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**PRIORITIES FOR ENDING POVERTY AND BOOSTING
SHARED PROSPERITY**

SYSTEMATIC COUNTRY DIAGNOSTIC

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International Development Association
Country Department AFCW3
Africa Region

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Sub-Saharan Africa Department



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(Exchange Rate Effective as of June 2016)

Currency Unit	=	CFA Franc
US\$1.00	=	FCFA 581

Abbreviations and Acronyms

ACLED	Armed Conflict Location and Event Data Project
AICD	Africa Infrastructure Country Diagnostic
ARMP	<i>Agence de Régulation des Marchés Publics</i> (Public Procurement Agency)
BEAC	<i>Banque des Etats de l'Afrique Centrale</i> (Bank of Central African States)
BIMA	<i>Brigade d'Infanterie de Marine</i> (Infantry and Motorized Brigade)
BIR	<i>Brigade des Interventions Rapides</i> (Rapid Response Brigade)
CAMAIR-CO	Cameroon Airlines Corporation
CAMRAIL	Cameroon Railway Corporation
CAMTEL	Cameroon Telecommunications Corporation
CAMWATER	Cameroon Water Utilities Corporation
CAR	Central African Republic
CDE	<i>Camerounaise des Eaux</i> (Cameroon Water)
CEM	Country Economic Memorandum
CEMAC	<i>Communauté Economique et Monétaire de l'Afrique Centrale</i> (Central African Economic and Monetary Community)
CET	Common External Tariff
CNC	<i>Commission Nationale de la Concurrence</i> (National Competition Committee)
CONAC	<i>Comité National Anti Corruption</i> (National Anti-corruption Commission)
CONFEMEN	<i>Conférence des Ministres de l'Education des Etats et Gouvernements de la Francophonie</i> (Conference of Ministers of Education from francophone States and Governments)
CONSUPE	<i>Contrôle supérieur de l'Etat</i> (Ministry of State Oversight)
CPDM	Cameroon People's Democratic Movement
CPIA	Country Policy and Institutional Assessment
CSO	Civil Society Organizations
CTS	<i>Comité Technique de Suivi</i> (Technical Monitoring Committee)

DHS	Demographic and Health Survey
DSCE	<i>Document de Stratégie pour la Croissance et l'Emploi</i> (Growth and Employment Strategy Document)
ECAM	<i>Enquête Camerounaise Auprès des Ménages</i> (Cameroon Household Survey)
EEIS	<i>Enquête sur l'Emploi et le Secteur Informel</i> Survey (Employment and Informal Sector Survey)
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FDPC	<i>Front Démocratique du Peuple Centrafricain</i> (Democratic Front of the Central African People)
FECOM	<i>Fonds d'Equipement et d'Intervention Communale</i> (Capital Development and Communal Action Fund)
FY	Fiscal Year
GDP	Gross Domestic Product
GPI	Gender Parity Index
HIPC	Heavily Indebted Poor Countries
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome
IBRD	International Bank for Reconstruction and Development
ICF International	Inner City Fund International
ICG	International Crisis Group
ICT	Information and Communications Technology
IDA	International Development Association
IDPs	Internally Displaced Persons
IITA	International Institute of Tropical Agriculture
INS	<i>Institut National de la Statistique du Cameroun</i> (National Statistical Institute of Cameroon)
MDG	Millennium Development Goal
MFI	Micro Finance Institution
MICS	Multiple Indicator Cluster Surveys
MINCOMMERCE	Ministry of Commerce
MINEDUB	<i>Ministère de l'Education de Base</i> (Ministry of Basic Education)
MINEE	<i>Ministère de l'Eau et de l'Energie</i> (Ministry of Water and Energy)
MINEPAT	<i>Ministère de l'Economie, de la Planification et de l'Aménagement du Territoire</i> (Ministry of Economy, Planning and Regional Development)
MINFI	<i>Ministère des Finance</i> (Ministry of Finance)
MINTP	<i>Ministère des Travaux Publics</i> (Ministry of Public Works)
MOU	Memorandum of Understanding
NGO	Non-Governmental Organization
OECD	Organisation for Economic Co-operation and Development
OHADA	<i>Organisation pour l'Harmonisation en Afrique du Droit des Affaires</i> (Organization for the Harmonization of Business Law in Africa)
OPCC	<i>Organisation des Producteurs de Coton du Cameroun</i> (Organization of Cotton Producers in Cameroon)
PASEC	<i>Programme d'Analyse des Systèmes Educatifs de la CONFEMEN</i> (Analysis Program of the CONFEMEN Education Systems)

PEFA	Public Expenditure and Financial Accountability
PBF	Performance Based Financing
PFM	Public Financial Management
PIB	Public Investment Budget
PPP	Purchasing Power Parity
PPPs	Public-Private Partnerships
PROBMIS	Program Budget Management Information System
PRSP	Poverty Reduction Strategy Paper
SCD	Systematic Country Diagnostic
SIC	<i>Société Immobilière du Cameroun</i> (Real Estate Company of Cameroon)
SIF	Strategic Investment Fund
SIGIPES	<i>Système Informatique de Gestion Intégré des Personnels de l'Etat et de la Solde</i> (Integrated HR/Payroll system)
SMEs	Small and Medium Enterprises
SODECOTON	<i>La Société de Développement du Coton</i> (National Coton Development Company)
SOEs	State Owned Enterprises
SSA	Sub-Saharan Africa
TFP	Total Factor Productivity
TVET	Technical and Vocational Education and Training
UN	United Nations
UNHCR	United Nations High Commissioner for Refugees
WACS	West Africa Cable System
WDI	World Development Indicators
WDR	World Development Report
WTO	World Trade Organization

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Table of Contents:

EXECUTIVE SUMMARY	ix
1. CONTEXT.....	1
1.1 Introduction.....	1
1.2 Organization of the document.....	8
2. POVERTY, EQUITY AND VULNERABILITY	9
2.1 Poverty and poverty trends	9
2.2 Poverty reduction and urbanization	12
2.3 A livelihoods perspective on growth and poverty reduction	14
2.4 Poverty traps	17
2.5 Chronic poverty, vulnerability and safety nets	22
3. HUMAN CAPITAL DEVELOPMENT.....	25
3.1 Human capital	25
3.2 Human capital inequalities.....	29
3.3 Quality and relevance of human capital for growth and poverty reduction.....	31
3.4 Benefits from investments in human capital.....	34
3.5 Opportunities for poverty reduction through improved investments in human capital	37
4. ECONOMIC GROWTH AND CROSS CUTTING ECONOMIC SERVICES	42
4.1 Introduction.....	42
4.2 Structure of the economy	45
4.3 Cross cutting economic services	50
4.4 Pathways to economic growth	59
5. GOVERNANCE AND INSTITUTIONAL ENVIRONMENT	64
5.1 Governance	64
5.2 Political settlement and the business environment	66
5.3 A fragmented and inert bureaucracy	69
5.4 Public financial management	71
5.5 Conflict and (in)stability	73
5.6 Opportunities and constraints to improving governance	77
6. POVERTY REDUCTION OPPORTUNITIES AND CONSTRAINTS	80
6.1 Pathways to achieving the twin goals by 2030	80
i. Improving household production	82
ii. Creating (informal sector) jobs through urbanization and structural transformation	88
iii. Redistribution	91
6.2 Binding constraints	93
6.3 Additional research suggested	106
ANNEXES.....	108

List of Figures:

Figure 1.1: Population density and poverty incidence by region.....	2
Figure 1.2: Trust in officials	3
Figure 1.3: Per capita GDP, 1970-2015.....	4
Figure 1.4: Business environment.....	5
Figure 2.1: Poverty incidence, number of poor and poverty profile.....	9
Figure 2.2: Changes in consumption, poverty and the depth of poverty, 2001-2014.....	10
Figure 2.3: Changes in inequality and consumption, 2001-2014.	11
Figure 2.4: Urbanization and poverty	13
Figure 2.5: Poverty by agro-ecological zone	15
Figure 2.6: Crop and livestock systems	17
Figure 2.7: Asset traps	19
Figure 2.8: Demographic traps	20
Figure 2.9: Social, cultural and intergenerational traps	21
Figure 3.1: Human development challenges.....	26
Figure 3.2: Fertility, child mortality, household size and composition	28
Figure 3.3: Educational attainment by region in 2014.....	29
Figure 3. 4: Inequalities in human capital outcomes	31
Figure 3.5: Quality and relevance of education.....	33
Figure 3.6: Statistically significant coefficients from regressions with individual income and household expenditures as dependent variables – disaggregated results, 2014.....	35
Figure 3.7: Statistically significant coefficients from regressions with individual income and household expenditures as dependent variables – aggregate results, 2014	36
Figure 3.8: Inefficient allocation of resources in health and education across regions	37
Figure 3.9: Public spending and health/education outcomes.....	38
Figure 4.1: The challenge of economic transformation	43
Figure 4.2: Cameroon’s growth challenge.....	44
Figure 4.3: Core economic indicators	45
Figure 4.4: Exports diversification	47
Figure 4.5: Resource curse limits the potential for economic diversification	48
Figure 4.6: Characteristics of the enterprise sector and spatial development patterns	50
Figure 4.7: Quality of the road network and accessibility	52
Figure 4.8: Cost and quality of internet and telecommunications	54
Figure 4.9: Cameroon’s business environment relative to comparators	60
Figure 4.10: Financial inclusion.....	61
Figure 4.11: Firm rankings of business environment constraints	62
Figure 4.12: The challenge of vision 2035	63
Figure 5.1: Governance indicators.....	65
Figure 5.2: Public spending and political support	66
Figure 5.3: The salary structure is distorted.....	71

Figure 5.4: Execution of investment budget and customs revenue	73
Figure 5.5: Violence and fragility	75
Figure 5.6: Performance based financing (PBF) in the Cameroon's health sector 2012-2015	79
Figure 6.1: Analytical framework.....	81
Figure 6.2: Yield gaps and impact of fertilizer	84
Figure 6. 3: Rainfall patterns in different agro-ecological zones.....	85
Figure 6.4: Sources of income by wealth quintile and agro-ecological zone	87
Figure 6.5: Labor characteristics.....	89
Figure 6.6: Contribution of urbanization to poverty reduction.....	90
Figure 6.7: Food subsidies and its targeting	91
Figure 6.8: Cost of a perfectly targeted redistribution program.	92
Figure 6.9: Process of identification and prioritization of binding constraints.....	95
Figure 6.10: Most important problem that the Government should address	103

List of Tables:

Table 2.1: Socio-economic characteristics of different cotton farm types	14
Table 2.2: Population density, poverty and share of the poor	16
Table 3.1: Summary of indicators on health and education in Cameroon.....	27
Table 4.1: Characteristics of selected goods and services markets	49
Table 4.2: Priority reforms and investments to improve economic service provision	60
Table 4.3: Food balance sheet for Cameroon, 2015	61

List of Boxes:

Box 2.1: Gender based traps vary by location	21
Box 2.2: Social exclusion	23
Box 3.1: The demographic transition and demographic dividend in Cameroon	41
Box 5.1: Products subject to price and import controls.....	67
Box 5.2: Patronage and public enterprises and entities	69

EXECUTIVE SUMMARY

1. **This document presents the Systematic Country Diagnosis (SCD) for Cameroon.** It identifies how to achieve the twin goals of ending poverty and improving shared prosperity by 2030 in a sustainable manner. These objectives are considered to overlap because the incidence of poverty, using the national poverty line, is 38 percent. The document thus focuses on reducing headcount poverty. The objectives of the World Bank are closely associated with those of the Government of Cameroon which aims in its Growth and Employment Strategy (DSCE) to achieve, by 2035, higher middle income status and to reduce poverty to 10 percent.

2. **Cameroon is rich in natural resources and has a population of approximately 22.8 million relatively well educated people.** With a per capita Gross Domestic Product of US\$1,429 (current prices) in 2014, Cameroon is a lower middle income country. However many social indicators reflect those of a low income country: life expectancy is 54 years and levels of malnutrition are high for instance. Twenty-eight percent of children under five are stunted.

3. **Cameroon is culturally and geographically diverse.** The country can be divided into five agro-ecological zones each with a different agriculture production system. The northern, Sudano-Sahelian zone extends into the Sahel and comprises largely the North and Far North regions. Pastoralism is widespread here along with the cultivation of relatively drought tolerant crops such as sorghum, millet, maize and cotton. The same holds for the Adamawa region, which falls in the Guinea-Savannah zone. In the forest zone of the South rainfall is more favorable. The area has low population density and many of the country's cash crops (oil palm, cocoa) are grown here. A distinction can be made between the bimodal rainfall zone of the coast and the unimodal rainfall in the South and the East. Finally the Plateau in the North West of the country is characterized by an agro-pastoral system. Coffee is the main cash crop grown here.

4. **The analytical framework combines a micro-economic approach with an exploration to discern which macro-economic pathways to economic growth and development might be most appropriate.** The core analytical framework is based on the notion that to reduce poverty, household consumption has to increase. This can be done, for given income, by ensuring that consumption goods –and particularly food become cheaper. Alternatively, the household budget constraint can be alleviated by increasing the incomes of self-employed households, by enhancing opportunities for wage employment, or by redistributing income from the non-poor to the poor. The document also explores the relevance of two pathways to economic development: the classical one of economic transformation which starts with generating higher incomes in agriculture, and an accelerated pathway whereby the economy jumps to industrialization or high value added service delivery through import substitution, export promotion or open-economy policies.

5. **The first aspect that is explored is the nature of poverty and the opportunities to raise the incomes of poor households.** Poverty is found to remain high. In 2014, 38 percent of the population lived below the national poverty line. Poverty incidence is much lower in urban than in rural areas (10 versus 57 percent) and 90 percent of all poor people live in rural areas. Even though there is a rapid pace of urbanization, without changes in the levels of rural poverty, poverty is expected to remain mostly a rural phenomenon.

6. **Poverty is increasingly concentrated in the northern parts of the country.** The number of poor in the North and Far North regions has more than doubled between 2001 and 2014 from 2.1 million to 4.5 million, representing 56 percent of all poor in the country in 2014. People living in the northern regions are affected by multiple poverty traps including an unfavorable climate, exposure to shocks, degrading soils, low levels of education (particularly for women), inadequate nutrition, isolation and limited market access, inadequate productive asset ownership and high fertility. Many of these factors reinforce each other: low female education contributes to high child mortality and high fertility, which in turn increases pressures on land. A short and variable rainy season and few capital lead to low levels of production, indebtedness and malnutrition. These in turn limit opportunities to invest in tools and productive assets, human capital or improved farming technologies. For those who do invest, limited market access reduces the incentives to produce a surplus.

7. **Northern Cameroon is also the area where Boko Haram is active.** Since 2014 poverty is likely to have increased rapidly as a consequence of the associated insecurity, the closing of markets, roads and borders and the large numbers of Internally Displaced Persons (IDPs) and refugees. The insecurity and harm caused by Boko Haram is tremendous: one consequence is that many development efforts have come to a halt until the security situation improves.

8. **Poverty has been on the decline in the central and coastal areas, creating a north-south divide that is deepening over time.** The contrast between northern and southern Cameroon is stark. Whereas in the northern part per capita consumption *declined* since 2001 (by about 15 percent), it *increased* in the south (by approximately 50 percent). The commensurate decline in poverty in the southern part of the country is attributed to favorable world market prices for export crops, artisanal gold mining, and an urbanization process that creates positive spillovers to rural areas through increased demand for produce, transfers and opportunities for work.

9. **The north-south cleavage also holds for social services.** Relative to other lower middle income countries the public sector spends little on health and education. Moreover the public resources are used inefficiently and inequitably. Relative to comparator countries, the outcomes achieved, given the level of spending, are limited. Additionally, there are grave disparities in per capita spending between the north and the south. As a consequence a large variation in outcomes exists. While overall there have been improvements –access to education increased significantly for instance, the gap between north and south is widening. Illustrative is the difference in the median years of female education: this is zero years in the North and Far North regions and almost 10 years in Yaoundé and Douala.

10. **The economy remains predominantly rural and informal:** 47 percent of the population resides in rural areas; 90 percent of jobs are in the informal sector. The formal sector is largely located in Yaoundé and Douala, respectively the administrative capital and the largest port city, and is highly concentrated. Less than 1 percent of all registered firms generate 68 percent of all revenues. Exports comprise almost exclusively primary products: revenue from petrol makes up 43 percent of all export proceeds followed by timber, 13 percent.

11. **Cameroon has experienced positive rates of economic growth ever since the major collapse of the economy in the late 1980s.** Since 1994 and in no small part thanks to prudent macro-economic policies and the overall stability of the country, growth rates have been positive.

Recently they have been accelerating thanks to favorable terms of trade and a large public investment program. Despite a long period of growth and macro-stability the levels of per capita income attained in the 1980s have not yet been recovered. Cameroon reached the Heavily Indebted Poor Countries (HIPC) completion point in 2006, but debt levels are increasing rapidly and unsustainably, creating for the first time in 30 years concerns about macro stability.

12. Opportunities for rapid growth and poverty reduction are huge thanks to favorable initial conditions. These include a location on the coast, a favorable climate, natural resource wealth, a relatively skilled population, and a qualified administration. However, opportunities for poverty reduction can easily be lost. A distinguishing feature between rich and poor countries is not the fact that rich countries grow faster (they don't), but that they tend to be able to avoid deep recessions of the type Cameroon experienced in the early 1990s and from which the country is still recovering. Economic stability requires cautious public financial management, prudent public investment planning and careful debt management. Security is a sine-qua non for economic growth and eliminating the threat posed by Boko Haram is a priority. Political stability needs to remain assured, a major challenge in the face of multiple elections, a restless young population and a pending presidential transition.

13. The economy does not yet show signs of transformation other than through urbanization as a result of which people move from low productivity agriculture into more productive informal tertiary sector activities. The technical knowledge embedded in the economy, assessed by the kinds of goods that are being exported, suggests that the degree of economic complexity remains very low. The knowledge embedded in the economy is far from what is needed for large scale industrialization or successful export promotion. Meanwhile an unattractive business climate does not put the economy in the right place for leapfrogging by embracing an open access approach. An import substitution approach is not a good option either given the fact that political considerations tend to trump economic ones as evidenced by the many loss making state owned enterprises that continue to be supported.

14. A growth strategy rooted in structural transformation has a lot of potential for rapid poverty reduction. In this transformation process agricultural and livestock output grow by expanding the area under cultivation and through productivity gains, powered by the adoption of new technologies. As the share of food consumers relative to food producers grows through urbanization, markets become more important, the non-farm and agribusiness sectors grow and the food value chain and rural-urban linkages are strengthened. As incomes grow, second order effects are likely to emerge over time: the stock of human and physical capital increases as households invest part of their increased incomes. This leads to further productivity gains, and to migration of (now better)-educated people to urban areas, which supports the realization of positive agglomeration effects. It also unlocks demographic transition, in part because women marry later. Cameroon is well placed to follow such a process and has already embarked on it in the south of the country. Cameroon has comparative advantages in agro-processing and livestock production and is well placed to serve a sub-region that has high purchasing power and is structurally deficient in food. Rapid urbanization, in addition, is likely to increase the demand for high-income elasticity goods such as fruit, meat, eggs and milk.

15. A growth strategy that starts with increased agro-processing is more likely to be pro-poor than the growth process observed to date. The pattern of growth between 2001 and 2014 was such that the poorest 40 percent of households got worse-off, while the top 60 percent got

better off. The process of growth did not favor the poorest. A growth strategy that focuses on products cultivated by the poorest has a greater likelihood of successful poverty reduction. As the majority of the poor can be found in the rural areas of northern Cameroon, a poverty reducing growth strategy would focus on the value chain development of coarse grains (maize, millet, and sorghum) but also livestock, beans and cotton, which is the main cash crop grown in this zone.

16. Low farm productivity and limited market access are identified as main constraints to increased incomes throughout the country. In northern Cameroon inadequate female education is found to be another major constraint to poverty reduction. It is worth noting that technologies to increase farm productivity readily exist. There is much knowledge in Cameroon's multiple farm research institutions on how to increase productivity of smallholder farmers in climate smart ways. The main issue is the adoption of these technologies by farmers.

