverse the decline in Cameroon's GDP and achieve a positive rate of per capita output growth by 1995. Renewed growth was to follow from the introduction of measures designed to eliminate constraints on the realization of economic opportunities, foster increased competition, and reduce inefficiency in domestic markets. The state was to begin withdrawing from direct involvement in the production and distribution of goods and services and change its role to that of supporting a vigorous private sector. Moreover, the focus of public expenditures was to be sharpened with regard to improving the quantity and quality of public services provided to the poor.

2.2 The envisaged program was extremely wide-ranging, with major reforms to be initiated in the following areas:

- **Public Finances and the Civil Service**
  - Introduce improved methods of programming and budgeting
  - Establish better control over government salaries
  - Improve civil service productivity and management
- **Public Enterprises**
  - Restructure and rehabilitate the entire sector (however, only six enterprises were slated for privatization and 12 for liquidation)
- **Banking**
  - Restructure and rehabilitate the entire sector and improve credit and monetary policies
- **Agriculture**
  - Stabilize the financial positions of the state institutions engaged in marketing coffee, cocoa and cotton
  - progressively liberalize the trading regimes for these crops
  - create incentives for non-traditional agricultural exports and improved food security
- **Commerce**
  - Deregulate, in order to lower domestic costs
- **External Trade**
  - Rationalize regulation and reduce and rationalize effective rates of protection
- **Petroleum Exploration and Production**
  - Improve incentives for private participation
- **Health and Education**
  - Reorient policies toward more help for the poor
- **Forestry**
  - Reorient policies to foster greater competition and assure long-term sustainability
- **Social Sector**
  - Take specific actions to reduce the social costs of adjustment

2.3 Completion of the structural adjustment program was expected to take three to five years. The government proposals supported by the SAL covered the first 18-24 month phase and comprised 186 individual measures (summarized in Annex B). To ensure significant progress in implementing the key conditions of the structural adjustment program, release of the three tranches was subject to a large number of specific conditions (summarized in Annex C).

RELEVANCE

2.4 The Bank/IMF program failed to address Cameroon's immediate and urgent need to drastically realign its real exchange rate, which in practice could only be achieved by a steep nominal devaluation of the CFAF/FF parity. Although the need for a devaluation was widely recognized within the Bank, as well as in parts of the Cameroonian Government, as early as

1987, it was not openly discussed, because it was a politically sensitive issue[2] and because operational responsibility for managing the CFAF/FF parity lay with the French authorities and the thirteen governments in the CFAF zone. Moreover, overt discussion of the need for devaluation by the Bank could have encouraged destabilizing currency speculation. Bank staff were thus forbidden to engage in such discussion. In any event, among the Bretton Woods institutions, the IMF has prime responsibility for discussing exchange rate issues with member governments.

2.5 Given these constraints, the Bank/IMF program instead relied on internal compression of wages and prices to achieve the real depreciation needed to revive exports and shift the domestic structure of incentives towards increased production of tradable goods and services. However, there were significant structural impediments to any rapid downward ratcheting of wages and prices, as well as social and political opposition. The contention in President's Report that the structural adjustment program covered by the SAL would restore Cameroon's growth by 1995 was therefore unrealistic. The SAL was essentially irrelevant to Cameroon's short-term needs.[3]

ECONOMIC DEVELOPMENTS DURING IMPLEMENTATION

2.6 The lack of initial adjustment of public sector wages and salaries meant that the internal distribution of income became even more heavily skewed, and economic incentives shifted further in favor of the production of non-tradable goods and services and against the production of tradables. Furthermore, the country's terms of trade deteriorated by a further 13 percent during FY89-93. Moreover, Cameroon's real effective exchange rate, instead of declining to compensate for the collapse in export prices and receipts, rose a further 14 percent, adding to the bias against Cameroonian tradable goods production. Internal prices for the key agricultural exports declined further as the Government's financial position precluded the continuation of

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[2] The value of the very substantial French investments in the CFA zone would be affected by devaluation, as well as the level of French Treasury tax receipts. Also, many members of the CFAF zone elite enjoyed the benefits of the high CFAF exchange rate.

[3] Two years before the SAL was approved, the Bank was already fully aware of the looming difficulties stemming from the impending decline in Cameroon's oil production. The 1987 Country Economic Memorandum (Report No. 6395 CM), which provided the analytical basis for the SAL, pointed out that, with the anticipated decline in oil production, the balance-of-payments deficit would rise to over US$1 billion in 1991 and external financing requirements would rise, without adjustment, to levels that would exceed Cameroon's borrowing capacity. Despite this, with regard to alternative means of securing an adjustment towards a new balance-of-payments equilibrium, the report observed:

> In theory, stimulating *the reorientation of production towards exports* would necessitate a reduction of domestic prices in relation to external prices and an increase in the prices of tradables in relation to those of non-tradable goods and services. Since Cameroon's membership in the Monetary Union— an association that in fact brings with it many advantages—prevents it from changing the nominal exchange rate, it will have to resort to a series of measures in the areas of customs tariffs, taxation, price policy, credit policy and public finances and a package of economic and institutional incentives to secure the desired effects on its real exchange rate.

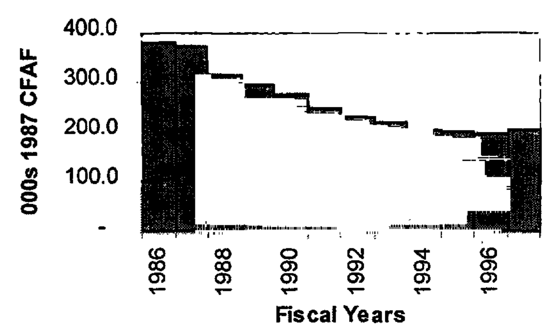
This wording suggests misgivings on the part of the author as to the efficacy of a policy of internal price compression to achieve depreciation of the real exchange rate and a desire to preserve the integrity of the analysis provided in the report. Nevertheless, the report went on to assume that the measures identified would be implemented and have the desired effects and projected relatively strong growth in non-oil exports over 1987-96. Under the report's assumptions, Cameroon's economic situation was deemed manageable, although at the cost of a very considerably enlarged debt burden resulting from greatly expanded government borrowing. The critical need for a nominal devaluation was thus set aside.

large stabilization payments. In consequence, both agricultural commodity exports and light manufacturing output declined.

2.7 As the depression deepened, the deterioration in the Government's financial position intensified and the overall fiscal deficit widened from 5.9 percent of GDP in FY89 to 8.4 percent in FY93. The IMF program broke down and the Government did not have the funds to meet some of the budgetary conditions of the SAL. Some donors stopped lending. The Government's enthusiasm for structural reform, not intense to begin with, waned as it tried to deal with more immediate problems, civil unrest, and mounting political opposition to the process, which was quite obviously not producing the intended results. Consequently, implementation of a number of the SAL-inspired reforms languished.

2.8 The continuation of the economic downtrends that had led to the Government's request for IMF/Bank assistance meant that Cameroon's external position deteriorated far more rapidly than internal wage and price compression (which did not materialize) could offset it. Thus, most of Cameroon's balance-of-payments adjustment had to result from the accumulation of arrears and import compression brought about by declining final demand and falling real output. As liquidity continued to drain from the banking system, credit became scarcer, and domestic activity continued to weaken. Domestic investment fell from 16.5 percent of GDP in FY89 to about 10.5 percent in FY93. Real GDP fell about 33 percent during FY86-94, and real per capita GDP by almost 50 percent (Chart 2), producing a massive upsurge in poverty. So far, there has been little recovery in per capita GDP.

Chart 2 - Cameroon - Real GDP per Capita



2.9 The continued deterioration, not only in Cameroon's internal and external economic situation, but also in those of the other CFAF countries, led the Government, in January 1994, under strong but discreet Bank prompting, with IMF support, and in conjunction with its CFAF zone partners and the French authorities, to devalue the CFA franc from 50 CFAF=1 FF to 100 CFAF=1 FF.

IMPLEMENTATION

2.10 As noted, implementation of even the first phase of reform supported by the SAL ran into severe difficulties. Government fulfillment of required actions ranged from reasonably complete in some sectors to virtually zero in others. The implementation record for the SAL/SAC, as reported by the Government, is summarized in Table 1:

Table 1: Implementation of Structural Adjustment Measures

Sector	*Planned Measures*	*Started or Implemented Measures*	*Measures Not Implemented*	*Uncertain*
Public Finances	27	18	9	-
Civil Service	17	16	1	-
Public Enterprises	20	16	4	-
Banking and Finance	23	20	3	-
Rural Sector	22	20	2	-
Industry and Trade	27	23	4	-
Transport and Infrastructure	5	4	1	-
Urban	12	-	-	12
Water, Energy and Mining	21	-	-	21
Human Resources	12	6	1	5
Total	186	123	25	38

Source: Borrower's contribution to PCR.

2.11 By the Government's own reckoning, only about two-thirds of the proposed measures were started and fewer still were implemented. Of these, many were behind schedule. The PCR offers an even less favorable evaluation, with reforms in only one area—trade and prices—rated satisfactory. (The PCR does not provide a quantitative implementation record.) As noted earlier, not all of the responsibility for the failures can be laid at the Government's door. The impact of the deepening depression on government finances was responsible for some of the slippage. Progress was achieved in some areas:

- The government wage bill was drastically cut—to 60 percent of its 1992 level—(although in an unsatisfactory manner, see para. 5.2) and government personnel, benefits and allowances were reduced.
- Some (very limited) steps were taken towards improving the efficiency of the civil service although concrete results were negligible.
- In a major, positive development, trade was liberalized, first by the elimination of QRs and import licensing and then, following the 1994 devaluation (see below), through the medium of a UDEAC-wide tax and tariff reform.
- Price controls remained for only a few goods and services produced by public monopolies.
- In another important advance, the state marketing board (ONCPB) was abolished and replaced by an organization of private marketing agents.
- Government-determined prices for Robusta coffee were abolished (although reference prices were retained on Arabica coffee and cocoa).
- Two commercial banks, the state development bank (BCD) and a rural development fund (FONADER), were liquidated and a commercial bank restructured; however, the remainder of the banking system faced a further crisis due to the effects of the Government's deteriorating fiscal position and the draining of liquidity from the system resulting from Cameroon's external imbalance and the attendant flight of capital.

- Some progress was made towards liberalizing labor markets via the adoption of a new Labor Code.

On the other hand, there were major shortfalls:

- Planned government expenditure allocations to priority sectors could not be achieved because of the decline in revenues associated with the depression.
- There was no noticeable improvement in the allocative process under the Public Investment Program or in procurement practices; the computerized investment selection system developed under the Economic Management Project (PAGE) was not used due to lack of coordination among ministries.
- Civil Service reforms proceeded at a slow pace, with only four ministries of the eight with staffing plans drawn up by the PAGE even expected to implement them by mid-1994.
- Public enterprise reform was very limited: the lack of public funds contributed to delays in carrying out both administrative liquidations and the financial rehabilitation of the excessive number of enterprises slated for it; and the sector continued to be a heavy drag on public finances.
- Little progress was made in promoting private oil exploration.
- Financial sector reform was incomplete, with serious problems persisting, while the restructuring of the National Investment Company (SNI) was only partly carried out because of Bank reservations about re-capitalizing it.
- The Forestry Code was modified by the Assembly in ways the Bank found unacceptable; however, the Bank agreed to waive the third tranche condition relating to forestry. Subsequently the Government undertook to submit a revised Code to the Assembly and the Bank made the adoption of satisfactory implementation decrees a condition for effectiveness of the ERC.
- The condition relating to the provision of adequate funding for the execution of the SAL was deemed not to have been fulfilled until the IMF endorsed the fiscal outlook under the 18-month Standby Arrangement in early 1994.

2.12 The remarkably frank borrower's contribution to the PCR makes it clear that those parts of the program critical to securing SAL tranche disbursements received much closer attention than those that were not. Effectiveness conditions relating to the partial lifting of QRs and the elimination of most price and margin controls were met in November, 1989, and disbursement of the first tranche took place in January, 1990. The second tranche covering the key elements of the reform program (Annex C), which was not to be released before March 31, 1990, was disbursed over a year later, in April, 1991, despite the lapsing of the IMF Standby and unsatisfactory execution of the stabilization requirements of the SAL. Cameroon's ability to meet the other release conditions appears to reflect formal but minimum compliance on the one hand and flexible Bank interpretation of compliance on the other. The third tranche condition relating to the existence of a viable macro-economic framework, which was not to be disbursed prior to eighteen months after approval of the SAC, i.e. prior to about December, 1990, could not be met without a currency devaluation, which did not take place until January, 1994; at this time the SAL was canceled and replaced by SAC 1 (see below), and the third tranche release conditions for the SAL became effectiveness conditions for the SAC. Disbursement took place in March, 1994. As noted above, the Bank waived the condition relating to passage of the Forestry Law. Notwithstanding the poor implementation of the SAL, there were individuals and factions within the Government who were strongly supportive of the reform program and were responsible for much of what was achieved.

2.13 The outcome of the SAL was highly disappointing in relation to the Bank's expectations, in that Cameroon's economic situation worsened substantially over 1989-94. However, given Cameroon's acute and unresolved external disequilibrium and the Government's half-hearted commitment and limited implementing capacity, the Bank's expectations were unrealistic to begin with.

2.14 Following the January 1994 devaluation, Cameroon was deemed not creditworthy for continued IBRD lending and declared eligible for IDA terms. The third tranche of the SAL was therefore canceled and replaced by a one-tranche release under an IDA Structural Adjustment Credit. The Bank further supported the devaluation with an Economic Recovery Credit that endeavored to address some of the shortcomings in the implementation of the structural reform program and to extend its scope in some areas.

3. THE ECONOMIC RECOVERY CREDIT

3.1 With the drastic devaluation and the resulting immediate massive improvement in domestic incentives to export, replace imports, and shift resources away from the production of non-tradable goods, the Government had an opportunity to boost the stimulus to the economy by intensifying the process of removing obstacles to improved growth that had started under the SAL. The underlying thrust remained the same: to reduce public intervention in economic activities, to shift the Government's role to that of providing support to the private sector, to remove existing constraints on a rapid expansion in efficient private activity, and to strengthen further the structure of incentives for the private sector. The program of measures to be undertaken, developed in consultation with the Bank, was promulgated in a *Memorandum on the Economic Recovery Program*. The program was supported by the Economic Recovery Credit (ERC), which was prepared and approved by the IDA within six months of the devaluation.

OBJECTIVES AND DESIGN

3.2 The ERC was for SDR 53.1 million (US$75 million), to be disbursed in one tranche at effectiveness. The credit was to finance needed imports following the devaluation, support the Government's budget, and provide for increased non-wage expenditures in key areas. The ERC essentially supported the ongoing reform process that started with the SAL. It incorporated specific elements of the program requiring actions additional to those already taken or under way. In general terms, the Government agreed to:

- Implement major tax and tariff reforms;
- Further reduce and re-allocate current expenditures while increasing and re-allocating investment expenditures and improving the public investment programming process;

- Downsize the para-public sector, increase its efficiency and transparency, and accelerate the pace of privatization;
- Strengthen incentives in the productive and production-supporting sectors by further deregulating prices, reducing the power of state monopolies, increasing the degree of private involvement in formerly public activities, and improving the maintenance of public economic infrastructure;
- Develop human resources via sustained improvements in health and education services, with greater public and beneficiary participation in policy formulation and management; and
- Take steps to alleviate poverty, notably via a strengthened emergency action program that would fund previously unfunded elements of the discontinued Social Dimensions of Adjustment Program[4] initiated in conjunction with the SAL.

A more detailed statement of the actions to be taken is provided in Annex D.

3.3 The Government's program was also supported by an IMF Standby Arrangement in the amount of SDR 81.1 million, by Paris Club rescheduling on generous terms, and by large Government of France commitments. Further assistance was anticipated from other donors, including the ADB, the EU and Switzerland. Cameroon was also to seek the rescheduling of its commercial debt, with servicing of the debt to be resumed following an expected agreement in FY95.

3.4 Following the indifferent implementation of the SAL, the Bank's lending strategy was formulated in such a way as to respond to the possibility of continued weak government commitment to the reform process under the ERC. In the event of unsatisfactory government performance, the future Bank lending program would be scaled back, with the extent of the cutback triggered by the degree of government non-compliance with certain basic conditions.

3.5 The credit was approved in June 1994, and was disbursed on May 12, 1995.

IMPLEMENTATION

3.6 The eventual implementation of the project was fairly complete but there were long initial delays, attributable to a misunderstanding on the part of the Government as to the extent of its commitments under the loan.[5] Government officials admit that Cameroon did not prepare well for the devaluation. They were unsure as to what was needed to ensure its success. With its one-tranche release and lack of explicit conditions, the credit was perceived by the Government essentially as a form of budget support and a reward for devaluing. The proceeds were applied to

[4] The SDA was canceled in June, 1994, three and a half years ahead of the planned closing date, after disbursing only 25 percent of the planned US$21.5 million, because of the Government's failure to implement most of the agreed measures.

[5] While the formal conditions for effectiveness were met, triggering the one-tranche disbursement, the loan supported a detailed government reform program, outlined in the Government's *Memorandum on the Economic Recovery Program*, to which the Bank expected the Government to adhere despite the lack of formal, legal conditions. The Bank's country assistance strategy stipulated that government failure to carry out adequate structural reform would be the trigger for a reduced lending program.

payment of external debt arrears. However, after the Bank made it clear that future Bank lending support would be contingent upon the Government's adherence to the reform program in the Memorandum, the pace of implementation picked up.

3.7 The main successes of the ERC were that, despite a poor start, government finances were brought under control, critical tax changes were implemented, interest rates liberalized, major tariff reforms carried out, the price regime further liberalized, some steps taken towards the rationalization of forestry operations, the petroleum sector partly opened up, and budgetary allocations to health and education increased. In most of the other areas, even where conditions were nominally met, progress was limited.