17. Redistribution is another effective way to reduce poverty of the most vulnerable and to increase productivity. Simulations demonstrate that, depending on the growth scenario, a social safety net that redistributes 1 to 3 percent of GDP could bring the poverty targets of the DSCE and the World Bank within reach. This amounts to less than is currently spent on ill-targeted food and fuel subsidies and import tax exemptions. Moreover, *productive* social safety nets have been found to contribute to income growth for the poorest households, because the proceeds of the safety net are used for income generating activities. *Conditional* transfers have been found to be efficient ways of changing practices relevant to improving human capital, such as sending girls to school, ensuring child vaccination, and promoting breast feeding.

18. For a structural transformation strategy to succeed, but also to unlock opportunities for export led growth, the business environment will need to improve. A high cost of doing business and a continued reliance on a state-led model of economic growth, create an unattractive investment climate for private entrepreneurs – domestic as well as foreign. The costs of doing business are high as roads are inadequate and poorly maintained. Electricity is costly and unreliable. Port services are expensive and inefficient. Telecom services are costly and inadequate, as are access to water and banking services. The business environment is affected by a high regulatory burden, a complex tax system and a plethora of direct state interventions in the economy varying from import tax exemptions, to price caps, to loss making state owned enterprises.

19. To attain higher middle income status by 2035, growth needs to accelerate further, requiring a substantial increase in the level of investments from 20 to 32 percent of GDP. The public sector alone cannot bring this about, necessitating much more private investment. Doing so requires major improvements in the business environment, to increase the efficiency of the economy and its ability to innovate. An improved business environment would also ensure an acceptable rate of return on the ongoing public sector investments in ports, roads, and energy generation and distribution.

20. Cameroon's political settlement circles around a dominant leader. It has ensured the nation's stability and has allowed its growth performance. However, it has also contributed to the poor business environment, the state-led growth orientation and the inadequate service delivery. In this settlement the President has forged stability by co-opting a large number of powerful elites from the economic, traditional, administrative, political and military spheres. This co-optation has been inclusive and representatives from all major ethnic, religious or other groupings are represented. It helped create a stable nation in an otherwise restive neighborhood.

The ‘price’ paid for this is unmet economic and development potential. High levels of corruption and economic inefficiency, limited transparency and accountability, a fragmented bureaucracy, a bloated public enterprise sector, and inertia in decision making limit the scope for economic growth and poverty reduction.

21. **Many policy reforms needed to unlock the potential for poverty reduction, touch the core of Cameroon’s political stability and may affect the interests of those sustaining the balance of power.** This poses a dilemma for accelerated poverty reduction. Governance is a core constraint for poverty reduction, but improvements in governance may come at the expense of the nation’s stability which is equally critical for poverty reduction.

22. **Opportunistically exploiting reform opportunities and investing in increased resilience and local development approaches are the most realistic way of dealing with this complex policy environment.** Opportunities for reform do arise, as has been demonstrated in the power sector, where private investors now finance the latest hydro-dam, the railway sector or with the introduction of performance based pay in the health sector. Local approaches need to be explored more widely to do justice to the great diversity of Cameroon’s physical environment and because stronger local organization –whether production oriented farmer organizations, or community based organizations for social accountability, can strengthen risk coping mechanism, increase sustainability, and act as barrier to elite capture.

23. **The binding constraints presented below stress the measures to preserve stability and unlock Cameroon’s potential for poverty reduction.** They are informed by in-country consultations and pay particular attention to the plight of people living in the northern parts of the country. These binding constraints were endorsed by the country team and follow from the evidence presented in the report. They are:

- Low rural productivity, particularly in northern Cameroon
- A non-conducive business environment for the formal and informal private sector
- Fragility and poor governance of the public and private sector

24. **To address the *low rural productivity constraint* (i) climate smart farming technologies and livestock management systems; (ii) improved human capital –particularly for women; (iii) improved market access; and (iv) productive safety nets were considered the top priorities in terms of contribution to poverty reduction and political feasibility.** Greater selectivity could be obtained by focusing on value chains that are most relevant for poor farmers, food crops, livestock but also cotton.

25. **To address the *non-conducive business environment constraint* (i) reforming higher education to give more attention to skills training; (ii) reducing the cost of transport; (iii) reforming the financial sector; and (iv) improving the energy supply were considered top priorities; followed by (v) investments in sustainable cities, reforming (vi) the telecom sector and (vii) the urban water sector were considered top priorities to promoting poverty reduction.** The ability to implement these reforms is affected by political feasibility. It is noteworthy that investments in the energy sector, ranked fourth in terms of contribution to poverty reduction, was considered most feasible, a reflection of the success of past reforms in this field. Reforming the financial sector, ranked 3rd in terms of contribution to poverty reduction, was ranked 5th in terms of political feasibility. The presence of a disconnect between political feasibility and

contribution to poverty reduction combined with the fact that in many areas policy reforms need to precede investments, reinforces the notion that an opportunistic approach is critical.

26. **To address the *fragility and governance* constraint (i) improving public financial management; (ii) strengthening the business environment; (iii) reforming public sector incentives; and (iv) improving the security of land tenure were found to be the main priorities to poverty reduction, followed by (v) improving transparency and accountability, (vi) a greater analytical capacity to identify and argue for reforms and (vii) improving the legal system.** Even more than in the previous cluster there is a disconnect between political feasibility and contribution to poverty reduction, so selectivity will need to happen by opportunistically identifying reforms that have the greatest likelihood of success. At times reforms may have to be partial: for instance, reforming incentives in the civil service as a whole was ranked 5th for feasibility, but results based financing has already been successfully introduced in the health sector. There may be potential to build on this for example in the education sector.

27. **Measures to address fragility were not prioritized because addressing the many causes of fragility was considered a pre-condition for any developmental activities.** A number of measures that would contribute to reducing fragility have already been identified: better road connectivity between north and south Cameroon; productive safety nets aimed at the nation's most vulnerable; support to targeted value chains and the cotton sector which is in financial difficulties and Public Financial Management (PFM) reforms to improve debt management and to bring about more equitable and efficient public spending. A number of cross cutting measures were also identified: relying more on decentralized, local, participatory approaches to strengthen resilience and empowerment, strengthening the compact between citizen and state and improving the coordination between development and humanitarian partners were considered particularly important. Many of these measures can be implemented within existing programs. For instance increasing productivity can very well be done using local, participatory, approaches.

28. **The particularly precarious situation of people living in northern Cameroon is addressed throughout the three areas of constraints.** The first area of constraints focuses specifically on northern Cameroon. Spatially blind policies promoted in constraint areas two and three imply that northern Cameroon, which presently is underserved, will benefit particularly from a catch up effect as measures assuring equal treatment with respect to budget allocations, reducing transport costs or improving access to rural financial services, energy and telecommunication services take effect.

29. **Tropical forest preservation is not identified as priority for poverty reduction but it is important from a perspective of (global) environmental sustainability.** Low population density in Cameroon's tropical forest zone imply that preservation of biodiversity in the Congo Basin Forest does not feature amongst the binding constraints for poverty reduction. However, the unique biodiversity of this area, its contribution to climate change mitigation and the unique habitat it offers for people dependent upon the forest makes forest preservation an important global public good.

1. CONTEXT

Cameroon is a lower-middle income country with social indicators and levels of poverty which are below those for comparator countries. Large and rising inequalities between north and south, inefficiencies in public resource allocation and an adverse business environment explain this. While insecurity due to Boko Haram activities and rapidly rising public debt constrain efforts at poverty reduction, there exists a huge potential for economic growth and poverty reduction. This potential remains mostly untapped. Realizing it will require far reaching reforms, particularly with respect to the business environment and public financial management, and require politically courage to accomplish.

1.1 Introduction

1. **Cameroon is in many ways defined by its location, diversity and an abundance of natural resources.** Cameroon's territory stretches as far as Lake Chad in the north, an area mostly suited for extensive livestock rearing, to the plantation agriculture and dense tropical forests of the south, with in between the lush, fertile cropping systems of the center. Cameroon is the custodian of important global public goods in the form of a rich and disappearing biodiversity, especially, but not only, in the Congo basin rain forest. The country links a densely populated West Africa (about 300 million inhabitants) with a forested and less densely populated Central Africa (about 150 million strong). Cameroon is home to approximately 250 ethnic groups. In certain areas in northern Cameroon the largely Muslim Fulani community is dominant, while Christians (Catholics and Protestants) dominate the south. A number of traditional beliefs and practices are also present. Two regions are Anglophone (North-West and South-West regions, bordering Nigeria), while the rest of the country is Francophone.

2. **As the meeting point of two Africas and at the heart of the Gulf of Guinea, Cameroon is at once the gateway to the economy of Central Africa and a trade route between the economies of West and Central Africa.** The port of Douala plays a decisive role in the economy as do the road and rail networks that radiate toward its hinterlands. Cameroon controls the flow of exports and imports out of and into the Central African Republic (CAR) and Chad and the north of the Republic of Congo. The pipeline built to export Chadian oil at the beginning of this century passes through Cameroon on its way to Kribi. Niger will be linked to the Chad-Cameroon pipeline and is expected to begin exporting oil by 2016. Ninety percent of goods destined for Central Africa pass through the port of Douala, so delays there have a disastrous impact not only on Cameroon's economy but also on the economies of the neighboring CAR and Chad. Cameroon dominates the Central African Economic and Monetary Community (CEMAC) with 44 percent of the community's GDP, 39 percent of its exports, and it maintains a trade surplus with all of its partners except Equatorial Guinea. Nigeria has long been Cameroon's most important trade partner and, sharing a 600-mile common border, is now Cameroon's most important security problem as well.

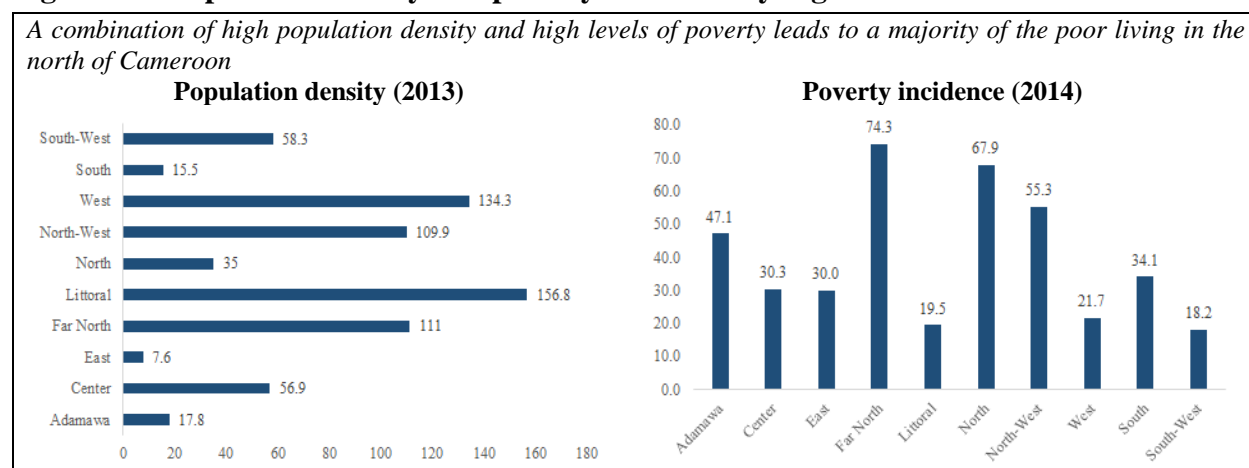
3. **Cameroon has great growth potential.** A lower middle income country with a population of 22.8 million people, vast natural resources, and a capable bureaucracy, Cameroon has great opportunities for rapid economic development. Indeed over the last decade the country has been

characterized by positive economic growth. Spurred by large public investments in infrastructure, the last years showed an increase in economic growth—with growth reaching 4.6 per cent in 2012, and an estimated 5.6 to 5.9 per cent between 2013 and 2015. This is, nevertheless, not enough to achieve the middle income objective, as formulated in the DSCE, nor is it necessarily sustainable: Cameroon’s debt levels have increased markedly and in November 2015, a Debt Sustainability Analysis prepared by the Bretton Woods institutions put the country at high risk of debt distress.

4. **Cameroon is urbanizing rapidly.** According to the United Nations (UN) population statistics almost 11 million Cameroonians lived in rural areas in 2015 and 13 million in urban areas.¹ By 2030 the number of Cameroonians living in rural areas is expected to increase by approximately 2 million, whereas the number of urban dwellers is expected to increase by 8 million.² Rapid urbanization creates challenges for city planning as demands on urban land increase. This gives rise to a new set of social tensions, as more people from diverse backgrounds live close together and as the absolute number of disenfranchised citizens in one location increases.

5. **Poverty remains a rural phenomenon and is increasingly concentrated in northern Cameroon.** In 2014, and using the national poverty line, poverty incidence was 38 percent.³ Less than 10 percent of the poor live in urban areas; more than 90 percent in rural areas. A combination of high population density and high rates of poverty imply that 56 percent of all poor are located in the north of the country (North and Far North regions). This reflects a rapid increase as in 2001 ‘only’ 34 percent of the poor lived in these two regions.

Figure 1.1: Population density and poverty incidence by region



Source: INS, Statistical Yearbook 2014 and the Cameroon Household Survey « Enquête Camerounaise Auprès des Ménages 4 » (ECAM4, 2014).

6. **The Millennium Development Goals (MDGs) have not been achieved.** With 38 percent of the population living below the poverty line in 2014, the MDG objective of 25 percent poverty

¹ The National Statistical Institute of Cameroon (*Institut National de la Statistique du Cameroun*, INS) uses a different definition and estimates that in 2010 about 37 percent of the population lived in urban areas.

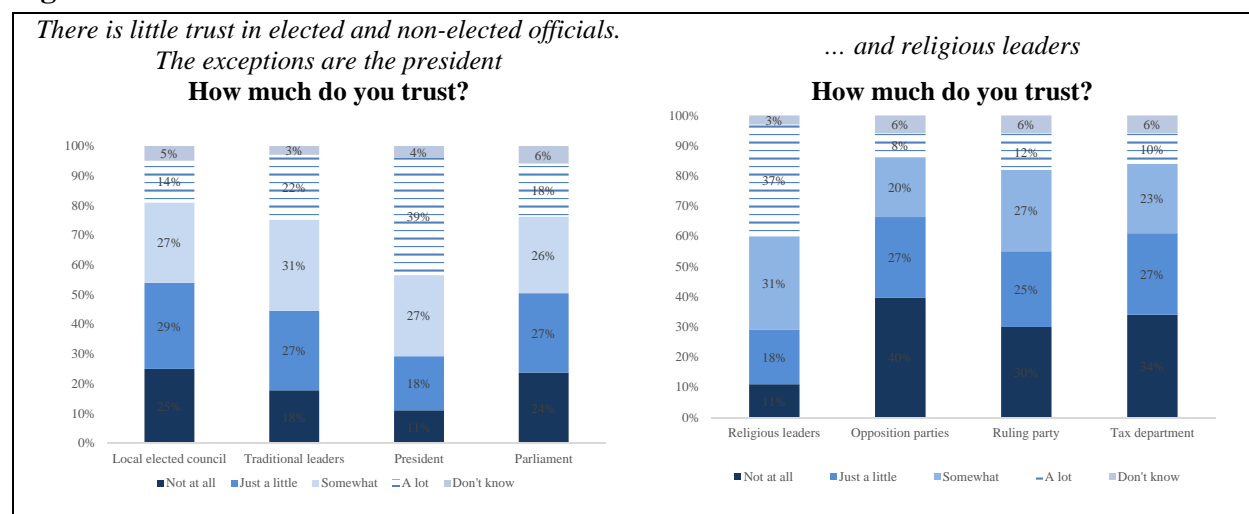
² United Nations, Department of Economic and Social Affairs, Population Division (2014). World Urbanization Prospects: The 2014 Revision, CD-ROM Edition.

³ The national poverty line is slightly higher than the international US\$1.90 poverty line. Using the latter poverty line, poverty incidence in Cameroon is estimated to be 27 percent in 2014.

by 2015 remained unattained. Most of the other MDGs were not achieved either. The mortality rate for children under five had to fall to 45/1,000 by 2015 but was 103/1,000 in 2014. The maternal mortality rate had to fall to 108/100,000 live births in 2015 but was 782/100,000 live births in 2011. The incidence of underweight children had to decrease to 9 percent by 2015 to achieve the related MDG but the actual figure was 15 percent. Even with respect to education, an area in which considerable progress was made, Cameroon failed to meet the MDGs. In 2014, 74 percent completed primary school, 26 percent shortfall of the MDG objective.

7. **Unity plays a critical role in Cameroon's political settlement.** Initially a German colony, it was divided after World War I into a British protectorate and French Equatorial Africa. The period leading up to the creation of an independent state not only featured a struggle between the nationalist movement and the French colonial power, but also a territorial issue—whether Anglophone Cameroon should be integrated into Francophone Cameroon. When the territory controlled by the British was divided in 1961, the northern part voted to join Nigeria and the southern part was joined with Francophone Cameroon. Ever since, the desire to unify the country has been an important aspect of Cameroon's political landscape.⁴ For instance since President Biya, who is from the south, assumed power in 1982, and until 1992, the prime minister has been a northerner and the president of the National Assembly has been an Anglophone. After 1992, the prime minister has been an Anglophone, and the president of the national assembly a northerner.⁵ Other divisions, based on ethnic affiliation or religion, are also carefully balanced within the administration.

Figure 1.2: Trust in officials



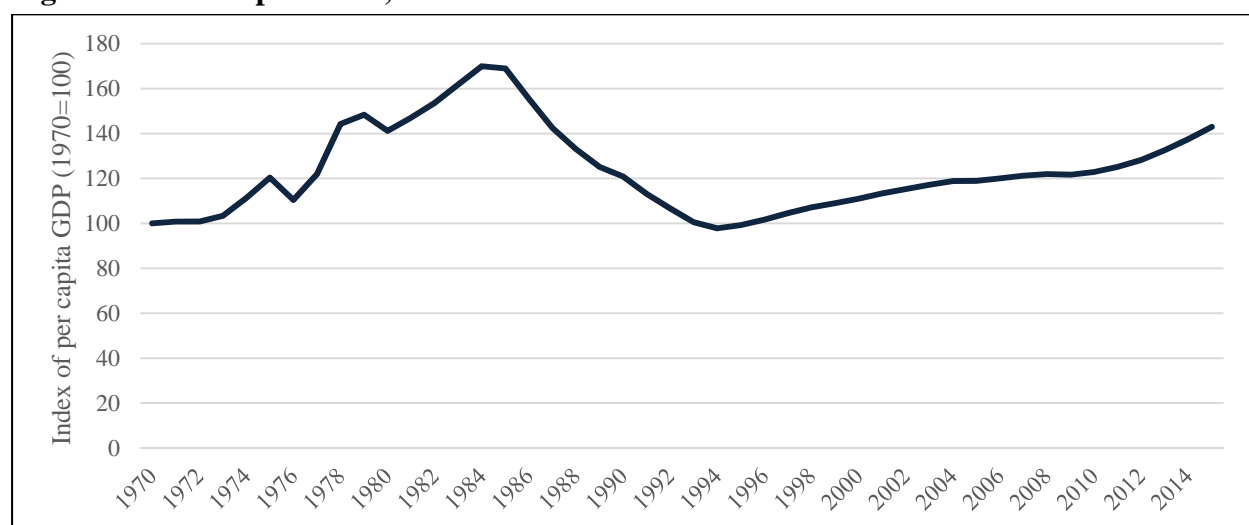
Source: Afrobarometer 2015.

⁴ Cameroon, for instance, celebrates its Unity Day on the day that the Anglophone regions decided to join Cameroon instead of Nigeria, but does not celebrate an Independence Day.

⁵ The recent creation of the Senate in 2013 added another southerner to the triumvirate—ensuring the balance of power is preserved in a transition Government if the President were to pass away.