3.8 Over the seven-year period FY 1988-94, Cameroon's real GDP declined at an average rate of 5.5 percent a year. Over the three-year period FY 1995-97, real GDP has risen at an average rate of 2.9 percent per year.[6] The main factor in bringing about a change in Cameroon's economic situation since 1994 has clearly been the devaluation, which has led to a pick-up in the volume of cocoa, aluminum and other exports, a sharp recovery in the volume of coffee exports, and accelerated growth in the volume of log exports. However, the effects of these developments on Cameroon's balance of payments have been largely outweighed by those of declining oil exports. As a result, Cameroon's trade balance has improved only modestly and the reduction in the current account balance of payments deficit has been limited. Recovery in real GDP has been sluggish and GDP per capita has remained almost stagnant (Chart 2 above). Strong growth in private (domestic and foreign) investment is needed to offset the effects of continuing declines in oil revenues and public spending on domestic demand.

3.9 It is impossible to separate the economic impact of the ERC from that of the preceding SAL and the subsequent 1996 SAC II. However, even taking all three projects together, so far, it is difficult to identify the impact of structural adjustment on Cameroon's rate of economic growth,[7] although some of the improvement in Cameroon's non-oil export performance is almost certainly attributable to improved incentives stemming from the liberalization of commodity prices. Also, allowance must be made for the negative impact of still declining oil exports, which partly offsets improvements in other areas.

4. OVERALL ASSESSMENT

THE SAL/SAC

4.1 The SAL failed for five main reasons:

- **First** and foremost, it was the wrong medicine for the Bank to prescribe as a growth-restoring remedy in Cameroon's critical 1989 economic circumstances. What was needed, first of all, was a steep devaluation.

[6] See Annex F, Selected Economic Indicators. These data are based on numbers provided by the country team. IMF data show an increased rate of GDP growth after 1994, averaging around 5 percent p.a. in 1996-97. (See footnotes 1 and 8.)

[7] See previous footnote.

- **Second**, the Cameroonian Government had neither an adequate understanding of the magnitude of the economic crisis it faced - in part due to the chronically lamentable condition of its statistics[8] - nor of the policies required to deal with it. Furthermore, it adopted the Declaration of Development Strategy and embarked upon the structural adjustment program without the full understanding and commitment of those in ultimate political control. Moreover, dissemination of information that would help generate public understanding of, and support for, the reforms was limited. In consequence, the widespread perception prevailed - and persists today - that structural adjustment has been imposed on Cameroon by the Bank, rather than constituting a process that is very much in Cameroon's own long-term interests. Against this background, Cameroon's commitment to the aims of the adjustment program was and remains lukewarm, notwithstanding the strong support of some officials.

- **Third**, the Government lacked the effective coordinating and decision-making capabilities required to translate general policy objectives into the specific administrative decisions needed to realize them. In addition, it lacked the capacity efficiently to implement the decisions that were taken.

- **Fourth**, the Bank appears to have embarked on a highly complex SAL without fully understanding: (1) the nature of Cameroon's political power structure and its potential to impede the proposed reforms[9]; (2) the social and political complexity of the proposed measures; (3) Cameroon's limited coordinating and decision-making capabilities and (4) the limited administrative capacity of the Cameroonian civil service. It therefore considerably underestimated the difficulty of successfully implementing the reforms, as well as the time required to complete the process.[10] Moreover, the SAL was very wide-ranging, without clear priorities.

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[8] Seasoned Bank and IMF staff have noted that Cameroon's statistical base is the poorest they have encountered. It is coupled with a notable lack of transparency in government and para-public activities.

[9] For a carefully documented analysis, see The Politics of Nonreform in Cameroon, Nicolas Van De Walle, in Hemmed In, Responses to Africa's Economic Decline, Thomas M Callaghy and John Ravenhill, editors. Van de Walle maintains that, in Cameroon, there is a "negative synergy' between state capacity and patrimonialism and argues that:

> The regime has attempted to cut off some fat, to excise some of its patrimonial tendencies while maintaining its core logic. However, it has been unable to effcectuate fundamental changes in governance, because this would mean the end of the hegemonic alliance on which the regime is based. (*Ibid* p 359)

Bank internal memoranda have embodied similar conclusions. Elsewhere, Van de Walle states:

> The current state elite is too dependent on the current pattern of allocation to begin dismantling it. Thus, even in areas in which implementation is not problematic, liberalization is unlikely if it undermines important rent-seeking. Lip service will be paid to it, but specific reforms will be subverted or delayed. (*Ibid*, P. 385)

[10] In fairness to Bank staff, it must be noted that, pervasive external perceptions notwithstanding, Bank resources are very limited in relation to the scope and complexity of the tasks confronting the institution. Not infrequently, thinly stretched staff are forced to rely on broad experience as much as detailed knowledge of a country. This problem is compounded by incessant Bank reorganizations and staff changes, as well as by strong lending pressures emanating both from within and outside the institution.

- **Finally**, the Bank's leverage was limited in a situation in which the bulk of Cameroon's budgetary support was provided by the French authorities.[11]

In light of (1) the project's failure effectively to address its stated objective of restoring Cameroon's economic growth, (2) the Government's unwillingness or inability to implement a large number of the loan conditions, and (3) the difficulty of identifying a reasonably positive outcome for any adjustment component other than trade and price liberalization, **the overall project outcome is rated as highly unsatisfactory** (unsatisfactory in the EVM).

4.2 **Bank Performance.** The Bank decided to proceed with a SAL despite serious staff misgivings based, as noted earlier, on general recognition within the Bank of the need for prior devaluation of the CFA franc. Apart from the fact that initiating the SAL without a prior exchange rate adjustment severely compromised the project's prospects for success, the decision to proceed may be further questioned on the grounds that it implicitly represented the provision of massive balance of payments support for a heavily overvalued exchange rate and toleration of a very large and partly avoidable increase in Cameroon's external debt.

4.3 In view of the reliance to be placed on internal compression of wages and prices as the mechanism to effect the required huge downward adjustment in Cameroon's real exchange rate, it is surprising that the SAL did not make removal of the rigidities in wages and prices the centerpiece of Cameroon's initial adjustment. However, the program supported by the SAL included only imperfectly, and with little sense of priority, the measures needed to bring about wage and price compression. At the same time, it burdened the Government with a massive set of structural adjustment measures that severely strained its administrative capabilities and exacerbated the political opposition and social unrest that were mounting as a consequence of the Government's failure to take effective measures directly to counter the deepening depression. The program thus ran the serious risk of souring the political climate for reform far into the future.

4.4 Given the enormous difficulties and hardships likely to be associated with the compression of internal wages and prices as the mechanism of adjustment of the balance-of-payments, it may also be questioned why the program endorsed by the SAL called for the progressive removal of QRs on imports and an overall reduction in tariffs, which, in the absence of a compensatory nominal depreciation, would have the effect of further increasing the competitiveness of imports vis-a-vis domestic production, leading to additional declines in the output of tradable goods.

[11] The same problems that dogged the SAL/SAC were also experienced by the closely related Bank Public Sector Management Project (PAGE) and Social Dimensions of Adjustment Project (SDA). The execution of the former project, designed to provide centralized technical support to the implementation of the various components of the SAL, was also rated " unsatisfactory", as was the latter project, which attempted a direct assault on the problem of poverty in Cameroon within the overall SAL framework. The PCR for the PAGE project cites among the reasons for the project's failure: the opposition of political interests; weaknesses in the public administration; over-ambitious scope; and lack of government commitment to the underlying structural adjustment process. The PCR for the SDA project cites excessive complexity; lack of counterpart funding; weak government commitment; weak government capacity for implementation and coordination; lack of Bank evaluation of Cameroon's management capacity; and inadequate Bank appraisal and supervision.

4.5 On a positive note, government actions under the SAL/SAC made significant headway in liberalizing trade and prices and reducing public expenditure, even if progress in carrying out institutional reforms was very limited. More fundamentally, the program represented a useful blueprint for the initial stages of a long overdue, comprehensive, structural reform process that remains ongoing and can, if sustained and deepened, have highly beneficial longer-term consequences.

4.6 It must be conceded that there was no international consensus at the time about which institutional arrangements for the exchange rate were in Cameroon's best long-term interest. Moreover, had the Bank not seized the opportunity offered by Cameroon's economic difficulties to initiate structural adjustment, it is unlikely that the Government, given its overall reluctance to embrace reform, could have otherwise been persuaded to embark upon it. Moreover, the Bank, albeit belatedly, forcefully addressed the need for devaluation and supported it with the ERC, which also contained measures designed to enhance the effectiveness of the devaluation. Thus, although five years of deepening depression from which Cameroon has yet to make a vigorous recovery might have been significantly mitigated, the country is now on a sounder path than before 1989. Nonetheless, this outcome is partly fortuitous. Given the enormous social and political risks involved in initiating massive structural reform in unfavorable circumstances, it could well have been different. Furthermore, the Bank underestimated the difficulties involved in the restructuring, as well as the time required. Overall, notwithstanding some positive aspects, **Bank performance is rated unsatisfactory** (satisfactory in the EVM).