8. **Easy access to natural resource rents helped finance a governance system⁶ in which the President has a firm grip on power through centralization of decision making, co-optation of elites and reliance on loyal security forces.** Cameroon is one of the most centralized states in Africa. Decision-making powers lay more within the Presidency than in individual ministries whose mandates are fragmented and overlapping. The President, who is above the fray and who is widely respected,⁷ has broad powers of appointment and job-transfers as well as great control over the state's finances, which are used to co-opt the elites. The political opposition is fragmented with 291 officially registered political parties in 2013 (INS, 2013). The ruling party, the Cameroon People's Democratic Movement (CPDM) is strong – it currently occupies 148 out of the 180 National Assembly's seats, and electoral rules favour the party in power.⁸ Public interest in politics is very low, as demonstrated by low voter turnout, estimated at 30 percent based on the 2014 Afrobarometer Survey.⁹ Civil society is diversified but fragmented and mostly ineffective in demanding accountability. There is a large number of media outlets, but their technical and financial capacities are low. The judiciary is weak and largely dependent on the executive. The anti-corruption agency (*Comité National Anti-Corruption*, CONAC), is fully dependent on, and accountable to the Presidency.

Figure 1.3: Per capita GDP, 1970-2015



Source: World Development Indicators, 2015.

⁶ Gautier and Zeufack (2009) argue for instance that it's possible that only about 46 percent of total oil revenues accruing to the Government between 1977 and 2006 were implemented into the federal budget, while remaining revenues went unaccounted for.

⁷ At the same time, an overwhelming majority (74 percent) supports a two-term constitutional limit on the presidency.

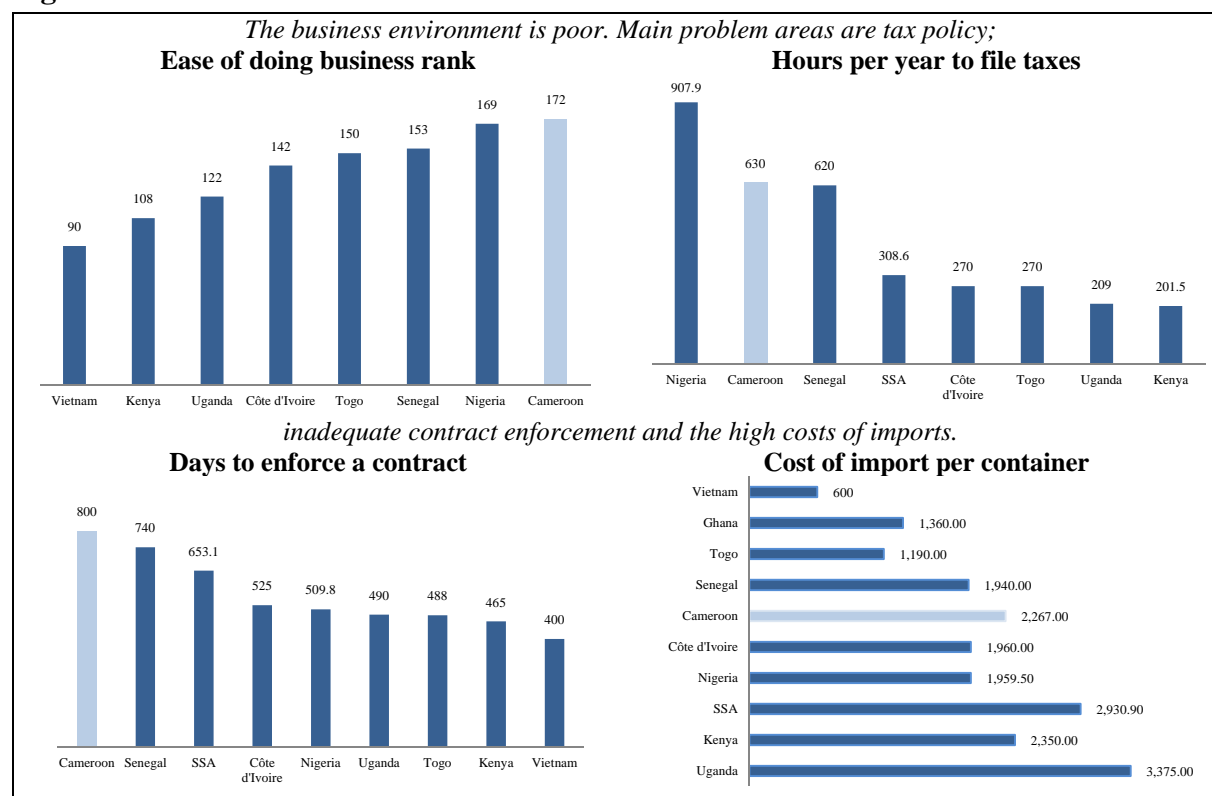
⁸ For instance, the Senate comprises of 100 members, 10 from each region. Of these 10, three are presidential appointees and the seven others are elected. So to attain a majority in the senate the presidential party only has to win three out of the seven seats up for a vote in each region. In practise the CPDM holds 82 seats in the Senate.

⁹ According to the same survey engagement in political processes is very low. More than 50 percent of respondents reported having no trust or little of trust in key institutions; above 80 percent has never been in contact with the president, public officials, or a local councillor to express an opinion; and more than 70 percent replied "no" to all questions related to vote and political engagement (e.g. did you vote, do you convince others to vote for this or that etc.).

9. After a period of rapid growth following the start of the exploitation of Cameroon's oil reserves, the economy plummeted between 1985 and 1994. Following Independence in 1960, the public administration was the largest formal employer, and the main actor in an economy which was structured along a state-led development model. Large profits from export-agriculture and oil exports following high international commodity prices financed this strategy. From the early 1980s on, Cameroon's economy suffered a period of rapid decline, marked by lower terms of trade, a decline in oil production, and an appreciation of the real effective exchange rate.

10. A recovery started in 1994, yet 20 years hence, in 2014, per capita income has not yet recovered its 1984 peak. Faced with a deepening economic crisis, the Government opted in 1993 for a painful structural adjustment program, privatizing and liquidating state companies and cutting wage and nonwage spending. The devaluation of the CFA franc in 1994 led to a large increase in the debt service, putting the country in debt distress. In April 2006, Cameroon reached the completion point of the Initiative for HIPC, which allowed it to reduce its debt ratio to 12.1 percent of GDP in 2008.¹⁰

Figure 1.4: Business environment



Source: WBG Doing Business 2016; World Development Indicators accessed November 2015.

11. The quality of service delivery is less than what can be expected from a lower middle income country. As part of the structural adjustment program, public servants saw their nominal salaries cut significantly. This massive income loss was aggravated by high inflation rates

¹⁰ The trauma of the Structural Adjustment Program has been such that to date Cameroon does not have a program with the IMF, nor does the World Bank have any Development Policy Financing.

following the FCFA devaluation. As a result, average real salaries declined by 51 percent between 1991/92 and 1995/96, entailing a severe decline in living standards and social status for most civilian public employees. A commensurate decline in the quality of service delivery followed due to increased corruption, reliance on allowances to top up salaries and the hiring of poorly paid contract workers for front line service delivery.

12. Political stability, an abundance of natural resources and a culture of education have allowed Cameroon to reach lower middle income status, but at the price of an unmet growth potential and limited reductions in poverty. The co-optation of elites has led to stability, but also to a system of governance that weighs down the economy with monopolies, state enterprises, exclusive (import) rights, and corruption. Continuously shifting coalitions block most reform proposals and lead to bureaucratic inertia. Within the administration, an allowance and per diem culture prevails. It obfuscates priorities, and promotes uncritical loyalty to one's superior (who decides on the allocation of financial privileges) instead of a focus on performance. A state led development model and a hostile business environment act to the detriment of attracting foreign and domestic investments.

13. For the DSCE objectives to be achieved, economic inefficiencies need to be addressed. Achieving higher middle income status by 2035 – the Government's status ambition, requires an acceleration of growth. This in turn requires increases in investment which will largely need to come from the private sector as the public debt burden has already risen to unsustainable levels. It also requires improvements in economic efficiency, to attract private investment and to ensure a good rate of return on public investments.

14. Stability is challenged, as Boko Haram has thrown Cameroon into the midst of the war on terror. Initially posing a threat at provincial, then at national levels in Nigeria, Boko Haram has extended its operational area from northern Nigeria to include the entire Lake Chad basin. Since the beginning of 2014, Boko Haram has carried out violent attacks in Cameroon. Over a period of just a few months, clashes between Cameroon's armed forces and Boko Haram militants escalated into what is virtually a small war in the Far North region. Insecurity has led to a considerable contraction of the regional economy as exchanges with Nigeria and Chad stopped, as security measures hinder economic activities and as the implementation of several development projects has been interrupted. Meanwhile, an increasing flow of refugees from Nigeria (almost 20,000 registered with the United Nations High Commissioner for Refugees, UNHCR) and IDPs (82,000 in 2015) intensifies social tensions in host communities.¹¹

15. Piracy and the crisis in CAR pose additional security threats. Some 382 acts of piracy were reported in the Gulf of Guinea from 2007 to 2013, posing a significant economic drain on West Africa and especially its oil economy. Cameroonians have been victims directly as well, notably in the form of attacks on the towns of Bakassi, Douala, Limbé, and Kribi. The perpetrators were seaborne armed groups working out of neighboring Nigeria, with its 500 miles of coastline on the oil-rich Gulf of Guinea. The eastern border is also a troubled zone. The crisis in the CAR has spilled over the country's borders in the form of incursions by armed groups and a flow of refugees, who number about 234,000. The *anti-balaka* ("anti-machete") militias, which formed as self-defense forces in villages of western CAR, and the FDPC (Democratic Front of the Central

¹¹ <http://www.unhcr.org/5461e5fce.html>, accessed on 8 December 2015.

African People) have caused security problems. As a response and also because there are concerns of the anti-balaka militias linking up to Boko Haram, the Cameroon Government has deployed troops along a section of its country's eastern border, while also contributing to the peacekeeping mission in CAR.

16. **The religious extremism advocated by Boko Haram, cannot be considered independent of the high levels of deprivation in northern Cameroon.** The mix of radical Islam with high levels of poverty and unemployment, low levels of education, a lack of economic opportunities, particularly for the youth and exposure to the world through the media, presents a breeding ground for disgruntlement and encourages membership in violent organizations that live off chaos and violence, such as Boko Haram. The heavily-armed and well-organized group is directly challenging the stability of the nation. To date, however, the violence has helped consolidate the sense of national unity: a widely attended peaceful march to support fighting troops was organized in February 2015, for instance.

17. **Social discontent is widespread** fueled by frustration about governmental ineffectiveness, high levels of corruption and a lack of economic opportunities, the allocation of public resources based on loyalty rather than needs, high levels of poverty, rising (regional) inequalities, low quality of service delivery and an overall lack of attention to developmental issues.¹² The average age of the population is 19, and youths are enduring difficult living conditions and high rates of unemployment. With few channels to express legitimate discontent,¹³ the youthful population renders the situation inflammable. The political opposition has little to offer and civil society organizations that could demand accountability are weak, fragmented, and discredited.

18. **Thanks to its enormous economic potential, achieving the ambitions formulated in the DSCE remains feasible.** Yet its realization will require challenging some of the interests that lie at the basis of Cameroon's political settlement as it necessitates improving the business environment. It also requires avoiding any major crises, financial or otherwise. Already high levels of spending to finance public investments, security and the '*Plan d'Emergence*' in the face of (oil) revenue shortfalls put pressure on public finances. Rising insecurity and economic hardships in northern Cameroon put new dimensions to Cameroon's north-south issues as do questions raised about the behavior of the security forces¹⁴. A premature presidential departure –not implausible given the President's age¹⁵, is another possible source of instability as a peaceful transition is no certainty given that there is little succession planning within the ruling party. Despite these pressing problems that require urgent attention most are in a holding pattern, waiting for the next election during which the President may, or may not decide to stand for another 7 year term.

19. **This SCD is thus prepared at a time when Cameroon finds itself at a critical crossroads.** The country has a historical opportunity to achieve the ambitions formulated in the

¹² See for instance. International Crisis Group 2014. *Cameroun : Mieux vaut prévenir que guérir*. Briefing Afrique no. 101.

¹³ See for instance Freedom House, *Freedom of the Press 2015*. Available at: <http://www.refworld.org/docid/5605367a11.html>, or United States Department of State, *2014 Country Reports on Human Rights Practices - Cameroon*, 25 June 2015, available at: <http://www.refworld.org/docid/559bd57928.html>.

¹⁴ See for instance: Amnesty International 2015. *Human Rights under Fire: Attacks and violations in Cameroon's struggle with Boko Haram*.

¹⁵ President Biya is 82 years old and has ruled for 33 years.

DSCE and join the group of middle income countries provided it is able to unleash the power of private sector led growth and it avoids any major economic, political or security crises.

1.2 Organization of the document

20. **The remainder of this document explores how to achieve the twin goals of ending poverty and improving shared prosperity by 2030 in a sustainable manner.** The document identifies a limited number of binding constraints which would need to be lifted to achieve the poverty objective.

21. **The next four chapters present background material to chapter 6, which presents binding constraints to poverty reduction.** The micro-foundations to poverty reduction are discussed in chapters 2 and 3. Chapter 2 discusses poverty, equity and vulnerability. Chapter 3 discusses human capital and its role in poverty reduction. Chapter 4 considers poverty reduction from a macro-economic perspective. It discusses opportunities for growth and economic transformation as well as the status of various cross-cutting economic services. Chapter 5, considers governance, fragility and the institutional environment.

22. **Binding constraints to sustainable poverty reduction are identified in chapter 6.** To arrive at these constraints a four step process has been followed. First an analytical framework has been developed and used to explore pathways to poverty reduction. Based on these pathways and the descriptive analysis presented in the earlier part of the report areas of binding constraints are identified (step 1). In-country consultations were then used (step 2) to assess the relevance of these constraints. The next two steps in the prioritization process were a country team retreat during which specific binding constraints were identified and prioritized (step 3) and a consistency check of the identified binding constraints with the long term objectives of financial, social and environmental sustainability (step 4).

2. POVERTY, EQUITY AND VULNERABILITY

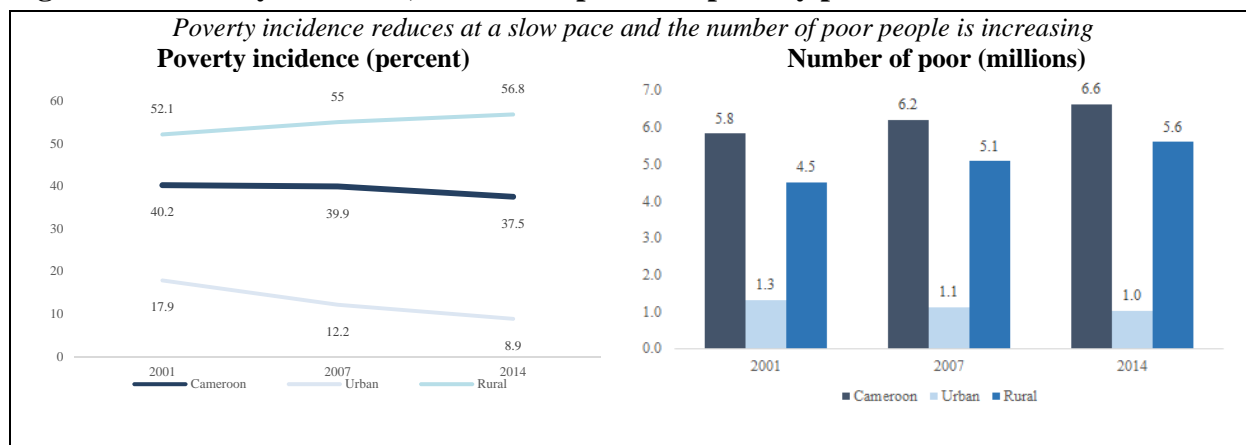
In 2014 headcount poverty reached 38 percent, a slight decline relative to 2001, when poverty was 40 percent. Poverty has been on the rise in rural areas and northern Cameroon is becoming poorer. This part of the country is affected by multiple poverty traps associated with insecurity, high rates of population growth, environmental degradation, malnutrition, isolation and low levels of productivity. By contrast, living conditions in the southern parts of the country, and especially the coastal area and the largest urban areas, are improving.

2.1 Poverty and poverty trends

23. **Despite more than a decade of economic growth, national poverty incidence has remained almost unchanged.** Poverty decreased from 40.2 percent in 2001 to 37.5 percent in 2014. Poverty incidence declined in urban areas from 17.9 percent in 2001 to an estimated 8.9 percent in 2014. In rural areas, on the other hand, the percentage of poor increased from 52.1 percent in 2001 to 56.8 percent in 2014.

24. **The absolute number of poor increased since 2001.** Even though urban poverty declined significantly, the absolute number of urban poor declined only slightly, by 300,000, on account of the fact that the urban population increased by approximately 4.1 million since 2001. In rural areas, the increase in the incidence of poverty resulted in 1.1 million additional poor people. Overall, the absolute number of poor in Cameroon increased by approximately 800,000 since 2001 to reach 6.6 million people in 2014.

Figure 2.1: Poverty incidence, number of poor and poverty profile

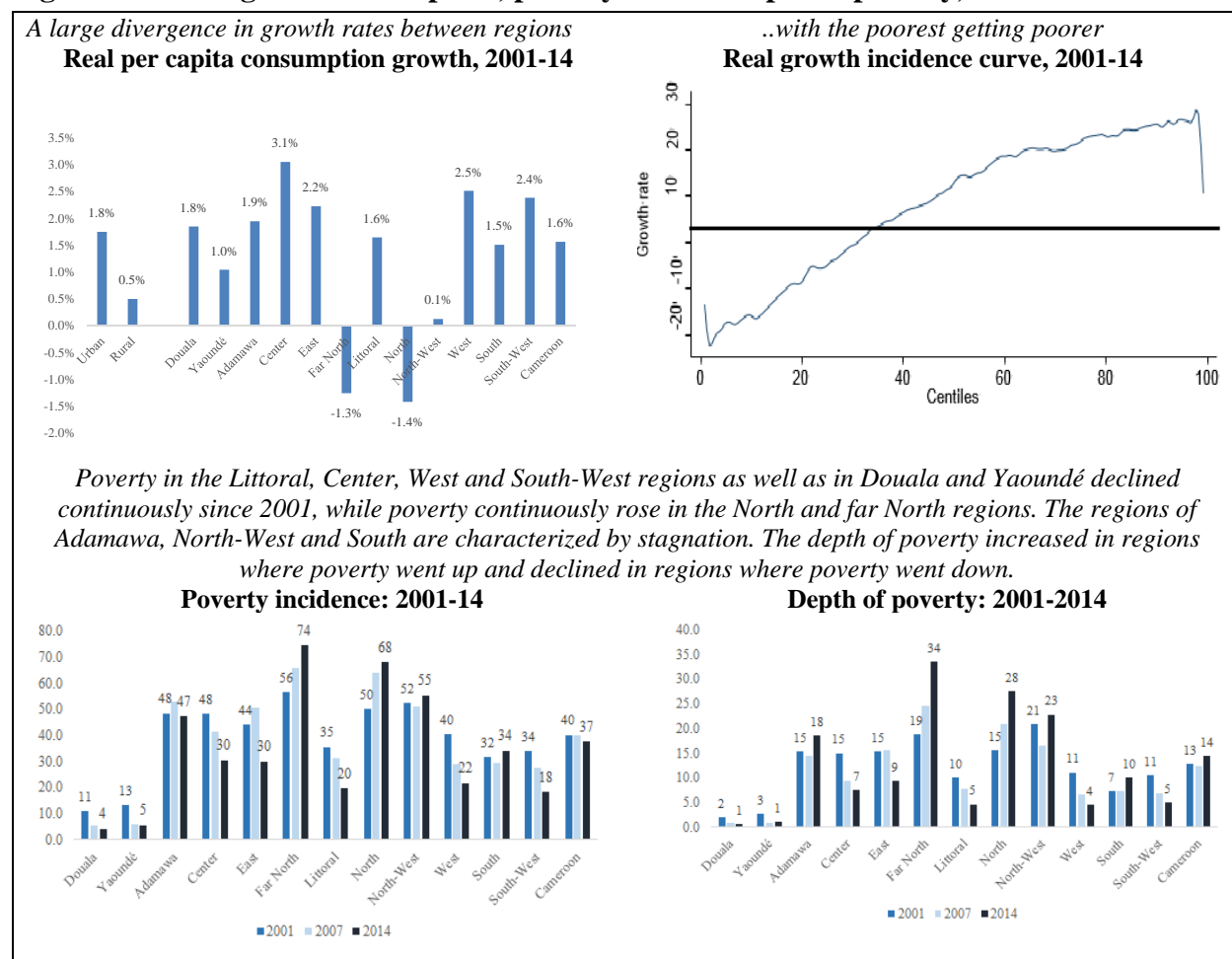


Source: ECAM2 2001 - ECAM4 2014; population numbers from UN population division 2014.

25. **The economic growth that Cameroon experienced was not inclusive.** The poorest households became poorer between 2001 and 2014. This is illustrated by the growth incidence curve which shows that for the poorest 35 percent of households net consumption growth was negative. Most of the growth dividend accrued to the wealthiest people.

26. **Changes in poverty between 2001 and 2014 show an unambiguous regional pattern, with northern Cameroon becoming poorer and southern Cameroon becoming better-off.** Poverty declined continuously in the center-west of the country, in the Littoral, Center, West and South-West regions, as well as in Douala and Yaoundé. By contrast, poverty continuously rose in the North and Far North regions. The regions of Adamawa, North-West and South are characterized by stagnation while the East region initially experienced an increase in poverty followed by a sharp decline.

Figure 2.2: Changes in consumption, poverty and the depth of poverty, 2001-2014.



Source: ECAM2 2001 and ECAM4 2014; inflation rate: World Development Indicators (WDI) 2015.

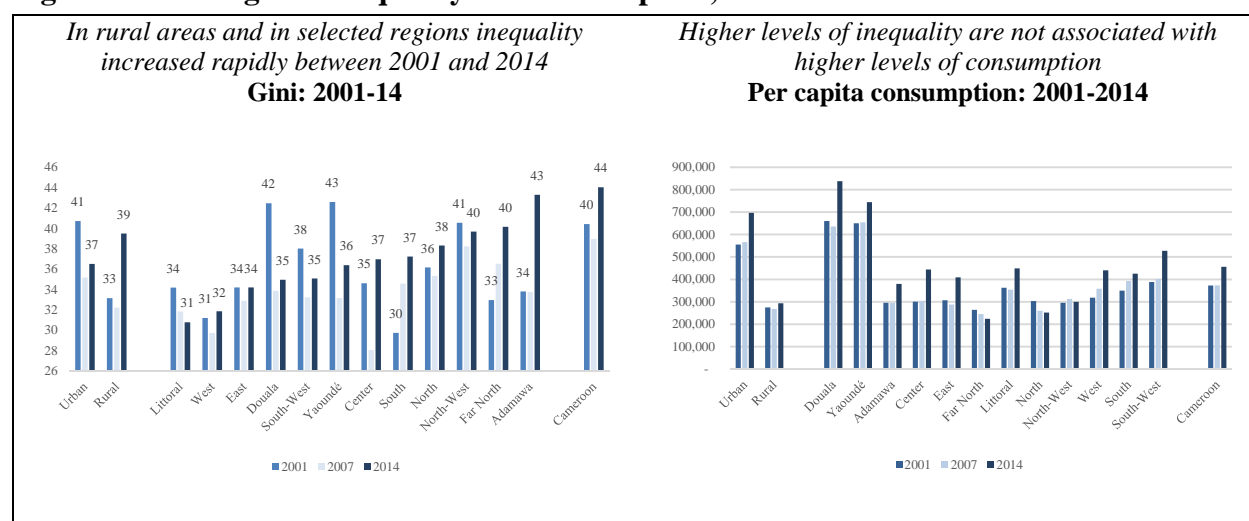
27. **The rapid increase in poverty in northern Cameroon occurred before Boko Haram started creating havoc.** The deterioration of the security environment in northern Cameroon occurred largely after the completion of data collection for the ECAM4 survey. The poverty estimates for the northern regions should, thus, be considered lower bounds, since the consequences of the increased influx of refugees, IDPs and the closure of markets, roads and frontiers has not been taken into account.

28. **Changes in per capita consumption mirror the observed changes in poverty.** On average real per capita consumption increased by 1.6 percent per year between 2001 and 2014, with large differences between rural (0.5 percent) and urban (1.8 percent) areas. As is the case for poverty, there are large variations between regions, with the Center being, by far, the most dynamic with an almost 50 percent increase in per capita consumption since 2001, followed by West and South-West. Consumption in the North and Far North is deteriorating with a 15 to 17 percent decline in per capita consumption since 2001. The increase in insecurity in the northern regions, since 2014, is likely to have led to a further deterioration of consumption in these areas.

29. **The pattern of consumption growth exacerbated pre-existing regional inequalities.** Regions with the highest initial levels of poverty (North, Far North, North-West) experienced further increases in poverty (and declines in consumption), whereas regions and locations with more favorable initial conditions (Douala and Yaoundé, Littoral, West, South-West) saw their levels of poverty decline rapidly. As a consequence, inequality increased rapidly. In 2001 the Gini coefficient was 40.4; in 2014 it was 44.0, implying that the 20 percent poorest consume less than 5 percent of all consumption, whereas the 20 percent richest consume almost half.

30. **Lower levels of consumption in the North and Far North regions are associated with higher levels of inequality. The reverse holds for Littoral and Doula and Yaoundé where higher levels of consumption are associated with lower levels of inequality.** Remarkable, and of concern, is the increase in inequality in rural areas and in Adamawa in particular. The enormous differences in per capita consumption between the poorest and wealthiest, and the rapid increase in inequality, particularly in rural areas can easily be a source for social tension.

Figure 2.3: Changes in inequality and consumption, 2001-2014.



Source: ECAM2 2001 and ECAM4 2014; inflation rate: WDI 2015.

31. **The depth of poverty increased in northern Cameroon and decreased in the coastal zone and the center.** The depth of poverty¹⁶, thus, increased in areas with the highest levels of initial poverty and decreased in areas with lower initial levels of poverty. Cameroon is developing at opposing speeds. Living standards in the coastal areas, the largest urban centers and their

¹⁶ Measured as the average distance to the poverty line of poor households.

surrounding regions improve, while living standards in the northern regions deteriorate (Figure 2.2). This cleavage is likely to get worse as the increased depth of poverty in the north makes poverty reduction increasingly difficult. The contrary holds for the coastal zones, where the depth of poverty is on the decline, making poverty reduction relatively easier.

32. **The decline in poverty in urban areas and rural-urban migration were the most important drivers of poverty reduction since 2001.** A sectoral decomposition of the 2.7 percent decline in national poverty incidence between 2001 and 2014 shows that it is explained by the reduction in poverty in urban areas in combination with rural/urban migration. The reduction in poverty would have been significantly larger, had poverty not increased in rural areas from 52 percent in 2001 to 57 percent in 2014. Other factors associated with a reduction in poverty were favorable world market prices for cash crops, such as oil palm, coffee, cocoa – crops predominantly grown in southern Cameroon. In east Cameroon, the rapid growth of artisanal mining contributed to poverty reduction.

2.2 Poverty reduction and urbanization

33. **Generally speaking, increased urbanization is positively correlated with economic development.** The top left graph of Figure 2.4, based on the World Development Indicators 2014, illustrates this relationship between the percentage of urban population and the log of GDP per capita. Cameroon lies just below the regression line, suggesting that its per capita income is slightly less than expected based on the rate of urbanization.

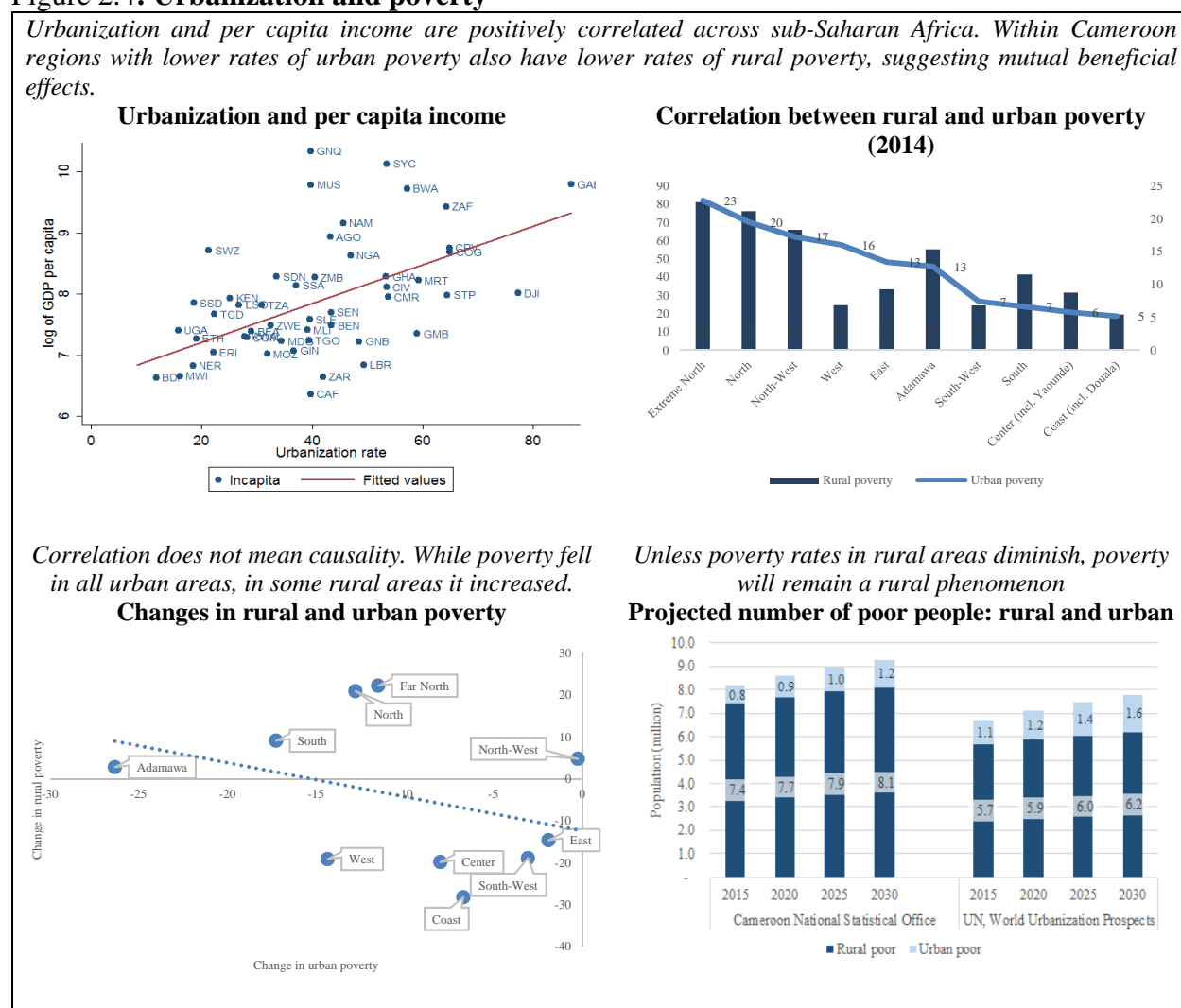
34. **Within Cameroon, urban and rural poverty rates are positively correlated, suggesting positive spillovers between urban and rural areas.** Regions with higher (lower) urban poverty rates tend to have higher (lower) rural poverty rates. This association (illustrated in the top right corner of Figure 2.4) hints at a potential linkage between urbanization and rural poverty reduction. Positive spillover effects from increased urbanization could come from increased demand for local agricultural products; urban to rural remittances; downward pressure on the rural land/population ratio; upward pressure on agricultural wages; increased opportunities for rural non-farm employment or lower transportation-induced transaction costs.¹⁷ The relationship is not necessarily only positive: when urban areas attract the most entrepreneurial, best-educated people, the capacity for rural growth diminishes.

35. **Since 2001, the disparity in rural poverty rates has widened, as poverty has been rising in the northern part of Cameroon, while it fell in other regions; conversely the regional disparity in urban poverty rates has narrowed across the country.** Rural poverty rates in Far-North, North, and North-West have been rising since 2001. The opposite is true for Center, East, Littoral, West, and South-West. Urban poverty rates in some regions, such as Adamawa, Far-North, North, and West used to be quite high but these regions successfully reduced urban poverty since. In fact, as urban poverty rates have been converging across the country, rural poverty rates have started diverging. One implication is that urbanization in the south may have contributed to poverty reduction in rural areas, whereas this was not the case in the north.

¹⁷ See Christiansen and Todo (2014).

36. **Rural-to-urban migration rates in northern Cameroon are relatively low, but when people do migrate they migrate to urban areas.** Rural to urban migration rates tend to be highest in Littoral (2.2 percent) followed by the Center (0.6 percent), West (0.7 percent), South (0.4 percent) and Adamawa (0.3 percent) regions. Migration rates are lowest for the East (0.2 percent), Far North (0.2 percent), North (0.1 percent), and North-West and South-West regions (<0.1 percent). This suggests that proximity to a large urban center (Douala or Yaoundé) is an important pull factor. Ninety-one percent of the migrants from Far-North and North regions migrated to urban areas, while only 41 percent of the migrants from North-West region moved to urban areas (i.e. 59 percent migrated from rural to rural areas in other regions).

Figure 2.4: Urbanization and poverty



Source: World Development Indicators and ECAM2 2001, ECAM3 2007 and ECAM4 2014.

37. **People who recently migrated from rural to urban areas are better-educated than those who remain behind.** There exists a stark contrast in the level of education of those who

migrate and those who do not, in that the well-educated people tend to migrate to urban areas.¹⁸ Another finding is that a large portion (62 percent) of migrants are Muslim. Migrants also tend to be fluent in English or French. There is no substantial difference observed in the average age and gender composition. The main reasons for migration are work (59 percent), health (14 percent), housing (3 percent), and others (25 percent). It suggests that the most capable in terms of human capital migrate to urban areas whereas the most deprived rural residents in the northern Cameroon are left behind.

2.3 A livelihoods perspective on growth and poverty reduction

38. **The poverty profile shows that poor Cameroonians live in rural areas, are less educated, live in large families with many dependents and are physically and socially isolated.** A typical poor household lives far from public schools, clinics and access points for electricity and is not a member of (informal) associations. Poverty increases with distance to the large urban centers and poverty incidence is lowest in Douala and Yaoundé and the regions in which these cities are located (Littoral and Center).

39. **Most poor reside in rural areas where they operate as pastoralists or cultivate small plots.** Farms in Cameroon are generally small in size, approximately 0.5 to 2 hectares per family.¹⁹ Smallholder agriculture remains characterized by limited mechanization, low use of fertilizer inputs, high labor inputs, limited soil conservation strategies and the general absence of enabling infrastructure for agricultural development. Farmers rely heavily on the use of simple tools (hoes, cutlasses, and spades) and techniques (manual weeding, hoeing and harvesting). Farmers with access to animal traction tend to cultivate larger areas but the advantages of doing so are dissipated by the fact that ‘successful’ farms attract additional family members (Table 2.1). The majority of farming households possess some form of livestock, mainly poultry and small ruminants that are poorly integrated into the farming system.

Table 2.1: Socio-economic characteristics of different cotton farm types

	Manual cultivation	Farms equipped for animal traction
Total Farm Area (Excluding Fallow)	2.51	4.09
... of which cotton	1.05	1.54
Cotton yield/ha	1,090	1,259
Number Of Persons/Farm	6.2	9.1
Number Of Active/Farm	3.2	4.9
Number Of Active/ha	1.3	1.2
Number Of Cattle/Farm	0.2	5.3
% Literacy (Local Language)	16%	26%
% Food Self-Sufficient Farms	39%	49%

Source: Gergely 2009 The cotton sector of Cameroon. Based on a 2002/03 National Coton Development Company (SODECOTON) survey.

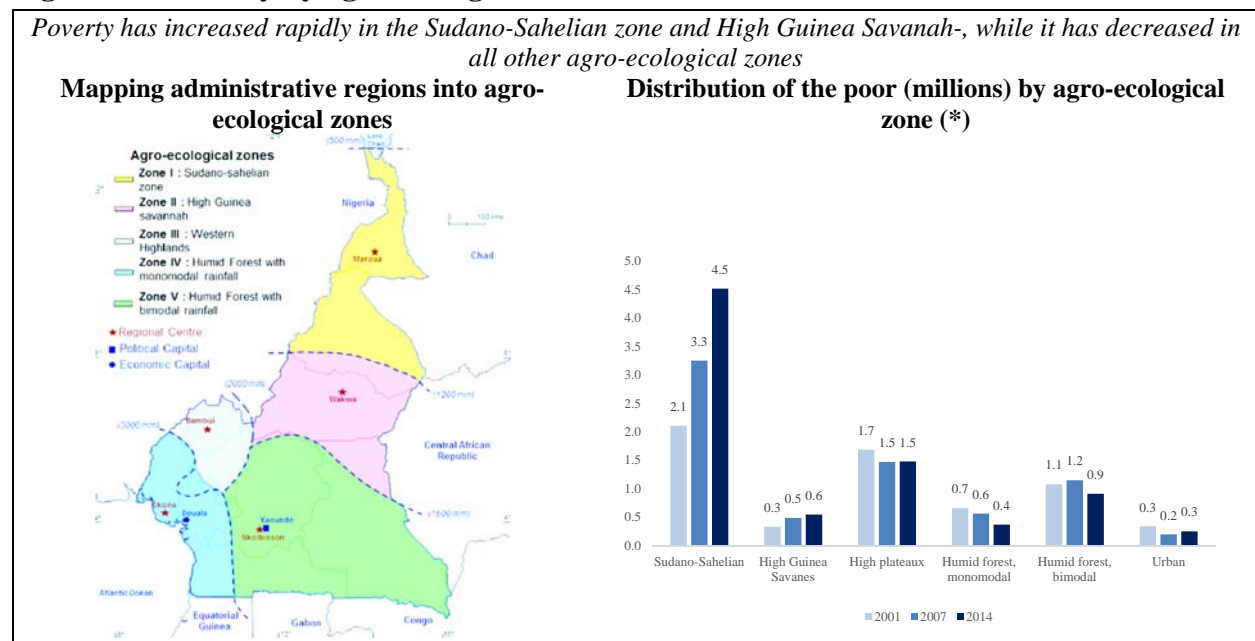
¹⁸ According to the survey of Douala, Yaoundé, Marawa, and Ebolowa by Meva’a Abomo et al. (2013), 60 percent of migrants complete secondary education.

¹⁹ Yengoh, Genesis 2012. Determinants of yield differences in small scale food crop farming systems in Cameroon. *Agriculture and Food Security* vol. 1(19).

40. **Land-use pressures are growing, sustained by an annual population growth rate of about 2.8 percent.** Land pressures manifest themselves as conflicts, often between farmers and pastoralists, between new settlers and existing farmers but also between those seeking land for mining, forestry and plantation agriculture and those wanting to preserve Cameroon's biodiversity.

41. **The livelihoods of rural households vary widely across the country.** In the southern regions, where it rains regularly, agricultural production flourishes. But in the progressively dry and arid north, where evapotranspiration is high, agricultural output largely depends on the amount of rainfall received. Globally five agro-ecological zones can be distinguished: (i) the Sudano-Sahelian zone in the north, where pastoralism is common and animal production the main agricultural activity, along with the cultivation of millets, sorghum, maize, beans and cotton; (ii) the high Guinea Savanah in Adamawa, where cattle production is less important and maize, manioc and millet are the main crops; (iii) a cattle (pastoralism) and coffee-based system in the plateau of the Western Highlands with maize, beans and plantain as the main food crops; (iv) a humid forest with a mono-modal rainfall at the coast; and (v) a humid forest with bimodal rainfall in the center and the south, where bananas, cassava and tubers are cultivated. In this latter zone slash and burn is still a common technique for cultivation. In the humid forest one also finds plantation agriculture (oil palms, cocoa, tea, rubber, bananas, and pineapples).