4.7 **Borrower Performance.** Over and above the problem of inadequate implementation springing from the Government's mounting financial difficulties as the depression deepened, the record indicates less than full Cameroonian political commitment to assuring the success of the country's structural adjustment efforts, insufficient public dissemination of information about the aims and implications of the program, inadequate government direction and coordination, and insufficient and uneven follow-through with specific actions. **Borrower performance is accordingly rated unsatisfactory** (satisfactory in the EVM).

4.8 **Institutional Development Impact.** Notwithstanding the initiation of efforts to strengthen the Government's policy implementation capacity, reform the civil service, improve budgetary allocation, strengthen the investment selection process, restructure and rehabilitate the public enterprise and banking sectors, open up the oil sector, and deregulate trade and commerce, concrete results were limited. The PAGE technical assistance project accompanying the SAL was rated unsatisfactory. **Institutional development impact is therefore rated negligible,** as it was in the EVM.

4.9 **Sustainability is rated as uncertain,** up from unlikely in the EVM (see Section 5).

THE ECONOMIC RECOVERY CREDIT

4.10 The President's Report portrayed the program supported by the ERC as a decisive break with the past, but it appears more to have been an effort to breathe new life into a process of reform that had begun with the preceding SAL and stalled under the impact of the depression and lack of government ownership, particularly with regard to institutional change. However, it is true that the Government, operating in a more promising economic climate after the 1994 devaluation of the CFAF, was somewhat more committed to the reform program. Nonetheless, the one-tranche disbursement on effectiveness meant that the Government had little financial inducement to introduce changes that provoked opposition from vested interests. The Government's pace of implementation picked up after the Bank made it clear that its entire future lending program would hinge upon satisfactory completion of the agreed-upon reforms.

4.11 Given the Government's administrative weaknesses, which were clearly apparent in the course of implementing the preceding SAL, and the political opposition that had to be overcome, the scope of eventually completed reforms under the ERC was significant. However, *institutional* reform was very limited and some of the changes were more apparent than real. **The outcome of the project is rated marginally satisfactory,** as it was in the EVM.

4.12 **Bank Performance.** The ERC was prepared very quickly. This limited the opportunity for the Bank fully to address the shortcomings revealed by the poor outcome of the SAL/SAC. Moreover, a clearer, more explicit statement of both the Government's adjustment obligations and the consequences of failure to meet them was lacking. Nonetheless, following the devaluation, with more solid prospects for economic recovery and renewed growth, the aims of the credit were appropriate and it led to eventual government implementation of significant reforms. **The Bank's performance is rated satisfactory,** as in the EVM.

4.13 **Borrower Performance.** The Government's actions under the loan were delayed and institutional development was negligible. The Borrower's performance is rated **unsatisfactory,** as it was in the EVM.

4.14 **Institutional Development Impact.** The main institutional reform elements related to improving the efficiency of the civil service and rationalizing government investment programming. Results were very limited. **Institutional development impact is rated as negligible** (moderate in the EVM).

4.16 **Sustainability is rated as uncertain,** as in the EVM (see Section 5).

5. SUSTAINABILITY

5.1 Cameroon's structural adjustment process began with the 1989 SAL/SAC and continued with the 1994 ERC, the 1996 SAC II and the 1998 SAC III. The US$150 million SAC II focused on improving public financial management and public administration, settling the Government's domestic debt, and continuing with the restructuring of the financial sector. The US$180 million SAC III focuses on: reducing transport and shipping costs while increasing the availability and quality of transport services; increasing the availability of water, electricity and telecommunications and improving the efficiency of the providers; expanding agricultural productive capacity; further strengthening the financial sector; and taking additional measures designed to assure environmentally sustainable and efficient logging and wood processing. Actual or approved Bank lending under the four adjustment projects now totals US$555 million. Several aspects of reform have required repeated Bank support.

5.2 In order to judge the sustainability of the structural reform initiative, which includes not only the SAL/SAC and the ERC but SAC II, related sectoral programs and the ongoing SAC III, it is helpful to evaluate the progress in each of the key areas of reform. The following provides a synopsis:

- **Government Finances**. The Government has made considerable efforts and now runs a primary surplus estimated at 5.8 percent of GDP. The overall fiscal deficit, after taking into account debt service, has been cut to about 2 percent of GDP from over 9 percent in FY93-94.
- **Trade, Taxes and Tariffs**. Major progress has also been made in all these areas, and the economic impact has been reinforced by the liberalization of prices, as well as by major tax reductions on agricultural exports. A significantly reduced average UDEAC external tariff is in place, with reduced dispersion, and, in principle, free trade prevails internally within the UDEAC region. However, in practice, numerous unofficial non-tariff barriers to inter-country trade persist and realization of the goal of unrestricted free trade remains elusive.
- **The Banking Sector**. The Bank has acknowledged that the banking reforms attempted under SAL/SAC I were poorly designed, incomplete and only partially implemented. Cameroon's economic situation continued to deteriorate rapidly, leading to technical bankruptcy of the entire system. Following the devaluation and a second round of banking sector reforms under SAC II, the banking sector has been substantially restructured and strengthened. However, there are still problems with the four small Cameroonian-owned banks and with the regulation of cooperatives. Recovery of deposits in the banking system remains weak. SAC III is seeking privatization of the remaining public bank and the two insurance companies, the liberalization of bank commissions and strengthened banking regulation.
- **Public Enterprises**. The emphasis under SAL/SAC I was to improve PE performance via performance contracts. This approach was subsequently perceived within the Bank to have been fundamentally flawed. Under the ERC, the Government accepted the need for greater emphasis on privatization, which it saw as a means to reduce the drain on the budget and as a source of revenue from the sale of assets. In 1994, it promulgated a *Declaration of Development Policy Concerning Enterprises in the Public and Para-public Sector* setting out the new policy. It has made substantial progress in liquidating insolvent enterprises, but privatization remains slow and very limited.
- **Civil Service**. Part of the cost of reducing the public sector deficit was drastically cutting civil service wages (except for the police and the military). This was adopted as an alternative to fully rationalizing government organization and staffing, which would have entailed a major reduction in the number of employees[12]. The number of civil servants has been reduced since 1990 by 28,000 but, of these, only 5,000 were actually laid off. Most of the rest were forced out by reductions in the retirement age. The effect of the salary cuts has been a serious decline in morale and efficiency, increased absenteeism, and a disturbing and pervasive rise in corruption, as well as discontent arising from the privileged treatment of the police and the military. The proposed rationalization of organization and staffing has not gone far, despite a great deal of preparatory work, partly because the ministries lack the funds to carry out necessary detailed studies of the functions of existing employees and partly for lack of political will at the ministerial level. The proposed integrated, computerized payroll system (SIGIPES), designed in part to eliminate corruption, is still not functioning as anticipated. Proposed career planning initiatives have not been carried out,

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[12] The political difficulties involved in reducing the number of civil servants stemmed from the fact that civil servants are paid salaries far in excess of those paid in most parts of the private sector. Van de Walle, *op cit*, noted, in 1993, that the average bureaucrat's annual salary was more than 50 times that of the average farmer. Losing a civil service job was thus far more traumatic than suffering even a major salary cut.

there are no funds for proposed professional training and the professional training institutes are starved for funds. Overall, the civil service appears to have deteriorated rather than improved since the onset of structural reform efforts.

- **Public Investment Program**. The proposed rationalization of public investment decisions has made virtually no progress, mainly because the public investment program has been gutted by the measures taken to reduce public expenditure. (Government investment fell from 18 percent of GDP in 1987 to about 5 percent in 1989 and under 1 percent in 1996.) Loss of qualified staff and demoralization of the remaining staff have also taken their toll.
- **Agriculture**. The devaluation, coupled with the elimination of the state marketing monopoly, spurred coffee and cocoa production and exports, but some of the new, private marketing organizations have exploited unsophisticated farmers. The Government is attempting to promote cooperative marketing by the farmers themselves. Food production and exports to Gabon and Nigeria have increased substantially, with many farmers switching out of coffee and cocoa production. Cotton production has risen and farmers are planting more palm trees. The streamlined delivery of government services to farmers is having a beneficial impact, and pilot improvements to research and extension that were introduced under the SAL are being extended to all provinces. The main current impediments to more rapid growth in agricultural output are limited access to credit and inadequate feeder roads. The credit access problem stems from the lack of a clear government strategy rather than from lack of donors' willingness to finance. The four largest state agricultural enterprises are to be privatized under the provisions of SAC III.
- **Energy**. The transport and distribution of petroleum products has been liberalized but the monopoly on the supply of crude oil is being lifted only slowly. The refining company, is gradually being prepared for privatization and the state petroleum product distribution company is also to be privatized.
- **Transport**. Major bottlenecks in the transport sector, notably in the operations of the port of Douala and in maritime transport, are being addressed under SAC III. The commercial activities of the railway company are being taken over by private concessionaires, air transport is being opened up to more competition, and the chronic problem of inadequate road maintenance is being tackled.
- **Forestry**. Government forestry policy, implemented by decree under the ERC and to be more strictly enforced under SAC III, calls for greater transparency in the granting of concessions, increased competition, taxation to cover resource rents previously accruing to favored individuals receiving logging concessions, rational land use management, economically sound exploitation of the forestry resources, and the adoption of sustainable logging practices. Logs have become a very valuable resource but logging arrangements have, until now, remained obscure and logging practices have been environmentally irresponsible.
- **Reduction of Poverty**. The Social Dimensions of Adjustment project (conceived within the framework of the SAL[13]) was a failure for several reasons: the Government lacked the funds to meet its share of the financing, the project was too complex, a number of components were left to be defined by subsequent studies, and there was a lack of political will. Some elements of the program are still being financed by other donors, but the Bank has appropriately re-focused its efforts to concentrate on core sectoral programs, notably in

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[13] The action matrix for the SAL left most of the human resource development and protection of the poor initiatives to be defined by the subsequent specialized SDA appraisal mission. Thus the SDA project, although conceived of as an integral part of the overall structural adjustment program, was structured as a separate US$21.5 million project.

health and education. Government budgetary allocations to health and education have increased in absolute and relative terms as required under the SAL. It will be important to monitor the practical impact of these increases in terms of actual delivery of significantly improved services to the poor. Efforts are underway to develop a coordinated anti-poverty initiative in education and agriculture involving donors, the government, NGOs, the private sector and the intended beneficiaries. However, education has deteriorated since the 1980s.

- **Gender Issues**. Progress in improving the status of women is difficult to achieve in the face of traditional attitudes and roles. Particularly in the rural areas of the north and east, few girls are left in school after the age of ten. The Government is making some efforts to change attitudes (e.g., via exhortations on TV), but they are not very effective, and the political will to achieve real results appears weak. The Bank included in the SDA project several components designed specifically to assist women, including preparation and adoption of a population policy, support for maternal and child health, and policy and institutional improvements to include women more fully in economic development. As noted above, the Government failed to implement the components of the SDA effectively and it was canceled. However, women will benefit from increased expenditures on health, education and municipal services under the structural adjustment program and sectoral projects, as well as from improvements in support to small-scale agriculture.
- **Procurement**. Despite the attempts at reform, public procurement remains unsatisfactory. It is divided between ministerial boards and a national board (composed of members from all over Cameroon), depending on the amounts involved. Delays result from failure to reach quorums, political infighting and rent-seeking on the part of underpaid officials.

5.3 The structural adjustment process is likely to be sustainable in the sense that the Government is more committed to it now than at the outset and it is generally conceded in Cameroon that it is too late to turn back. However, the political elite are still not wholeheartedly behind reform nor particularly responsive to the Assembly, rent-seeking attitudes remain deeply ingrained, the judicial, regulatory and enforcement regimes are weak and corruptible, and there is little evidence of the upsurge in private investment—particularly foreign private investment—that Cameroon needs. Government investment is far below minimum required levels. Excessive population growth (currently 2.9 percent per year) and relatively weak real GDP growth (about 5 percent per year) imply only slow improvement in per capita incomes and government revenues and serious constraints on the Government's ability to increase expenditures on health, education and public investment, improve economic conditions for the poor, and raise the educational and economic status of women.

5.4 Without much fuller acceptance of the need for reform on the part of the political elite, more responsive government, a stronger administration, better government explanation—and public acceptance—of the rationale for restructuring the economy, effective deterrents to corruption, greater emphasis on primary and secondary education, health and family planning, more concern for the environment, and major legislative, regulatory, contract enforcement, and transparency-enhancing actions to remove barriers to entry and attract and retain foreign investment, Cameroon's economic future will remain clouded and donors' reform efforts will remain sisyphean.

6. LESSONS FROM THE PROJECTS

THE SAL/SAC

6.1 **The most important lesson** to be drawn from the Bank's experience with the SAL/SAC is that it was a mistake (in terms of the likelihood of project success) to launch an extremely wide-ranging and detailed structural adjustment program in the middle of an unresolved balance-of-payments crisis, over the reservations of Bank professionals.[14] It was also a mistake to rely on the internal compression of wages and prices as the sole means of restoring equilibrium in the balance-of-payments.

6.2 **Second**, there is need for earlier awareness of, and far greater international sensitivity to, the economic adjustment needs of developing countries, such as those in the CFAF zone, tied by rigid exchange parity links to the currencies of major countries experiencing sharply different economic conditions. Cameroon and some of the other CFAF zone countries could have been spared a great deal of economic pain and the nullification of years of previous anti-poverty effort by an earlier devaluation. Whether the fixed link of the CFAF to the French franc on balance serves the fundamental, long-term economic interests of the CFAF zone countries appears to merit objective economic study.

6.3 **Third**, structural adjustment is highly unlikely to be successful where the government's ownership of the process is not complete and public understanding of what is needed to improve the country's economic situation is lacking. It is even less likely to succeed where the Bank's leverage is, in addition, limited. Such situations lend themselves to the Bank being played off against other donors and to the government doing the bare minimum needed to meet Bank tranche release conditions. The Bank needs to identify the locus of effective political power in the borrowing country and make a realistic assessment of the depth of the borrowing government's ownership, as well as its own leverage, prior to initiating a major reform program. President's Reports might perhaps abandon their traditional, somewhat disingenuous optimism in favor of greater realism, given that such optimism is so often shown by experience to have been unfounded. In Cameroon's case, the signing of policy declarations proved not to provide credible assurance of unequivocal government support. In such cases, if the Bank nonetheless opts to lend, tranche releases should be contingent on closely monitored and fully completed actions.[15]

6.4 **Fourth,** Cameroon's structural adjustment experience, like that of numerous other countries, demonstrates that policies can typically be altered more readily than politically entrenched institutions can be transformed, laws modified, or basic attitudes changed. The Bank needs to take more explicit cognizance of the fact that structural adjustment is not simply a

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[14] The information on which this report is based does not permit any judgment to be reached as to whether non-project-related reasons were or were not sufficiently compelling as to justify management's recommendation of the loan irrespective of the poor prospects for the program's success, the Bank's implicit endorsement of an overvalued exchange rate, and its toleration of a large increase in the Government's external debt.

[15] This lesson has already been applied to some extent by the Bank to the design of the Third Structural Adjustment Credit, in which four floating tranches, each contingent upon the completion of critical steps in the reform process, are an innovative feature. The President's Report appropriately notes that "it is vital to reward outcomes rather than inputs and/or promises."

technical process but one typically requiring fundamental changes in political, judicial and social institutions and even more profound changes in ideology and moral attitudes. The latter must come from within a country; they cannot be successfully imposed from without.

6.5 **Fifth**, the Bank needs fuller recognition of the fact that structural adjustment, particularly in the African context, while relatively simple in concept, is typically extremely difficult, highly resource-intensive and time-consuming to implement in practice. The task of carrying out complex reforms is often beyond the capacity of a weak administration, and the problem is compounded where unequivocal political commitment to the reforms is lacking. An integral part of the Bank's appraisal process should be an in-depth assessment of a government's capacity to coordinate and implement a proposed program, so as to permit, where appropriate, simplification of design or early identification of technical support requirements. Time-tables for the implementation of difficult institutional reforms should take fuller account of the government's administrative limitations.

6.6 These considerations point to the need, in what are expected to be difficult country contexts, for more thorough preparation of adjustment programs and expansion of their scope to cover relevant political analysis and the identification of key institutional constraints. This would, of course, place even heavier demands on already severely limited Bank resources. In the absence of any increase in those resources, the Bank may need to limit its structural reform efforts to the more promising cases. Furthermore, it could try to assess, in any given case, the *optimum scope* for reform. It might well improve its effectiveness and increase the success rate of adjustment projects if it were, where appropriate, to set more limited but more fully realizable objectives. This would mean, however, that carrying structural adjustment to a successful conclusion would take longer than the Bank has heretofore envisioned.

6.7 **Sixth**, the Bank's frequent staff changes disrupt continuity in Bank support to structural adjustment, which is typically a process lasting a decade or more. Greater continuity in Bank representation would facilitate more effective dialogue with country counterparts, permit increased depth of understanding of country issues, and increase the ratio of productive to learning time. The strengthening of the Bank's resident mission with locally recruited staff has mitigated this problem but not eliminated it.

6.8 **Seventh**, the Bank needs to clarify its poverty reduction priorities. The potentially overwhelming impact of economic decline or substandard growth on the poor needs to be borne in mind by the Bank in determining its country focus and internal resource allocation. In the case of Cameroon, substantial amounts of limited Bank resources were largely wasted in preparing unsuccessful, in some respects inadequately defined, micro-interventions to reduce poverty that received only lackluster government support and that the Government lacked the capacity to implement. Getting economic stabilization and growth-enhancing policies right and assuring that adequate resources are devoted to the *sustained, consistent, long-term* support of *effective* basic health and education programs appear to constitute the essential pillars of any realistic program to reduce developing country poverty.