Figure 2.5: Poverty by agro-ecological zone



(*) Regions have been mapped as follows onto agro-ecological zones. Far North and North into the Sudano-Sahelian zone; Adamawa into the High Guinea savannah; North-West and West into the Western Highlands; Littoral and South-West into the humid forest zone with monomodal rainfall; South, Center and East into the humid forest zone with bimodal rainfall; Yaoundé and Douala: urban.

Source: Maps, IRAD 2008; data ECAM2 2001 – ECAM4 2014

42. **Between 2001 and 2014, the number of poor in the Sudano-Sahelian zone more than doubled to 4.5 million people.** The large number of poor people living in the Sudan-Sahelian zone is the combined effect of a high incidence of poverty (72 percent) and relatively elevated levels of

population density (72 people per km²). Many poor people can also be found in the Western Highlands. The concentration of poor in the Western Highlands is due largely to high levels of population density (122 people per km²), in combination with relatively elevated levels of poverty. The reverse is the case for Adamawa in the High Guinea Savanah where low population density combines with high levels of poverty.

43. **The mixed farming-livestock system of the Sudano-Sahelian zone is not only where most poor are found, it is also the most environmentally fragile zone in Cameroon.** With a Sahelian climate and vegetation, problems with crop cultivation, livestock, wildlife and fuelwood are pronounced. Erosion is a dangerous threat to agriculture in this part of Cameroon and, as agriculture is expanding and more land is being brought under cultivation, tensions between pastoralists and crop farmers are common. The gathering of fuelwood, annual bush fires and the high population growth rate all contribute to deprive this fragile environment of the vegetation cover it needs.

Table 2.2: Population density, poverty and share of the poor

	Population density	Poverty incidence	Percent of poor
Sudano-Sahelian	82	71.8	55.8
High Guinea Savanah	18	47.1	6.8
Western Highlands	122	38.7	18.3
Humid Forest with Mono-modal Rainfall	33	31.1	4.6
Humid Forest with Bimodal Rainfall	87	18.6	11.3
Urban	4,213	4.8	3.2

Source: ECAM4 2014 and INS Statistical Yearbook 2013.

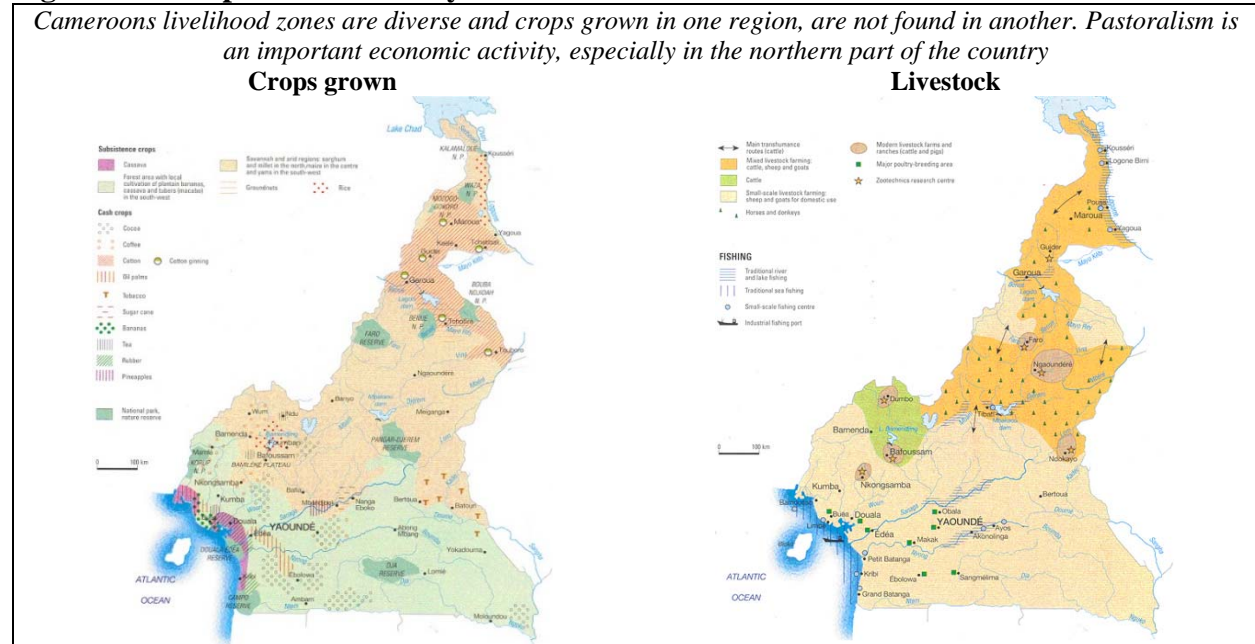
44. **The northern zone is particularly vulnerable to climate variability and change.**²⁰ The Sudano-Sahelian zone already faces high hydrologic and rainfall variability, with heavy rainfalls alternating with a six to seven month-dry season, and significant sporadic floods and droughts.²¹ Climate change will exacerbate such trends and is expected to further affect water resources in the Lake Chad and Niger basins in northern Cameroon. It is expected to increase vulnerability of areas prone to water scarcity and lead to changes in the types of crops cultivated, towards grain crops or cereals which require less rainfall and have a short growing season. Maize cultivation may dwindle in favor of sorghum and millets, which are hardy plants, with relatively low water requirements. The overall decrease in the quantity of the water would further exacerbate the ongoing crisis with water availability, storage and supply crisis in many rural areas of the north. An increase in the length of time for the recharge of groundwater, due to the prolonged dry season, could cause a drop in water tables and a drying up of wells and springs that constitute the main sources of water. The quality of water in most areas in the north will be affected too. An increase in temperature together with an increase in dryness is likely to result in net capillary movement and the salinization of both soil and water resources.

²⁰ See Ernest L. Molua and Cornelius M. Lambi *Climate, hydrology and water resources in Cameroon*, 2007. World Bank Policy Research Working Paper.

²¹ See Ernest L. Molua and Cornelius M. Lambi, *The economic impact of climate change on agriculture in Cameroon*, 2007. World Bank Policy Research Working Paper

45. As climatic conditions get drier, the future will be marked by an increased demand for water, both for domestic purposes and for the agricultural sector. Reliance on rain-fed agriculture would have to give way to more irrigation and improved water management and services. Strategies and approaches to increase water availability and storage, combined with improved land management, could therefore be effective to sustain livelihoods in rural poor areas and reduce risks from extreme water events like flooding, which have devastating effects on both crops and human settlements, productive and domestic assets. It would also contribute to improved access to safe and affordable water supply services for the population.

Figure 2.6: Crop and livestock systems



Source: FAO Atlas de l'Afrique [undated].

2.4 Poverty traps

46. **The poorest, and particularly those in northern Cameroon, are likely to be affected by multiple poverty traps.** Households may end up in a poverty trap because they 'inherited' too few assets (human and physical capital), or because of exposure to uninsured shocks. In the face of low incomes and given the de-facto exclusion from financial markets, a poor household's only option to avoid chronic poverty is an autarkic savings strategy to invest in the necessary assets. This requires substantial medium-term sacrifices in the form of diminished consumption, which many very poor households cannot afford, as their consumption levels are already low. There are various ways in which poverty traps can occur.²²

47. **Inadequate productive assets.** An asset-based poverty trap occurs when asset holdings in the form of human capital, land, livestock and transfer income are below some critical minimum needed to withstand a macro-, community (drought, flooding, insecurity) or household shock

²² Presented is an adaptation of a taxonomy by Erik Thorbecke (2013): The Interrelationship Linking Growth, Inequality and Poverty in Sub-Saharan Africa," *Journal of African Economies*.

(illness, death in the family). Such shocks would force affected households to dispose of some of their assets, or to indebt themselves and be pushed into a state of chronic poverty. For instance, it may occur that a poor household loses its seeds and then fails to have the means to purchase new seed. It may also happen that households lack the means (animal traction) to bring a sufficiently large area under cultivation; or they may be indebted and forced to first work on other people's farms to repay their obligations before they can tend to their own fields. The likelihood that asset traps are prevalent can be seen from the fact that the poorest households plant the smallest areas per capita (Figure 2.7), have least productive animals, few productive assets and are most likely to have acutely malnourished children (a sign of food shortages).

48. **A temporary shock can lead to a nutritional poverty trap** (a specific type of asset trap) as malnutrition amongst adults reduces their productivity, translating into lower incomes, leading to poverty and inadequate food consumption, further lowering their productivity and creating a vicious spiral into a destitute state.²³ Alternatively malnourished children may suffer long-term cognitive consequences and have trouble learning and building up their own human capital. Poor quality drinking water and the lack of adequate sanitation facilities affect mostly the poorest households and contribute to the nutritional poverty trap.

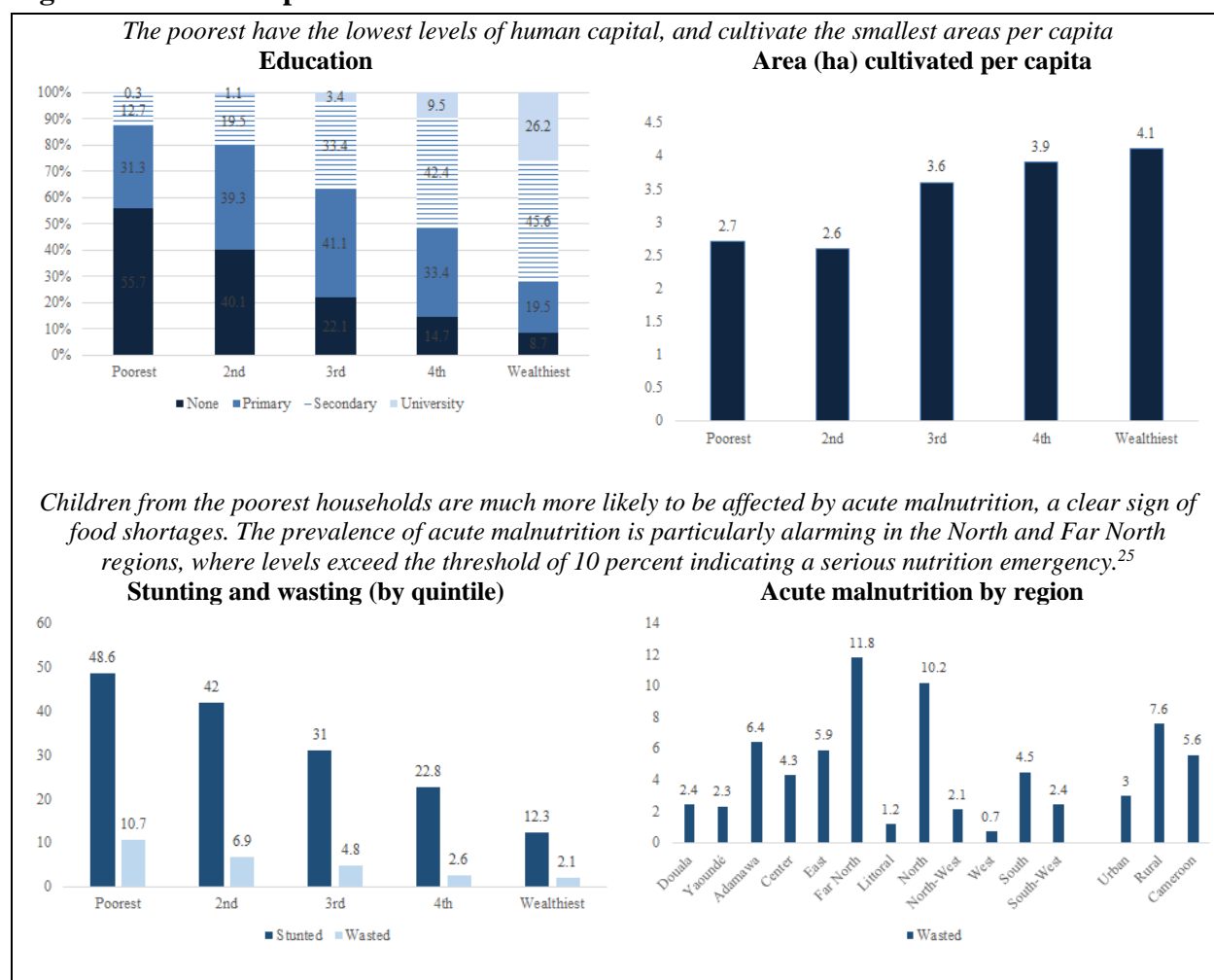
49. **Demographic traps** occur in poor families with practically no assets, in environments characterized by the absence of old-age social security programs and high infant and child mortality rates. In order to help ensure that at least some children survive to take care of their parent in their old age, or to ensure that a minimum of labour is available, the family opts for a strategy of high fertility. An additional child becomes a form of insurance against old age destitution. In turn, the consequent increase in the household size reduces per capita income, increases dependency ratios and reduces the ability to save and invest. In these circumstances, the impact of family planning and contraception schemes, by themselves, are unlikely to alter the fertility rate. A preference for high rates of fertility may also occur in areas where labour markets are absent and where seasonal demands for labour are high (typically in low population density arid zones)²⁴.

50. **Social and gender based traps** may result from long-standing cultural values, such as attaching less value to the education of girls than of boys, the custom of marrying girls young, customs prohibiting women to inherit upon the death of their husband, or customs that lead women to cultivate food crops while men cultivate cash crops. Even when men and women grow the same crops, yields from male-managed plots tend to be higher than those of female managed plots. Challenges faced by women in Cameroon's agriculture include holding fewer agricultural assets such as farm tools and equipment, as well as having to split their time between farming and household chores. Where men dominate cash crop production, their ability to invest part of the income in their farms is also greater than that of women. Gender and social based traps could gradually become less binding, particularly as more emphasis is put on girls' education.

²³ Prior to the harvest, many adults are found to lose significant weight.

²⁴ Hans Binswanger and John McIntire, 1987.

Figure 2.7: Asset traps



Source: ECAM4 2014

51. **Soil fertility trap.** When low-input sedentary subsistence farming replaces the natural vegetation, the stable natural biogeochemical processes of nutrient cycling are disrupted and the root zone (the upper 10 to 50 cm) becomes rapidly depleted of plant nutrients. Particularly ferrasols that make-up 55 percent of Cameroon's territory²⁶ are susceptible to this kind of erosion. Lower productivity as a result of soil degradation limits the economic means to restore soil fertility, leads to extending the area cultivated, and further reduces fallow periods thus reinforcing declining soil fertility.

52. **Spatial development traps** may occur in settings where a disproportionate number of poor is located in areas where arable land is scarce or of relatively bad quality, or where insecurity, droughts, floods and other environmental shocks generate relatively high levels of community-wide risks. One characteristic of regions affected by these kind of poverty traps is that poverty has a clear spatial pattern and that it tends to increase with the distance from major cities and the coast,

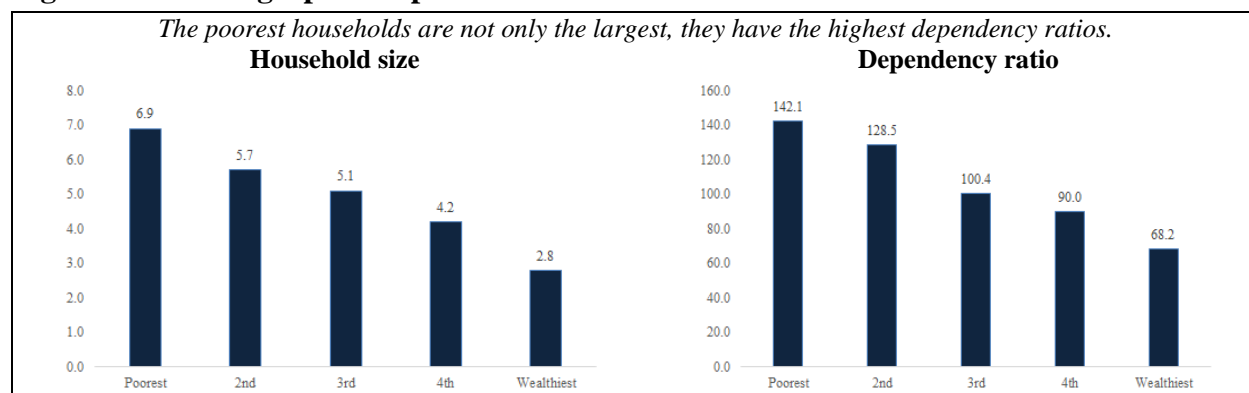
²⁵ WHO, 2003. The Management of Nutrition in Major Emergencies.

²⁶ Ngachie, V. 1992. A general assessment of soil resources and soil fertility constraints in Cameroon on the basis of FAO-UNESCO soil map analysis. *Tropicultura* vol. 10(2): 61-63.

since transaction costs tend to rise as a function of distance to urban agglomerations. Northern Cameroon and the Western Highlands are prone to such spatial poverty traps. Interventions that improve farm-to-market access (roads; means of transport; fewer road blocks; farmer associations to aggregate produce and attract traders) can play a key role in reducing transaction costs and overcoming spatial poverty traps.

53. **The prevalence of multiple poverty traps implies that successfully attacking poverty requires a multi-faceted development strategy.** The combined effect of multiple, reinforcing traps is to deepen the magnitude of poverty. For northern Cameroon, where poverty is deepening and increasing over time, this certainly seems relevant and many of the aforementioned poverty traps hold simultaneously as poverty has a clear spatial dimension, stocks of human and physical capital are low, malnutrition is prevalent, fertility rates highest and gender roles most explicit. In other regions –where poverty is lower and trends point towards a reduction of poverty, poverty traps seem less relevant. In areas with more than one poverty trap, rather than attacking each trap separately to break its vicious cycle, multiple cycles have to be broken at the same time in order to create a more virtuous cycle.²⁷ Single interventions may address multiple traps at the same time: improved female education can be expected to reduce traps associated with gender, the lack of assets (human capital) and high levels of fertility. Irrigation could address nutrition, productive asset, spatial and soil fertility traps simultaneously, by lengthening the growing season and increasing yield.

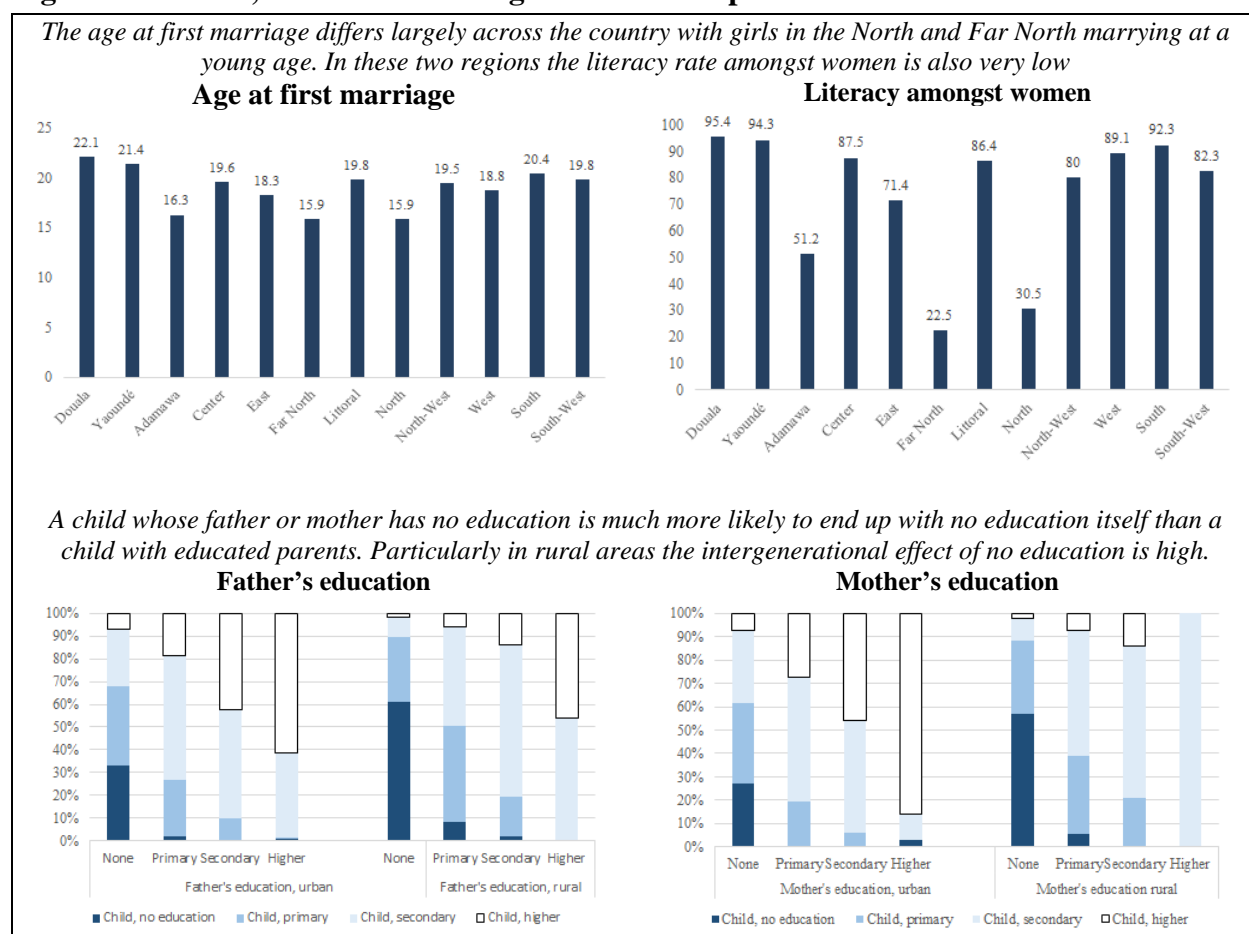
Figure 2.8: Demographic traps



Source: DHS 2011 and ECAM4 2014

²⁷ Erik Thorbecke 2013. The interrelationship linking growth, inequality and poverty in sub-Saharan Africa. *Journal of African Economies* vol. 22, AERC supplement 1, pp. i15-i48.

Figure 2.9: Social, cultural and intergenerational traps



Source: DHS 2011 and ECAM4 2014, INS 2011 Labor Survey.

Box 2.1: Gender based traps vary by location

Women in Cameroon are particularly disadvantaged. Women are more likely to be illiterate, and they marry on average seven years younger than men. The median age of first marriage is 19 for Cameroon and 16 in the North and Far North. Thirty percent of women state that they have experienced physical violence in the past 12 months (DHS 2011). While gender differences can lead to poverty traps “one-size fit all” approaches may not be optimal, as the role of women differs between locations and ethnic groups. Below follow three examples.

The Moghamo are a mostly agrarian society in the Northwest region. The Moghamo consider women as less intelligent than men. “A good Moghamo woman is expected to be submissive and quiet in public places, especially in the midst of men, to speak only when asked to do so, and to be obedient, caring, receptive to visitors, and tolerant.” Women are not allowed to control assets as long as a man is present in the household. Women reported that “men can own everything including their wives and children, and can dispose of what they own as desired, even without their wives’ knowledge.” The extent to which Moghamo women engage in economic activities depends on their marital status. At first glance it seems that unmarried women are better-off, since they are allowed to control assets and to earn income. However, being unmarried is associated with being unsuccessful, and participation in the economy, a crucial element for empowerment, is sought less than the status assigned to marriage.

Like the Moghamo, Bafaw women (living in the South West region) are considered inferior to men. When asked, Bafaw men were unable to visualize women in positions of authority, leadership, or power in a man’s presence. Unlike the Moghamo, Bafaw women (married or not) are allowed to partake in economic activities of their choice,

without the consent of their spouse. Bafaw women hold personal bank accounts, keep the profits of their labor and own land. Nonetheless, some Bafaw women have reported that their economic independence, while providing power and status, comes at a price, as their economic activities were a source of tension in the household. In some cases it even led to the dissolution of their marriages.

The Fulbe are originally a nomadic Muslim society specializing in cattle rearing in northern Cameroon. The Fulbe language, Fulfulde, has no word indicating gender and does not have separate personal pronouns for 'he' and 'she'. Still, men and women live highly segregated lives, especially those that have not adopted a sedentary lifestyle. Fulbe women enjoy high levels of respect due to their economic activities and their role within the household. Fulbe women are not allowed to cultivate land, even though settled Fulbe men have started doing so. Women are expected to churn milk and to sell it in the market, an activity which might require walking long distances, depending on their place of residence. Fulbe women are responsible for preparing food, conducting household chores –including bringing water and fuel- as well as child rearing. Husbands, in turn, are not allowed to appropriate the money earned by women. Fulbe women typically marry in an arranged marriage, often when they are very young, and without the consent of the girl.²⁸

Source: Joyce B. Endeley (2001) Conceptualising women's empowerment in societies in Cameroon: How does money fit in? *Gender & Development*, 9:1, 34-41

2.5 Chronic poverty, vulnerability and safety nets

54. **The existence of multiple poverty traps and the increasing depth of poverty in northern Cameroon points towards high levels of chronic poverty.** Panel data to assess whether households move in and out of poverty, or whether they are stuck in poverty is not available, but with a poverty incidence of around 80 percent in the rural areas of the Sudano-Sahelian zone it is clear that a large fraction of households is chronically poor with few prospects for moving out of poverty in the near future.

55. **In addition to widespread chronic poverty, vulnerability is high.** Especially, households earning their income through subsistence agriculture and pastoralism are vulnerable to shocks as they typically are poorly connected to markets and their incomes are heavily dependent on rainfall. Poor households and particularly those in urban areas are vulnerable when food prices rise and (casual) labor opportunities are absent. For pastoralists, the worst possible combination is one of falling livestock prices and rising food prices, a combination that typically occurs when a covariate shock (drought, insects, insecurity) affects an area.²⁹ In recent years, severe flooding events have affected urban and rural areas, impacting productive assets, living conditions and livelihoods. Poor health is another source of vulnerability aggravated by the fact that most health service providers require large out-of-pocket contributions.

56. **Building resilience to shocks is of paramount importance.** When households and communities are repeatedly hit by shocks and lack the means to respond, they have difficulty accumulating the human, physical, and natural capital needed to lift themselves out of poverty. For this reason, building resilience to shocks is not necessarily a goal in itself, but it remains an essential pre-condition for achieving higher-level development goals, such as poverty eradication, sustainable improvements in living conditions, and food security. Increasing resilience will not lead automatically to poverty eradication. For poverty to be eradicated, a number of additional

²⁸ Jose C. M. Van Santen, (2014), "Educating a girl means educating a whole nation" *Gender mainstreaming, development and Islamic resurgence in North Cameroon*, Journal of International Development, 26, 368–381

²⁹ Arnold, Margaret, Alejandro de la Fuente, Charlotte Benson, Daniel Clarke, Xavier Giné, and Ruth Vargas Hill (forthcoming). *Insuring Resilience*. World Bank.

actions will have to be taken, for example improving health services, strengthening educational systems, and improving access to markets for inputs and outputs. But, while increasing resilience is not a *sufficient* condition for poverty eradication, it is most likely a *necessary* one, because it is hard to imagine how households that are unable to cope with the impacts of drought, flooding and other shocks can save enough to augment their endowment of productive assets and increase their income-generation potential.

Box 2.2: Social exclusion

Social exclusion is typically rooted in discrimination based on some personal trait, ethnicity, age, migration status, health condition or disability. It aggravates issues of poverty and vulnerability for those affected but also reduces the productive capacity of society as a whole. In Cameroon, a number of groups are at particular risk of social exclusion.

Mbororo

The Mbororo is a pastoralist ethnic group comprising over one million people. They inhabit territories close to the border with Nigeria, Chad and CAR and are related to the Fulbe though the latter tend to consider the Mbororo pagans, not practicing true Islam. Mbororo lead secluded lives, preferring to live just with their close family in small dispersed communities away from rural centers. Mbororo tend to be reserved and exclusive as their traditional code of conduct (pulaaku) dictates.

Mbororo have been an easy prey for exploitation and extortion due to their relative (cattle) wealth, their preference to solve matters amongst themselves and their inclination to resolve issues with the administration by paying bribes. They have been particularly vulnerable with respect to issues of grazing rights and the Jangali tax. The Mbororo claim the latter is discriminatory as it affects them disproportionately. The Jangali tax is levied annually based on the ownership of livestock (cattle and horses) and is unrelated to the sale or use of animals for profit. Finally, 90 percent of the refugees in the Eastern and Adamawa provinces belong to the Mbororo ethnic group. These refugees are fleeing CAR, but increasingly also Nigeria, where their cattle is an easy target for Boko Haram raids.

Refugees

Cameroon has an open door policy for refugees - asylum seekers and the state has demonstrated significant efforts to protect this vulnerable population. This includes access to health facilities, to schooling and the right to be legally employed. The Government has created seven refugee camps in the East and Adamawa regions, which mainly host refugees from CAR and the Minawao camp in the Far North which hosts people fleeing Boko Haram in Nigeria. An additional 314 smaller camps and sites linked to villages also host a large number of refugees. According to the UNHCR (July 2015) Cameroon hosts 276,265 refugees as well as an estimated 12,000-17,000 unregistered refugees mostly located in the Far North region.

Refugees experience social exclusion. While the Cameroonian state has been accommodating, local authorities often do not share this welcoming attitude. They tend to view the facilitation of the integration of refugees as a negative development and fear that it will function as a “pull factor” turning their localities into refugee settlements. The Non-Governmental Organization (NGO) “Réfugiés sans frontières” reports that “there is still the idea that a refugee is someone who is a criminal, someone who came to steal the work of the Cameroonians.”

Apart from issues of social exclusion, refugees face the same practical problems that plague other disadvantaged groups in Cameroon. They often suffer from poor health as a result of malnutrition, unsanitary living conditions and unsafe drinking water. Since many of them do not have any source of income, finding shelter is an issue. It has become common practice for urban refugees to resort to living in unfinished houses in exchange for a small rent to the owner. Refugees who are located in one of the UNHCR administered camps receive shelter, free healthcare and a monthly food allowance. However, even those groups are faced with the overcrowding of the camp facilities, which often creates social tensions that sometimes lead to violence.

Pygmies

Pygmies are a “hunter-gatherer” society living in the forests near the borders with Gabon, CAR and the Republic of Congo. They comprise around 0.4 percent of Cameroon’s population. They self-identify as indigenous peoples

and can be divided in three ethnic groups: the Baka, the Bakola - Bagyeli, and the Bedzan - Medzan. Traditionally these groups were isolated clans that used to lead a nomadic lifestyle with migratory patterns that matched the change of seasons in the forest to hunt animals, and to collect plants and other non-timber forest products.

These ethnic groups have always been discriminated. According to NGO surveys, local farmers view Pygmies as “savages, inferior beings or thieves that possess supernatural powers.” The partial-sedentarization, which was part of a Government effort to “integrate the Pygmies to the modern economy”, aggravated these groups’ poverty and vulnerability.

Much of the poverty and vulnerability that the Pygmies are experiencing is the result of land rights issues, loss of livelihoods as well as the lack of political representation, legal rights, and access to education, healthcare, and services. Even though 4 percent of Cameroon’s forest has been designated as “community forests” these areas are often not the traditional lands of the Pygmies. Moreover Pygmies are not entitled to compensation when projects affect their livelihoods because compensation requires identifications cards and because the authorities consider Pygmies as merely occupying the forest. The semi-nomadic lifestyle and the language barriers further prevent Pygmies from accessing education, health care and other services. More recently the authorities have taken some steps to improve the situation such as the revision of the Law on Forest and Fauna, the recognition of two Baka “chefferies” and an effort to provide free identification documents.

3. HUMAN CAPITAL DEVELOPMENT

Human capital outcomes are less than what might be expected for a lower middle income country. There exist large spatial differences, with people, and especially women, living in northern Cameroon lagging behind. These differences have become larger over time. Public spending on health and education is relatively low and inefficient. To reduce poverty and realize opportunities for growth there is a need to improve access to primary and secondary education and primary health care in areas that lag behind and more attention should be paid to education quality and to providing skills demanded by the private sector.

3.1 Human capital

57. **The ability to work is one of the main assets of poor people.** In those parts of the economy where subsistence agriculture remains dominant, and where the main pathways out of poverty are productivity increases in agriculture or migration to town, additional investments in health and basic competencies are needed to break a vicious cycle of poverty and poor quality of life that may otherwise persist from generation to generation.³⁰ To serve the needs of an increasingly modernizing economy it is equally critical that people are equipped with advanced skills. It allows citizens to contribute to the structural transformation that is necessary to achieve the higher middle income status to which the country aspires.

58. **There is a long way to go to ensure that all Cameroonians enjoy basic education and health services.** Health outcomes, for instance, are similar to those of lower income countries. In 2013, every 100,000 live births resulted in the deaths of 590 mothers.³¹ This is higher than the average of 510 in sub-Saharan African countries (SSA), more than twice the average of 240 per 100,000 in lower-middle-income countries and more than 10 times the average of 57 per 100,000 in upper-middle-income countries. Consequently, given a fertility rate of about 5 children per woman, approximately 4,800 mothers die each year in childbirth.

59. **Children suffer from high mortality rates, lack of vaccinations, experience high incidence of malaria and are affected by chronic malnutrition.** Eighty eight out of every 1,000 live births end in death of the child before the age of five.³² This is higher than the average of 83 per 1,000 in SSA countries, more than 1.5 times the average of 53 per 1,000 in lower and middle income countries, and more than 4 times the average of 19 per 1,000 in upper middle income countries. Less than 65 percent of under-two children receive a full set of vaccinations, 30 percent of under-five children test positive for malaria, and 20 percent of under-five children suffer from diarrhea. The nutritional status of many children is worrisome, especially in terms of deficiency in height for age or stunting - the most irreversible form of malnutrition. As of 2014, about 13 percent

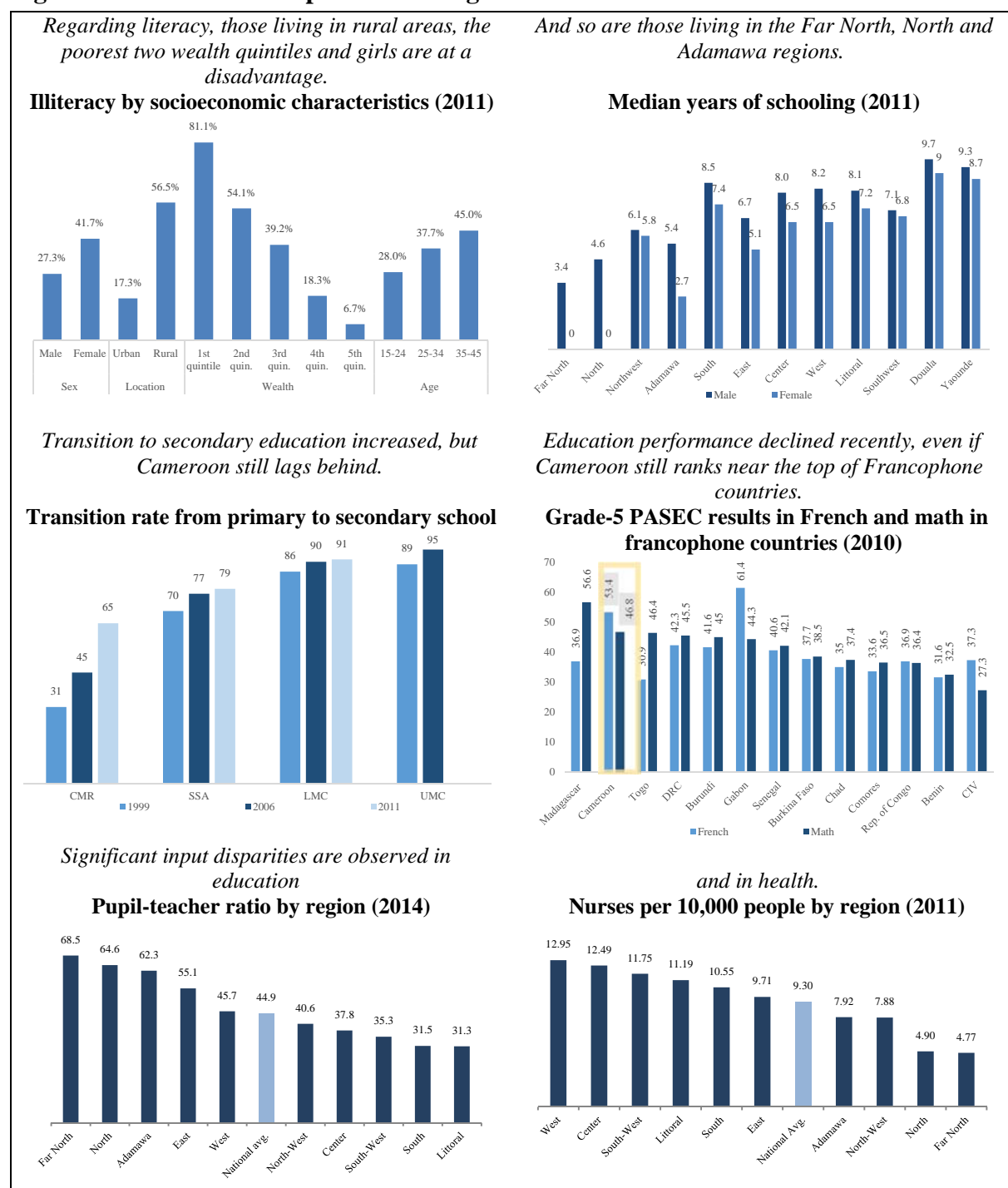
³⁰ See for instance Barro & Lee 2010; Krueger & Lindahl 2000; Gyimah-Brempong & Wilson 2004; Becker et al. 1994. The direct relation between education and agricultural productivity is more tenuous among the poorest countries (Reimers & Klasen 2013), but there are reasons to believe that education will have a positive impact in agricultural growth. Education through extension services is important for improve farming techniques. Generally better education would matter also for managing the business of running a farm.

³¹ Some discrepancies exist between these data coming from the World Development Indicators (WDI) database, and the data of Table 3.1 because of different data sources.

³² Ibid.

of under-five children were severely stunted and about 32 percent found at least moderately stunted.

Figure 3.1: Human development challenges



Source: World Bank 2015. Human Capital Priorities for Ending Poverty in Cameroon, Ministère de l'Éducation de Base MINEDUB School Report Card 2011/12, General Census of Health Personnel in Cameroon 2011 and WB staff calculations.

Table 3.1: Summary of indicators on health and education in Cameroon

Indicator (following life cycle logic)	Value	Unit	Year	Source
Maternal and reproductive health				
Women 15-49 years who took basic prenatal health tests	73	%	2014	MICS
Women 15-49 years who had qualified assistance during child birth	65	%	2014	MICS
Women having had postnatal consultation after child birth	69	%	2014	MICS
Maternal mortality	782	per 100,000 live births	2011	DHS
Child mortality and child health				
Under-two full vaccination coverage	64	%	2014	MICS
Under-five mortality	103	‰ live births	2014	MICS
Under-five malaria infection	30	%	2011	DHS
Under-five diarrhea	20	%	2014	MICS
Under-five stunting (low height for age)				
Under-five stunting (low height for age): Moderate to severe	32	%	2014	MICS
Under-five stunting (low height for age): Severe	13	%	2014	MICS
Under-five underweight (low weight for age): Moderate to severe	15	%	2014	MICS
Under-five underweight (low weight for age): Severe	4	%	2014	MICS
Under-five wasting (low weight for height): Moderate to severe	5	%	2014	MICS
Under-five wasting (low weight for height): Severe	1	%	2014	MICS
Basic education				
Pre-school enrolment of 3-5 year-olds	28	%	2014	MICS
Gross primary school enrolment	111	%	2011	DHS
Net primary school enrolment	85	%	2014	MICS
Gross secondary school enrolment	66	%	2011	DHS
Net secondary school enrolment	53	%	2014	MICS
Gender parity at primary school level	0.96	female/male	2014	MICS
Gender parity at secondary school level	0.92	female/male	2014	MICS
Education and skills of adults				
Years of schooling of women of 15-49 years old	5.6	years	2011	DHS
Years of schooling of men of 15-49 years old	7.2	years	2011	DHS
Completed years of schooling of women of 15-49 years old	6.7	years	2014	ECAM
Completed years of schooling of men of 15-49 years old	8.2	years	2014	ECAM
Women 15-49 years who cannot read any word	29	%	2011	DHS
Men 15-49 years who cannot read any word	16	%	2011	DHS
Women 15-49 years who can read and write a short simple phrase in French or English	74	%	2014	ECAM
Men 15-49 years who can read and write a short simple phrase in French or English	87	%	2014	ECAM

Source: INS and Inner City Fund International (ICF International) 2012, INS 2015, author's estimates.