THE ERC

6.9 **The chief lesson** from the project is the inverse of the same lesson provided in negative form by the SAL/SAC: reform programs can be more readily implemented in an improving economic climate than in a deteriorating one. A climate of economic recovery not only mitigates political opposition to change but strengthens the Government's position and increases its self-confidence to press ahead.

6.10 **Second**, the Bank should, when providing one-tranche support to a major country policy initiative, such as Cameroon's devaluation of the CFAF, make clear *from the outset* that the structural adjustment conditions of the loan or credit, despite the absence of formal tranche release conditions, still need to be fulfilled promptly. It should also be made clear from the outset, where appropriate, that prompt fulfillment is a condition of continued Bank/IDA lending support.

6.11 **Third**, full ownership by the political elite and effective efforts to enlist public support to the aims of reform are critical to successful structural adjustment.

Region's Response to the PAR

The report is well written, pertinent and likely to be helpful to the current Cameroon Bank team. However, the Region questions its conclusion that Bank performance was satisfactory under the ERC, but unsatisfactory under SAL I/SAC I. The ERC was a continuation of SAL I, with the exception that the ERC occurred in the aftermath of the 1994 devaluation, making the overall macroeconomic situation potentially much more manageable. The relevant question the report should address is whether Bank performance was satisfactory given the constraints it was working under.

It is certainly correct to say that government commitment to reform was lackluster under SAL I. In part, this was because Cameroon had been spared the need to adjust in the 1970s and the early part of the 1980s due to expanding oil production. The authorities initially regarded the mid-1980s crisis as temporary. Trying to devise and implement a far-reaching adjustment program in these conditions was extremely difficult.

The report concludes that we should not have done SAL 1, since internal adjustment was the wrong medicine. A steep devaluation was needed instead. This is the same message much of the Region had been preaching since 1986, when the terms of trade shock and decline of the dollar took place. We did increasingly more sophisticated work on the reasons for devaluation, including pointing out the consequences of relying on internal adjustment. We said it would take at least ten years to adjust relative prices with internal adjustment and the CFAF zone could not withstand the impact of the social and political pressure this would engender. Cameroon and Cote d'Ivoire, with 50 to 60 percent overvalued real exchange rates, were the most vulnerable. However, the exchange rate was not a policy variable under SAL I. Indeed, to speak of it was to invite serious criticism and complaints from other multilateral and bilateral agencies. In some cases, the Bank came under pressure to remove staff who spoke of the issue.

The basic problem with the approach of this report is that it attempts to assess the problem in terms of Cameroon, when in fact it was a zone-wide problem, and the main focal point of the policy debate was Cote d'Ivoire not Cameroon. In this wider context one can understand the dilemma facing Bank management and staff. Neither the principal bilateral donor, which also exercised considerable policy influence in the CFA zone, nor the IMF were prepared to support devaluation in 1989, and the Central Banks and many governments and business interests were also opposed. There was pressure to keep financing the growing gap in Cameroon and in other countries while attempting to work out a consensus. France, which was bearing a good part of gap financing and the IMF needed our participation, and we needed support for IDA replenishments and SPA. We could not address the devaluation issue openly in view of the opposition.

The continued quick disbursing lending was not seen by Bank staff as irresponsible, although there was a debate about whether it should continue on economic grounds. We took every occasion to influence the Board, which became overwhelmingly pro devaluation by 1991. In part, adjustment lending was seen as a way to address necessary structural and complementary issues pending a devaluation. The Bank was also aware that the fiscal constraint was reducing the amounts available to maintain vital social spending The SAC and other budgetary support also served this purpose. In the event, Cameroon lost one-third of its primary school enrollment between 1989 and 1993. The OED report seems excessively preoccupied with the exchange rate when, as later evidence showed, adjusting relative prices would still not solve all issues related to privatization, liberalization, civil service reform, public investments, lack of institutional capacity and human resources development, not to mention political will and stability.

In 1989 the Region prepared a secret paper for Cameroon's Minister of Plan, who asked for our advice. The paper laid out the case for devaluation on economic and social grounds and the advantages in terms of growth, public finances and poverty. Following the 1989 operations we stopped adjustment lending in Cameroon and Cote d'Ivoire in view of the distorted macro environment. The Fund refused to grapple with the exchange rate issue until later.

The analysis in para. 2.5 that the Bank and Fund relied on internal compression of wages and prices to achieve real depreciation is a bit like destroying a straw man. We did not believe this was possible, as the report recognizes, as all our analysis pointed to wage rigidity. In fact, we were not informed about the cut in nominal wages in 1993 and would have opposed it for precisely the reason alluded to in para. 5.2, i.e. the impact on incentives and efficiency.

An important issue concerns the presumed failure of the SAL to restore promised growth by 1995. Even with the devaluation as late as January 1994, the country by 1995 was generating sustained real 5 percent growth rates, with significant improvements in the public finances. This contrasts with the negative finding in para. 3.9.[1] Even the report notes that a good part of SAL 1 measures were adopted, despite all the macro constraints.[2] There were also substantial up-front measures which preceded the SAL. Looking at the structural reforms envisaged under SAL I, a fair amount was achieved on the liberalization front (trade, prices, labor code). On the forestry front, the Bank stuck to its position and refused to release the third tranche because the relevant conditionality was not satisfied and because the overall macroeconomic framework was not consistent with program objectives.

The banking system reform of 1989-91 did not restore a sound system because of the huge arrears built up due to unpaid crop credits, unpayable bank loans to public enterprises and government inability repay suppliers who had borrowed from the banks which could not be liquidated. The 1996 banking reforms worked because the public sector was no longer destabilizing the financial sector.

The projections in SAL 1 were in fact unrealistic in the absence of a devaluation, but management and the Board wanted to show robust growth rates in such operations, and no one could predict a devaluation in a Board report, even though it was implicit. The devaluation was achieved because of the courageous and determined policies pursued against substantial political opposition, and the Region does not agree that SAL helped sustain an overvalued exchange rate given the context described above. Instead it was part of the process of achieving a significant development victory. The Cameroon SAL was one part of the process, which was delayed for reasons not discussed in the OED report, of bringing about adjustment and restoring growth and the incomes of a substantial part of the lower income farming and urban tradable community.

[1] See footnote 6 to the main text.

[2] The report notes that two-thirds of the proposed measures were started; fewer were implemented.

KEY MEASURES TO BE TAKEN BY THE GOVERNMENT UNDER SAL 1 /SAC 1

Public Finances
- Strengthen planning, programming and budgeting
- Restore equilibrium in the budgetary accounts

Civil Service Reform
- Control wage bill
- Improve personnel management and introduce evaluation based on job performance

Public Enterprise Reform
- Reduce the financial drag of the public enterprises on the public sector via measures including the signing of performance contracts for some entities, preparations for the privatization or liquidation of others, and the preparation of diagnostic studies with a view to rehabilitation of the remainder
- Minimize social impact of reforms
- Improve performance of enterprises remaining public via reform of the legal and institutional environment
- Establish reform monitoring and implementation capability

Financial and Banking Sector Reform
- Prepare to restructure or liquidate individual banks
- Resolve the liquidity crisis by negotiating agreements with the Government's main creditors and seeking assistance from the Central Bank (BEAC)
- Reform the crop credit system
- Strengthen bank supervision
- Improve loan recovery
- Adapt tax system to needs of banking sector
- Improve bank profitability via improved margins and eventual liberalization of interest rates
- Initiate efforts to remove credit ceilings and set up money and financial markets

Rural Sector
- Raise production by improving extension system and research and eliminating subsidies following privatization of fertilizer distribution
- Modify primary export commodity price policy to reflect world market conditions, exchange rates, budgetary constraints and farmers' income needs, and reduce farm taxes and marketing costs.
- Increase competitiveness of agricultural exports through limited opening up of export marketing to competition
- Improve the efficiency of the state marketing boards (ONCPB and SODECOTON) and reduce intervention in cooperatives

Forestry and Environment

- Improve the institutional and legislative framework so as to upgrade forestry management, promote more environmentally responsible use of resources and involve the rural population
- Redefine the role of the public enterprises
- Promote wood processing by standardizing products and encourage use of secondary species

Industrial and Commercial Sector

- Remove investment barriers
- Eliminate export taxes (except on logs)
- Progressively eliminate QRs
- Reduce level and dispersion of tariffs
- Liberalize prices and margins
- Monitor competition; ensure it benefits consumers
- Provide free access to trade
- Simplify and harmonize taxes
- Modernize the legal code for business
- Reduce regulatory restrictions on employment

Transport and Infrastructure

- Increase cost recovery
- Increase maintenance expenditures
- Study ways to increase return on airport investments

Urban Sector

- Prepare for improved integration of urban and economic development
- Improve municipal resource mobilization and initiate process of improving municipalities' technical capabilities
- Improve functioning of real estate markets by strengthening property title registration and the return on state lands
- Develop private sector and municipal roles in site development and housing construction
- Water and Sanitation
- Adopt measures to improve administration and financing of Cameroon's urban drinking water supply and sanitation
- Take initial steps to improve drinking water supplies to villages

Energy and Environment

- Restructure the National Electricity Company (SONEL)
- Improve energy conservation
- Diversify energy sources
- Improve the gas pipeline system
- Adopt a National Gas Plan
- Revise petroleum legislation and strengthen incentives to petroleum companies
- Strengthen monitoring of electricity and petroleum sub-sectors
- Adopt environmental standards and industrial waste legislation

Mining

- Review legal base for exploration and development, undertake studies and prepare maps, with a view to establishing mineral reserves and improving geological and mining information

Human Resource Development
- Define health, population, education and training strategies
- Increase resource allocations to basic equipment purchases in health and education and define improvements in cost recovery
- Tailor health and education sector investments to priority areas via multi-year investment program

Social Dimensions of Adjustment
- Provide basic materials and equipment to health and education sectors
- Identify population policy measures
- Take actions to encourage income-generating activities to absorb redundant public and public enterprise sector employees
- Develop strategies to enhance role of women in development
- Establish funds for employment and community development
- Incorporate social considerations in developing macro-economic programs and strategies
- Improve socio-economic monitoring

Actions to give concrete effect to the somewhat vague proposals in this area were to be defined on completion of the SDA appraisal mission.

TRANCHE RELEASE CONDITIONS FOR THE SAL

First Tranche

Conditions for effectiveness and release of the first tranche were the partial lifting of import restrictions and the elimination of most price and margin controls on goods and services.

Second Tranche

The conditions for release were designed to ensure that significant progress was made towards implementing the key structural adjustments called for under the program. They included:

- Incorporating in the budget a public expenditure program, levels of health, education, agricultural and road maintenance expenditures, and resources for restructuring banks and public enterprises, as agreed with the Bank
- Establishing an operational programming and monitoring system for the P.I.P.
- Signing performance contracts with 6 public enterprises and completing negotiations with 3 more
- Adopting action plans to liquidate 3 state banks and restructure key commercial banks
- Establishing (1) floor prices for coffee, cocoa and cotton at levels minimizing the need for state support and (2) setting up a system for sharing marketing surpluses
- Further liberalizing trade and prices via: additional reductions in QRs and import licensing; the elimination of additional price and margin controls; the adoption of legal changes to permit free access to trade at all levels of distribution and eliminate monopolies; the promulgation of a revised investment code; and completion of a study on export incentives
- Making best efforts to provide adequate funding for the execution of the program.
- Incorporating in the budget a public expenditure program, levels of health, education, agricultural and road maintenance expenditures, and resources for restructuring banks and public enterprises, as agreed with the Bank
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- Making best efforts to provide adequate funding for the execution of the program.

Third Tranche

The third tranche, which was not to be released prior to about eighteen months after approval, called for further progress in carrying out the program via the following:

- Agreed P.I.P. and budgeting provisions
- Downward adjustments in civil service benefits
- Adoption of organizational and staffing plans for 4 key ministries and initiation of studies for 3 other ministries
- Signature of performance contracts with 9 public enterprises and preparation of action plans for others
- Implementation of action plans to liquidate CAMBANK, BCD and FONADER and restructure SCB; adoption of action plans to restructure SNI and restructure or liquidate BPPBC
- Redefinition of role of National Products Marketing Board to permit increased private sector role in marketing and exporting
- Modification of forestry regime and promulgation of revised Forestry Code to promote rational forest exploitation and long-term conservation
- Removal of remaining QRs; further removal of price and margin controls; promulgation of revised Labor Code reducing labor market rigidities
- Provision of adequate funding for execution of the program

Main Measures to be Taken by the Government under the ERC

Tax and Tariff Reform

- Implement a UDEAC-wide tax and tariff reform involving: the introduction of a value-added tax; the simplification of the tariff structure; a reduction in rates; and the elimination of exemptions
- Reform the income-tax system so as to simplify and lower the rate structure and broaden the tax base
- Repeal tariff and sales tax exemptions under the Investment Code
- Renegotiate special tax privileges under the "Convention d'Etablissement"
- Eliminate all tax and tariff exemptions for public enterprises and subject them to the general tax regime

Wage Restraint and Budgetary and Civil Service Reform

- Further reduce the government wage bill to 5.5 percent of GDP by 1994/5 and improve efficiency by initiating administrative and institutional reforms via the adoption of organization and staffing plans
- Adopt a revised Civil Service Statute
- Increase non-wage current expenditure allocations to primary and secondary education, health, agriculture, and the maintenance of transport infrastructure and assign these sectors priority in the execution of the Treasury cash budget
- Increase domestic financing of investment three-fold over 1994/95—1997/98 and increase the shares of education, health, agriculture and infrastructure
- Strengthen public investment programming by: setting levels consistent with macro-economic objectives; basing the intersectoral distribution of investment on a comprehensive development strategy; basing the intrasectoral distribution of investment on sector strategies and rate of return criteria
- Improve the coherence and transparency of investment programming by providing line ministries with clear selection guidelines and the planning ministry with adequate arbitration authority

Public Enterprise Reform

- Identify each year 10 public enterprises to be privatized or liquidated under the Sector Policy Declaration
- Establish powerful, autonomous unit to be responsible for PE reform and monitoring retained enterprises' performance
- Give PE managers greater autonomy and require greater accountability
- Introduce private participation and private management contracts to improve PE performance
- Require preparation of annual certified accounts subject to audit by qualified auditing firms and improve shorter-term reporting
- Require adherence to accepted accounting standards
- Improve internal reporting

Freeing Prices and Increasing Production Capacity

- Following the removal (already accomplished) of all remaining import licensing. reduce or suspend taxes and tariffs on rice, wheat/flour/bread, sugar, and vegetable oil for 6 months in order to mitigate the impact of food price increases following the devaluation
- Following completion of domestic price deregulation except for petroleum products, medicine, textbooks, and public utility rates (already accomplished) monitor electricity, water, transport and petroleum product prices to ensure productivity gains passed on to consumers
- Abolish reference prices for cocoa and robusta coffee
- Liberalize the cotton sector and introduce private capital participation in SODECOTON
- Amend the Forestry Law in line with the Government's Policy Declaration so as to make logging concession awards process transparent, reduce the role of the state, and remove the ban on log exports; in the interim, adopt a Forestry Law implementation decree being prepared in consultation with the Bank
- Complete preparation of new petroleum sector policy; eliminate the SNH (national oil and gas company) monopoly over the supply of crude oil to SONARA (the national oil refinery); eliminate the monopolies of SONARA over refining and SCDP (state petroleum distribution company) over distribution; require SNH, SONARA, and SCDP to prepare certified annual accounts subject to annual audits; require SNH to provide quarterly reports on its financial operations; introduce private equity participation into the state petroleum sector enterprises; strengthen exploration and production incentives for private petroleum companies
- Implement the transport sector strategy calling for: improvements in the external efficiency of all forms of transport and increased private participation in enterprises and road maintenance; reduction of PE deficits and losses; strengthened sector management and performance; improve resource mobilization through the harmonization of road taxes and improved road financing mechanisms; improved rehabilitation and maintenance of transport infrastructure; reforms in customs procedures; improvements in road transport

Developing Human Resources

- Identify most pressing social/educational issues; organize a national debate on educational sector policies; monitor the execution of the education budget; increase the primary education budget; increase the budget for classroom materials; agree annually with the IDA the composition of the investment budget; redefine the Government's role in education
- Decentralize health service delivery and management; share management and financing of health care with beneficiaries; implement an essential drugs policy; carry out national population policy of facilitating access to family planning services, providing health information and education, promoting responsible parenthood, and improving research and coordination.

Alleviating Poverty

The devaluation and the measures or to be taken by the Government under the ERC to enhance its impact were intended to bring about a sharp reversal of the economic decline that had been the cause of Cameroon's deepening poverty over most of the previous decade. These initiatives were thus the essential main thrust of the Government's efforts to reduce poverty and of overwhelming importance in determining the success of those efforts. The devaluation immediately increased the prices received by rural producers of the traditional agricultural exports, as well as the producers of all other tradable goods, leading to rapid recovery of their incomes. In addition, the phasing out of stabilization taxes on rice, flour, sugar and palm oil and a temporary remission of tariffs on these staples were designed to mitigate the adverse impact of the devaluation on real earnings and would particularly help urban consumers. Non-wage expenditures in health and education were also raised. Under the ERC, the Government incorporated a Social Action Program (SAP) into its broader Emergency Action Program. The SAP included the following additional measures:

- Assumption by the EAP of previously unfunded components of the Social Dimensions of Adjustment (SDA) Program, viz.:
    - The SDA Technical Coordination Committee, to manage the implementation of the EAP
    - The National Employment Fund providing counseling, vocational training and support for micro-enterprises
    - A household survey to monitor social conditions as a basis for initiating actions to alleviate poverty
    - An expanded education component

The EAP, in addition, was to include labor-intensive urban sanitation, water and electricity supply, and road and gutter maintenance activities. It was also to provide health services in rural areas.