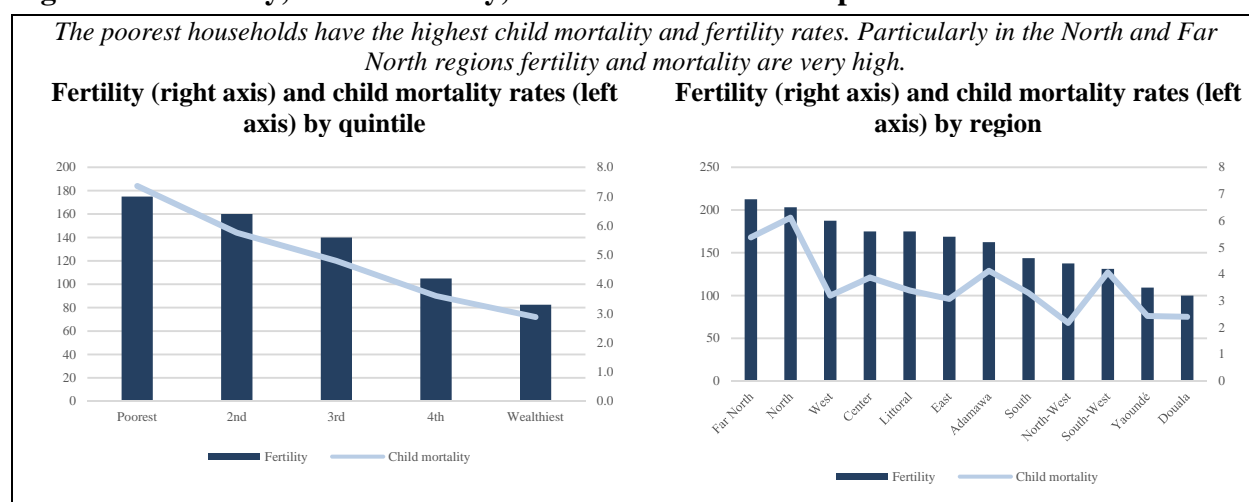
60. **Limited access to sanitation is a serious health issue.** In 2012, only 45 percent of the population had access to adequate sanitation facilities. In rural areas, 54 percent of the population could only access unsanitary latrines and 12 percent still practised open defecation. In urban areas,

sewerage systems and wastewater treatment from municipal and industrial activities are quasi inexistent. On-site sanitation is the norm. People rely on manual and sometimes mechanical pit emptying services, which dispose fecal sludge, with no treatment, in unprotected sites. Health impacts as well as environmental degradation, extreme flooding and groundwater pollution pose serious health risks in densely populated areas.

61. **With respect to education, even though significant improvements have been achieved since the early 2000s, Cameroon's performance still falls short of that of other low middle income countries.** As of 2014, more than 85 percent of children aged between six and 11 were enrolled in primary school. At the secondary level, gross enrolment is about 66 percent and net enrolment 53 percent, suggesting a low rate of transition between primary and secondary education. Indeed, the transition rate from primary to secondary increased from 31 percent in 1999 to 65 percent in 2011 but this still trails the performance of other lower middle income countries which achieve 91 percent on average. Similarly, the lower secondary completion rate almost doubled from 22 percent in 2003 to 40 percent in 2011, but falls short of the lower middle income average of 49 percent.

62. **Cameroon's total fertility rate (TFR) of 4.9 remains very high,**³³ with minor reductions over the past 25 years (the TFR was 5.8 in 1991). The unmet need for contraception among married women is high (18 percent). Because of its persistently high fertility Cameroon has a population age structure that is concentrated towards dependent children (42.9 percent of the population is less than 15 years old), which negatively affects its prospects for human development and economic growth.

Figure 3.2: Fertility, child mortality, household size and composition



63. **The adolescent fertility rate is high with 11 per cent of female adolescents aged 15 to 19 giving birth each year.** In 2011, 42 percent of girls had had their first childbirth before the age of 20. Regional disparities are significant: in the East and Far North, respectively, 46.8 percent and 34.4 percent of young women 15 to 19 years of age had already become pregnant in 2011, while in Yaoundé this rate was only 18 percent. Education and poverty explain these differences (see

³³ 2014 MICS

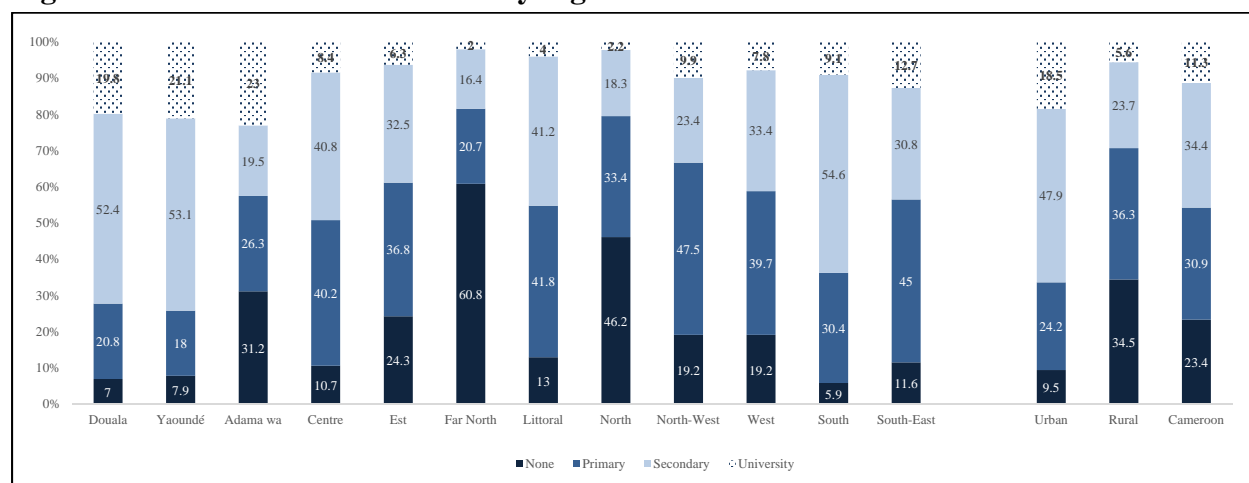
also Figure 3.7): 55 percent of adolescents aged 15 to 19 without any education were pregnant or already had a child, a rate that is six higher than among girls with a secondary education (9 percent). Similarly, 37 percent of young women aged 15 to 19 in the poorest quintiles had begun their reproductive life, whereas only 14 percent of young women in the richest quintile had done so.³⁴

3.2 Human capital inequalities

64. **Regional inequalities in health and education outcomes are significant.** Irrespective of the health or education indicator selected, those living in northern Cameroon are worse off. Malnutrition for instance, measured as height for age is 45 percent in the Far North region, whereas for Yaoundé and Douala it is approximately 13 percent. Under-five mortality in the Far North and North regions is 3-4 times higher than in Douala and Yaoundé. In the Far North only 30 percent of children under-two receive a full set of vaccinations, as opposed to 75 percent in the South-West region and 82 percent in the North West region. The net enrollment rate for primary education in 2014 was 63, 74 and 74 percent in the Far North, the North and Adamawa regions respectively, versus 85-95 percent in the other regions. At the secondary level, in 2011 gross enrollment was 22 and 29 percent and net enrolment only 14 and 18 percent in the Far North and North regions, respectively.

65. **The poorest wealth quintiles and people living in rural areas have the worst human capital outcomes.** The contrast is enormous and much higher than in comparator countries. Four percent of children from the top wealth quintile are underweight, as opposed to 27 percent of those in the poorest wealth quintile. Under-five mortality is 55 per thousand amongst those in the top quintile and 166 per thousand for those in the bottom quintile. Compare this for instance with Côte d'Ivoire where 20 percent of the children from the poorest quintile are underweight as opposed to 10 percent of the children from wealthiest one. In Ghana, 10.6 percent of the urban and 16 percent of the rural children are underweight, while for Cameroon the corresponding figures are 7 percent of urban children compared to 20 percent of rural children.

Figure 3.3: Educational attainment by region in 2014



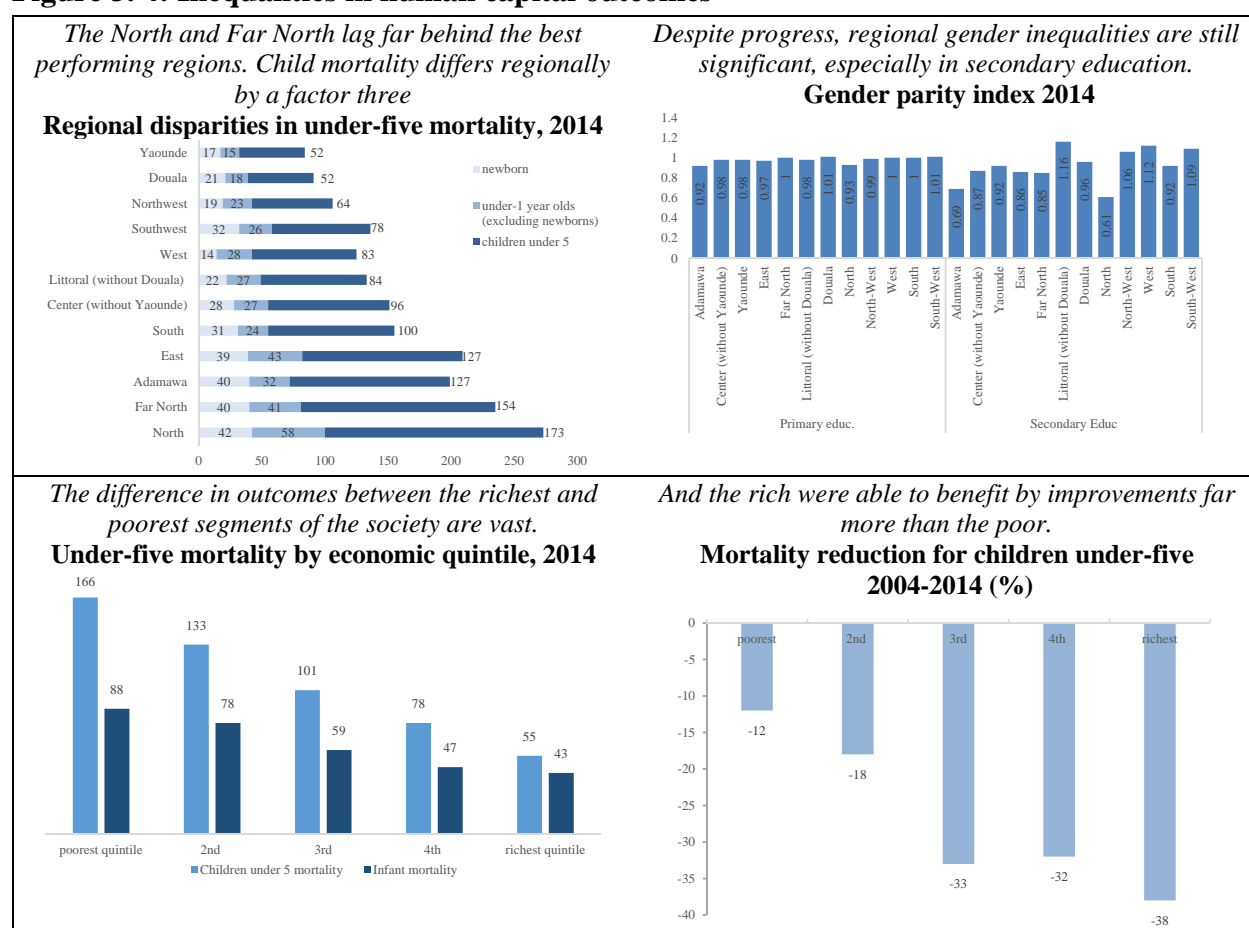
Source: ECAM4 2014

³⁴ 2011 DHS-MICS

66. **Girls remain discriminated particularly those from socioeconomically disadvantaged groups and from northern Cameroon.** While overall gender parity in secondary schooling is around 0.9, implying that girls enroll in secondary school at a rate only slightly lower than boys, only about 30-40 percent of gross and net enrolment in the poorest quintile is female, and only 30 percent in the Far North and 32 percent in the North region. These inequities in girls' education are then reflected in inequities in women's education and ultimately, maternal and child health and mortality. Consequently, the median number of years of schooling of women of ages 15-49 in the North and Far North regions and in the poorest quintile is zero, implying that the majority of these women have no schooling. Meanwhile, the median number of years of schooling of their peers in other regions is more than five years; it is nine years in Yaoundé and 9.5 years in the wealthiest quintile. Only 25 and 33 percent of childbearing women in the Far North and North regions get qualified delivery assistance. The North and the Far North are the only two regions of Cameroon that feature single digit rates for the use of any contraceptive method by married women as only 3.7 percent use contraception in the Far North and 4.9 in the North region.

67. **Over time many of these disparities have worsened despite overall improvements.** The chances of a child in the North-West region receiving a full set of vaccines in the first two year of its life are 2.6 times higher than the chances of a child born in the Far North. Even though infant vaccinations rates increased by 22 percent in the South-West between 2004 and 2011, these rates *decreased* by more than 7 percent in the Far North. Disparities in secondary schooling widened between northern Cameroon and the other regions, as well as between the bottom wealth quintile and the other wealth quintiles. Even though every region experienced increases in secondary school enrolment between 2004 and 2011 the North and Far North regions experienced less of an increase. At the secondary level, gross enrolment is only 22 and 29 percent and net enrolment is only 14 and 18 percent in the Far North and North regions. This implies a negative gap of about 80 percentage points in gross enrolment and a negative gap of about 50 percentage points in net enrolment, compared to Douala and Yaoundé. The North and Far North are the only two regions in which gross enrollment rates for secondary education grew by less than 10 percent during 2004-2011. At the same time, the North-West, the West and the South-West demonstrated an increase of around 30 percent. Virtually no change in secondary school enrolment was registered in the poorest quintile despite increases of more than 15 to 30 percentage points in gross secondary school enrolment and increases of about 10 to 20 percentage points in net secondary school enrolment in the other quintiles.

Figure 3. 4: Inequalities in human capital outcomes



Source: Hodges 2015 and World Bank staff calculations

68. **Within-region socio-economic disparities (at the detriment of the poorest in the poorest regions) and rural-to-urban migration contribute to some of the observed patterns.** Some of the poorest regions saw increases of two years in men's median years of schooling between 2007 and 2014, but the poorest two quintiles saw no change. This suggests significant increases in schooling among the *richer in the poorest regions*. While the poorest in these regions became less educated over time, on average these regions saw increased educational attainment. Almost no change in men's years of schooling is observed in the rural population, while it increased by one year in urban areas. This could be, partly, due to migration of more educated individuals from rural to urban areas.

3.3 Quality and relevance of human capital for growth and poverty reduction

69. **A healthy labor force is key to any growth and poverty reduction strategy.** The capacity to work is a main source of capital for most Cameroonians. Sickneses have high costs for the poor, not in the least because private outlays to fund health care are high, but also because they affect the ability to work. Reporting to have been sick over the past two weeks is associated with a reduction of 18 percentage points in men's personal income in urban areas and 13

percentage points in rural areas.³⁵ Malaria transmission, for instance, generally coincides with the planting and harvesting seasons, making the illness particularly damaging for the rural poor. Estimates of days lost to malaria vary across Africa and across studies, but are generally high: up to a month per year³⁶ and in one case 64 days³⁷. Days lost to other diseases like tuberculosis and HIV-AIDS can be even higher. These estimates are very relevant to Cameroon, where malaria is the disease with the highest incidence reported by about 30 percent of individuals.³⁸

70. Poor health and malnutrition impair the ability to invest in and benefit from education. Both child and parent health problems affect education. Sick or hungry children miss school or cannot learn.³⁹ Early interventions, such as better nutrition earlier in life, lead to greater work capacity, especially for boys, and are shown to be linked to better education outcomes. Iron supplementation and deworming drugs have been shown to increase weight and reduce absenteeism, especially among children who were most anemic. Studies show that better nourished people earn higher wages. Overall, children receiving better post-natal care are shown to be healthier and more productive as adults.

71. Like health, education is key to building skills and enhancing labor productivity. At the individual level, education increases earning potential and reduces the risk of falling into poverty. Literacy is a basic tool to gain knowledge, advanced skills and good income; yet large shares of the adult population are illiterate, especially in the more socioeconomically disadvantaged regions and segments and among women. In 2011, about 42 percent of adult women and 27 percent of adult men in Cameroon could not read at least an entire phrase; 29 percent of adult women and 16 percent of adult men could not read any word at all. In 2014, Cameroon's women literacy rates had increased to about 74 percent but were still significantly lower than for men. These high rates of illiteracy imply important barriers to economic and social progress, especially for women. Adult illiteracy is skewed towards other socioeconomically disadvantaged groups: it is significantly higher in the rural areas (57 percent), in the Far North (76 percent) and North (66 percent) and much more prevalent amongst those in the poorest wealth quintile (81 percent).

72. Basic mathematics and reading comprehension are skills needed to advance economically and socially, but Cameroon's performance is on the decline. Although still ranking the highest of the francophone countries in 2005, grade-five PASEC results decreased between 1996 and 2005 for both mathematics and French. Another round of testing was completed in 2014 and the results show further declines. Fifty one percent of children in grade six have not acquired the desired level of competency in reading. Results are worse for math: 65 percent have not acquired the desired level of competency.

73. The decline in learning at school coincides with improvements in primary enrollment, completion and transition to secondary school. The expanded access to schooling by children

³⁵ Nguyen, Di Gropello et al. (2015), Human Capital Priorities for Ending Poverty in Cameroon, background paper to the SCD.

³⁶ Girardina et al. 2004.

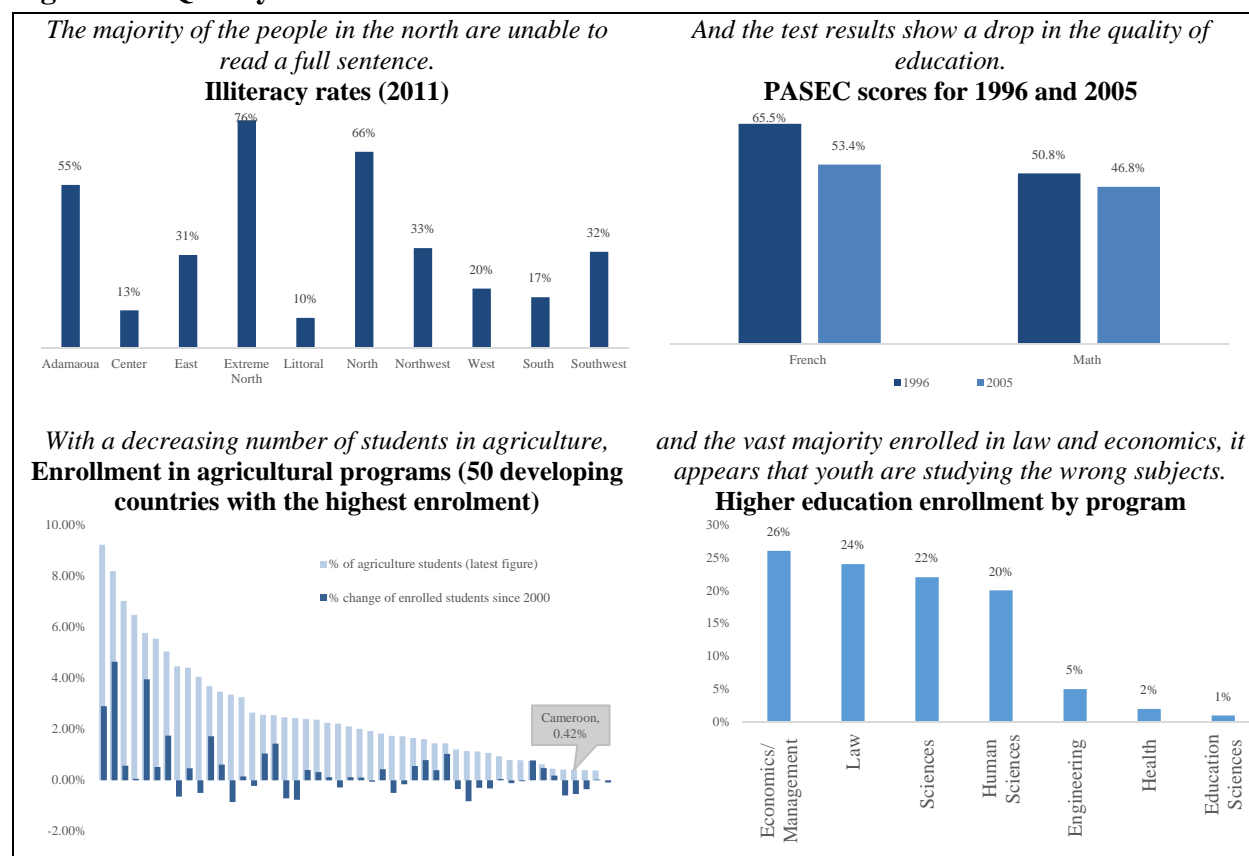
³⁷ Alaba & Alaba 2009.