BASIC DATA SHEET

STRUCTURAL ADJUSTMENT LOAN (LOAN 3089-CM) AND STRUCTURAL ADJUSTMENT CREDIT (CREDIT 2576-CM)

Key Project Data *(amounts in US$ million)*

	Appraisal estimate	*Actual or current estimate*	*Actual as % of appraisal estimate*
LOAN 3089			
Total project costs	150.0	100.0	67%
Loan amount	150.0	100.0	67%
Cancellation	0	50.0	--
CREDIT 2576			
Total project costs	50.0	50.0	100%
Loan amount	50.0	50.0	100%
Cancellation	0	0	--

Cumulative Estimated and Actual Disbursements

	FY90	*FY91*	*FY92*	*FY93*	*FY94*	*FY95*
Loan 3089						
Appraisal estimate (US$M)	50.0	100.0	150.0	--	--	--
Actual (US$M)	50.0	100.0	100.0	--	--	--
Actual as % of appraisal	100.0	100.0	66.7	66.7	66.7	66.7
Date of final disbursement:	August 7, 1991					
						FY95
Credit 2576						
Appraisal estimate (US$M)						50.0
Actual (US$M)						50.0
Actual as % of appraisal						100.0
Date of final disbursement:	June 21, 1994					

Project Dates

	Original	*Actual*
LOAN 3089		
Initiating memorandum	06/88	n.a.
Negotiations	05/89	05/89
Board approval	06/89	06/89
Signing	07/89	07/89
Effectiveness	11/89	11/89
First tranche release	FY90	11/89
Second tranche release	FY91	4/91
Third tranche	FY92	1/94
Closing date	9/91	6/94

Project Dates (cont'd.)

	Original	Actual
CREDIT 2576		
Initiating memorandum	1/94	1/94
Negotiations	2/94	2/94
Board approval	3/94	3/94
Signing	3/94	3/94
Effectiveness	3/94	3/94
Closing date	6/94	6/94

Staff Inputs (staff weeks)

	Total
Loan 3089	
Through Appraisal	270.4
Negotiations	10.9
Supervision	323.0
Other	7.8
Total	612.1
Credit 2576	
Through Appraisal	18.0
Negotiations	3.0
Supervision	0.8
Other	0.2
Total	22.0

Mission Data

	FY	No. of People	Staffweeks
Loan 3089			
Identification	1987	2	4.5
Lending Devt.	1988	1	1.9
Prep./Pre-appraisal	1988	19	35.5
Prep./Pre-appraisal	1989	4	10.4
Prep./Pre-appraisal	1990	1	0.8
Appraisal	1988	6	7.0
Post-appraisal	1989	31	211.1
Negotiation	1989	12	10.9
Supervision I	1989	3	0.6
Supervision II	1990	19	106.0
Supervision III	1991	20	90.5
Supervision IV	1992	20	68.9
Supervision V	1993	12	46.0
Supervision VI	1994	6	10.2
Completion	1994	2	7.8
Total			612.1

Mission Data

	FY	*No. of People*	*Staffweeks*
Credit 2576			
Identification/Appraisal	1994	6	18.0
Negotiation	1994	3	3.0
Supervision	1994	1	0.8
Completion	1994	2	0.2
Total			22.0

Other Project Data

Borrower/Executing Agency: Republic of Cameroon

FOLLOW-ON OPERATIONS

Operation	*Loan/ Credit no.*	*Amount (US$ million)*	*Board date*
Economic Management Project	Loan 3110	9.0	7/11/89
Social Dimensions of Adjustment	Loan 3206	21.5	5/24/90
Structural Adjustment Credit II	Credit 2813	150.0	2/8/96
Privatization and Private Sector Tech. Asst.	Credit 2882	12.6	6/13/96
Structural Adjustment Credit III	Credit 3012	180.0	6/2598

BASIC DATA SHEET

ECONOMIC RECOVERY CREDIT (CREDIT 2627-CM)

Key Project Data *(amounts in US$ million)*

	Appraisal estimate	*Actual or current estimate*	*Actual as % of appraisal estimate*
Total project costs	75.0	107.8	143.7%
Loan amount	75.0	107.8	143.7%
Cancellation	0	0	--

Cumulative Estimated and Actual Disbursements

	FY95
Appraisal estimate (US$M)	75.0
Actual (US$M)	75.0
Actual as % of appraisal	100.0

Date of final disbursement: June 30, 1995

Project Dates

	Original	*Actual*
Initiating memorandum	n.a.	1/94
Negotiations	5/94	5/94
Board approval	6/94	6/94
Signing	6/94	6/94
Effectiveness	6/94	6/94
Closing date	6/95	6/95

Staff Inputs (staff weeks)

	Total
Preappraisal	29.6
Appraisal	31.6
Negotiations	11.1
Supervision	22.5
Other	2.6
Total	97.4

Mission Data

	Month/Year	*No. of People*	*Days in Field*
Through Appraisal	02/94	9	17
Negotiations	04/94	6	24
Board approval through Effectiveness	10/94	1	26
Supervision	07/94	2	22

Other Project Data

Borrower/Executing Agency: Republic of Cameroon

FOLLOW-ON OPERATIONS

Operation	*Loan/ Credit no.*	*Amount (US$ million)*	*Board date*
Economic Management Project	Loan 3110	9.0	7/11/89
Social Dimensions of Adjustment	Loan 3206	21.5	5/24/90
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Structural Adjustment Credit III	Credit 3012	180.0	6/2598

Selected Economic Indicators

	FY85	FY86	FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94	FY95	FY96	FY97
GDP													
Real GDP (Annual % Change)	N/A	N/A	0.3	-13.2	-3.6	-3.7	-7.3	-4.3	-2.1	-4.2	1.4	0.1	7.2
Oil Prodn. (% of Real GDP)	N/A	12.9	13.2	14	14	13.5	12.1	11.2	9.5	8.6	7.8	7.4	7.3
Domestic Investment (% of GDP)	24.9	25.6	24.7	20.9	17.1	17.8	16.7	13.5	16.6	15.3	14.3	15.7	16.8
Central Government													
Govt. Current Exp. (% of GDP)	N/A	N/A	13.6	14.5	15.7	16.1	17.9	18.9	17.2	16	16.7	15.9	13.8
o/w Wages & Salaries (% of GDP)	N/A	N/A	7.1	7.3	8.2	8.6	9	9.3	8.7	6.1	4.7	4.1	4.2
Govt. Capital Exp. (% of GDP)	N/A	N/A	17.7	7.8	4.9	5.7	5.4	3.4	2.8	3.3	1.1	0.9	1.8
Govt. Revenues (% of GDP)	N/A	N/A	18.4	16.4	16	14.3	15.2	15.7	13.7	10.1	12.9	14.1	14.9
Govt. Overall Balance (% of GDP)	N/A	N/A	-13	-5.9	-4.5	-7.6	-8.2	-6.6	-6.3	-9.2	-4.9	-2.7	-1.3
Balance of Payments													
Resource Balance (% of GDP)	N/A	N/A	-3.9	0.1	2.9	3.1	5.4	5.5	1.5	2.6	6.1	3.3	3.8
Current Account Bal (% of GDP)	N/A	N/A	-7.6	-3.5	-0.3	-4	-1.7	0.2	-8.1	-4.3	-0.4	-2.4	-1.7
Export Prices (1987=100)													
Total Commodity Exports	126.4	116.9	100	96.1	89.9	90.3	114.5	100.1	95.3	99.3	112.3	110.7	108
Oil and Refined Oil	192.4	150.9	100	113.7	104	116.8	154.8	128.5	126.4	98.4	133.9	137.2	131.5
Cocoa Beans, Butter, Cake	89.6	110.5	100	91.5	76.9	62.8	57.3	54.5	48.2	67.3	91.6	93.8	100.9
Coffee—Arabica & Robusta	76.3	90.3	100	62.6	57.7	35	43.2	28.8	229	61	83	85.1	72
Logs & Wood Products	61.6	81.7	100	99	108.5	120.9	134	123.5	181.6	174.6	237.5	243.4	276.5
Exchange Rates													
CFAF per US$ (Annual Average)	471.3	386.6	318.8	291.7	315.4	300.7	268.6	280.4	265.4	435	518.6	501.8	540.5
REER (1980=100)	98.8	109.4	122.5	118.5	109.5	113	109	107	99.4	66.8	63.2	59.7	60.9
External Debt													
Debt Service (% of GDP)	N/A	N/A	5.1	4.7	6.1	5.5	5	5.4	9	8.7	10.8	9.3	10.8
Total Debt O/S & Disb. (% of GDP)	N/A	N/A	33.2	40.1	43.1	46.3	56.6	65.2	112.8	122.6	115.6	100.8	96.8
Arrears ($mil., end of period)	N/A	N/A	75.3	106.5	1152.5	981.2	1569.4	1334	1944.5	958.1	1572.8	1052	845.1

Sources: Cameroonian Government and Bank and IMF estimates.