³⁸ DHS 2011, available at <http://dhsprogram.com/data> last accessed by the author on November 30th 2015.

³⁹ In Tanzania a recent World Bank study estimated the productivity losses due to anemia to be US\$167 billion per year or 0.86 percent of GDP.

from more disadvantaged backgrounds may explain the drop in the quality of education. Other reasons could equally apply. For instance, teacher motivation may be limited following the decline in salaries experienced in the early 1990s and due to the fact that many teachers do not have a full civil servant status but are on a short term (four years) contract and are not entitled to any pension or other benefits.

Figure 3.5: Quality and relevance of education



Source: 2011 EDS-DHS data and World Bank (2014)

74. Secondary and higher education do not offer job-relevant competencies for private sector growth. Education and training programs that directly support the development and growth of priority sectors enroll few students. For instance, enrolment in engineering programs that train students for large infrastructure projects, in line with the country's investment plans, represented only 5 percent of total tertiary enrolment in 2010. Less than 0.4 percent of students study agriculture despite agriculture being a main source of growth and livelihood in the country. By contrast, about 70 percent of total tertiary enrolment is in economics and management, law, and social sciences; studies that train students more for a public rather than a private sector career. Even in pre-tertiary Technical and Vocational Education and Training (TVET), the distribution of enrolment in agriculture programs or fields relevant to agriculture is very low.

75. Enrolment in non-formal TVET programs is skewed towards basic manual work as well as towards secretarial and office management work, while higher levels of technical and professional training are largely ignored. Consequently there is a mismatch in technical skills

taught and those required, as well as a lack of basic skills reported for some sectors. Enterprise survey data collected in 2010 indicate that the technical skills mismatch is the most prevalent constraint regarding the workforce. Another indication of skills mismatch is the coexistence of a fairly high unemployment rate for tertiary education graduates (about 25 percent) and, as will be shown below, a fairly high rate of return for those graduates, pointing to scarcity of the right qualifications. Youth unemployment as a result of skills miss-match is also an important source of fragility (chapter 5). Going forward, basic skills and technical skills need to go hand in hand, as basic skills will provide the foundation for the development of technical skills, while technical skills will lead to enhancements in productivity.

3.4 Benefits from investments in human capital

76. Well-targeted and well-managed spending on health, education and training contribute to boosting economic growth and reducing poverty over the shorter and longer terms. Direct channels include improved labor productivity and employment opportunities, and increased earnings, consumption, savings and investment in the economy. Indirect channels include more extensive and effective transmission of knowledge, skills and technologies, reduced vulnerability to shocks and welfare-enhancing household and social behavior. There are important complementarities between health and education⁴⁰. For example when people expect to live longer they tend to invest more in their productivity. Better education increases and improves adoption of healthcare services. Moreover, while earlier investments in education and health may be more cost-effective and sustainable, later investments in life could bring significant benefits and help reverse earlier negative shocks or missed investments.⁴¹

77. Schooling and training contribute to higher welfare. According to Figure 3.6, primary school completion brings, on average, a gain of 53 percentage points in income from main employment. Lower secondary completion brings a gain of 74 percentage points and more than doubles income, and tertiary completion close to triples income, relative to those without any completed level of education. Among those with some schooling,⁴² an additional year of schooling increases income by 10 percentage points.⁴³ A similar, though lower, effect is found for per capita expenditures. Given that the cost of primary and secondary schooling is relatively low, these results suggest that those education levels are potentially a highly cost-effective investment for a lower-middle-income country like Cameroon. Tertiary education in certain fields is also a potentially highly cost-effective investment.

78. Returns to each level of education are reduced when training and literacy are accounted for, due to overlap in effect of these variables. As Figure 3.6 shows literacy brings about the same benefits as primary school completion in terms of personal income and about twice

⁴⁰ Becker, Gary. 2007. "Health as Human Capital: Synthesis and Extensions." *Oxford Economic Papers*, 59(3): 379-410.

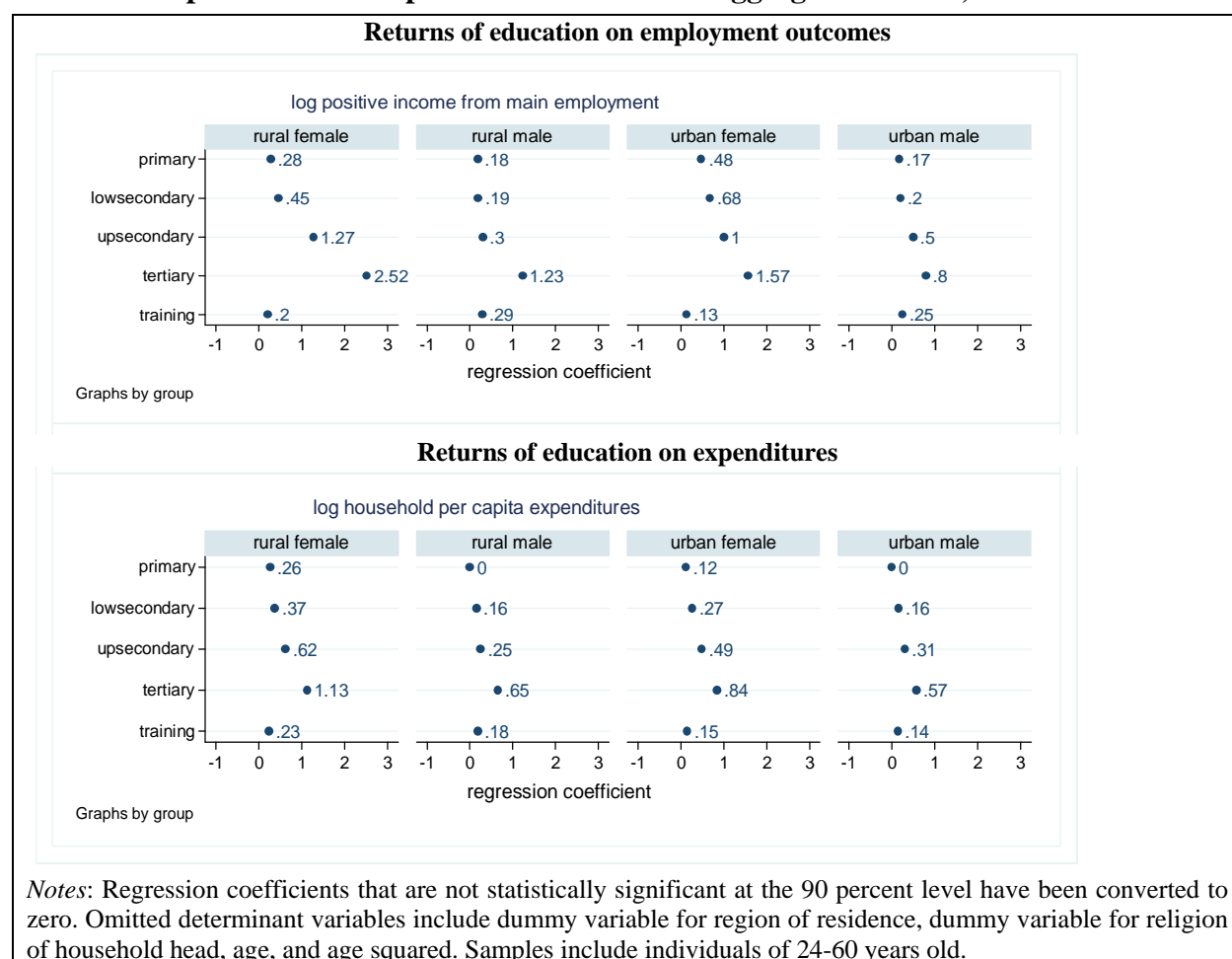
⁴¹ Currie, Janet, and Douglas Almond. 2011. "Chapter 15 – Human capital development before age five." *Handbook of Labor Economics*, 4(B): 1315-1486.

⁴² Due to a large share of the population with no schooling (especially among women, as discussed above), the distribution of years of schooling is highly skewed towards zero and those with no schooling are excluded from estimation specifications where years of schooling is expressed as a continuous variable, instead of levels.

⁴³ Estimations undertaken on ECAM3 2007 data show a rate of return of about 14 percent (see Skills Development in Cameroon, 2015, mimeo).

the benefits in terms of per capita household expenditures. In other words, all else equal, an adult who has completed primary school and is adequately literate earns on average a 54 percentage more than an adult who did not complete schooling and who is not literate, whereas for an adult with only primary school completion the gain is 28 percentage points. All else equal, an adult with lower secondary school completion who is literate and trained earns about twice as much as an illiterate adult with no completed level of school and no training. Estimates undertaken on ECAM3 2007 data show that technical secondary and tertiary education have a 50 percent higher return than general education, pointing to the importance of investing in technical fields.⁴⁴

Figure 3.6: Statistically significant coefficients from regressions with individual income and household expenditures as dependent variables - disaggregated results, 2014



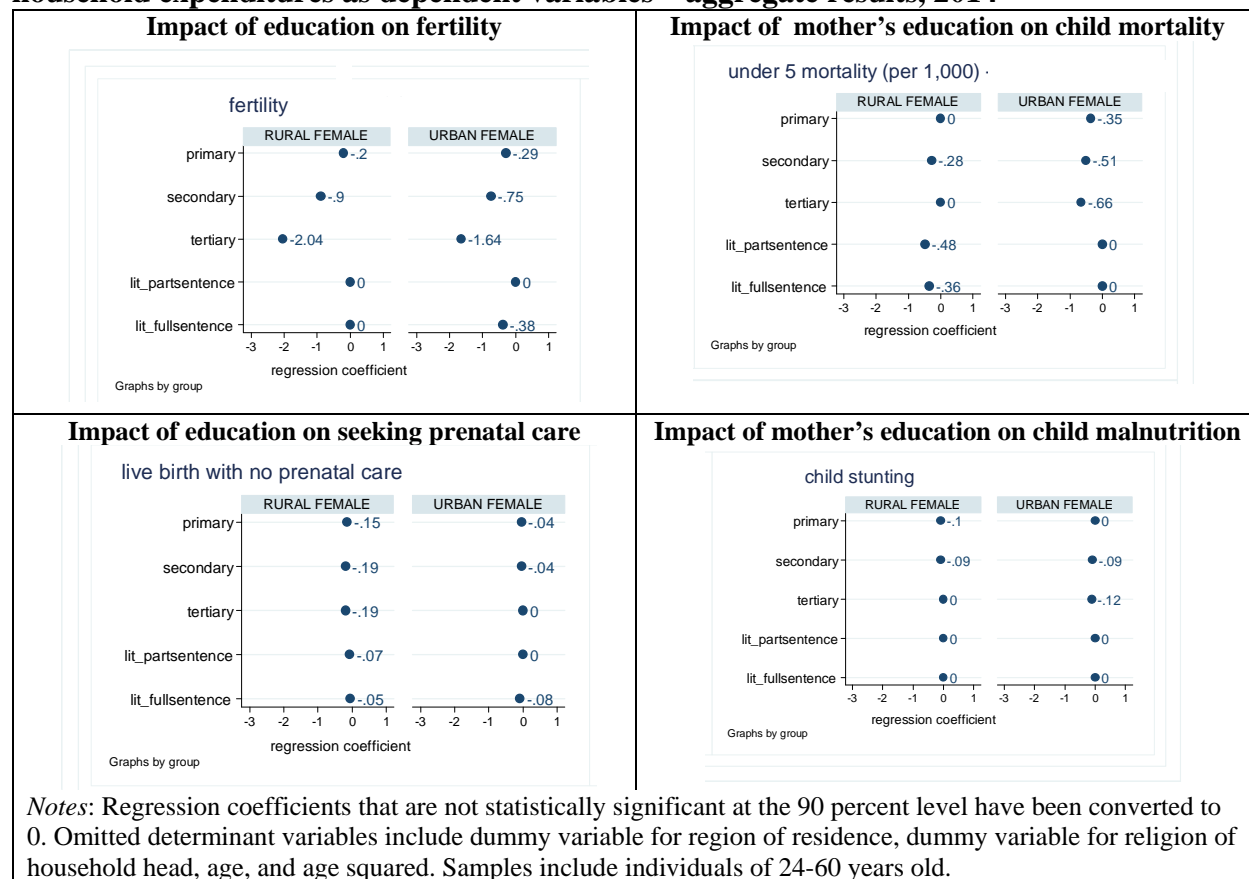
Source: Authors' estimates using ECAM4 2014 data

79. The economic benefits of education are especially high for women and for people living in rural areas. Figure 3.6 shows that, among income-generating women of ages 24-60 in rural areas, primary completion brings a gain of 28 percent in income from main employment; lower secondary completion brings a gain of 45 percent, upper secondary completion more than doubles income, and tertiary completion more than triples income, relative to those without any

⁴⁴ Skills Development in Cameroon, 2015, mimeo.

completed level of education. The personal income returns are smaller for men and smaller at higher levels of education for women in urban areas. These results further confirm the high value of investing in the education of women and those in rural areas – the educationally disadvantaged. Similar patterns of returns to education and training are found for household per capita consumption. One pattern that stands out in comparing the 2007 rates of returns with the 2014 rates of returns is the increase in returns to education gradient at all levels as well as in returns to training for women in rural areas.⁴⁵

Figure 3.7: Statistically significant coefficients from regressions with individual income and household expenditures as dependent variables – aggregate results, 2014



Source: Authors' estimates using MICS 2011 data

80. **Beyond its high economic return, women's educational attainment is a strong determinant of fertility, access to reproductive health services, as well as child survival and health.** Figure 3.7 shows that women who completed secondary school have almost one child less than those who did not complete any education; women who completed tertiary education have approximately two children less. While women with higher levels of education are associated with substantially lower fertility, the effect of the mother's education on under-five mortality, prenatal care and stunting rates is relatively small. This suggests that except for fertility (which may be considered as more of a choice than the other indicators), basic education is most critical to key

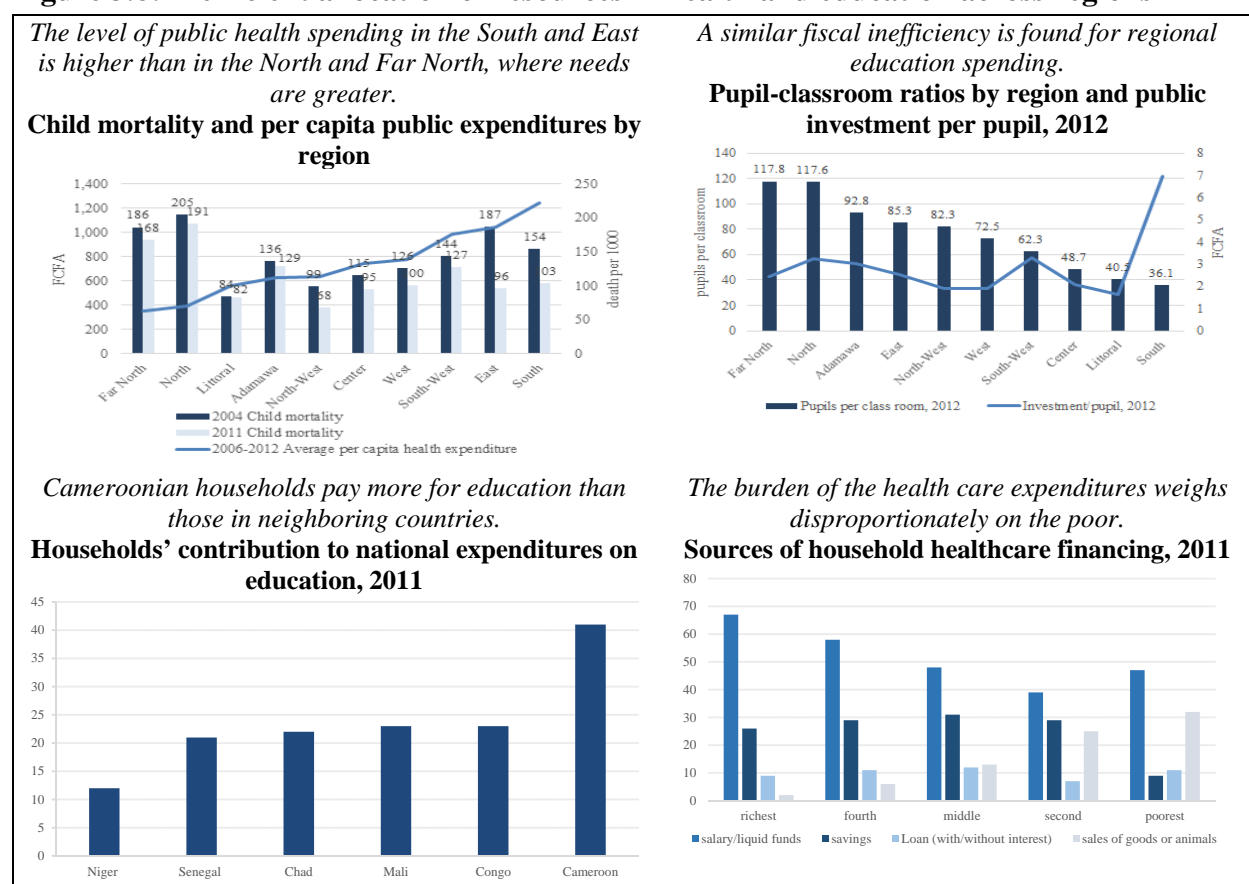
⁴⁵ See regressions in annex to Nguyen, Di Gropello et al. (2015), Human Capital Priorities for Ending Poverty in Cameroon, background paper to the SCD.

health outputs and outcomes. Between 2004 and 2011,⁴⁶ educational attainment becomes more significant as a determinant of child survival and child health, suggesting an increasingly important role. Education can then be an essential tool for the use of healthcare services and knowledge.

3.5 Opportunities for poverty reduction through improved investments in human capital

81. **Government spends relatively little on education and health in relation to GDP.** With Government spending 3.3 percent of GDP on education and 1.7 percent on health, Cameroon trails behind SSA (4.4 and 2.5 percent respectively), as well as other lower middle income countries (4.4 and 1.5 percent respectively). Low levels of spending translate into low levels of service: the student-teacher ratio is 46 in primary schools, higher than the averages for SSA or lower middle income countries (of 43 and 30 respectively). The number of doctors per thousand residents is extremely low, at 0.08, trailing far behind the average for SSA (0.20) or for lower middle income countries (0.75).

Figure 3.8: Inefficient allocation of resources in health and education across regions



Source: General Census of Health Sector Personnel in Cameroon, Cameroon Treasury, DHS 2011, World Bank 2014.

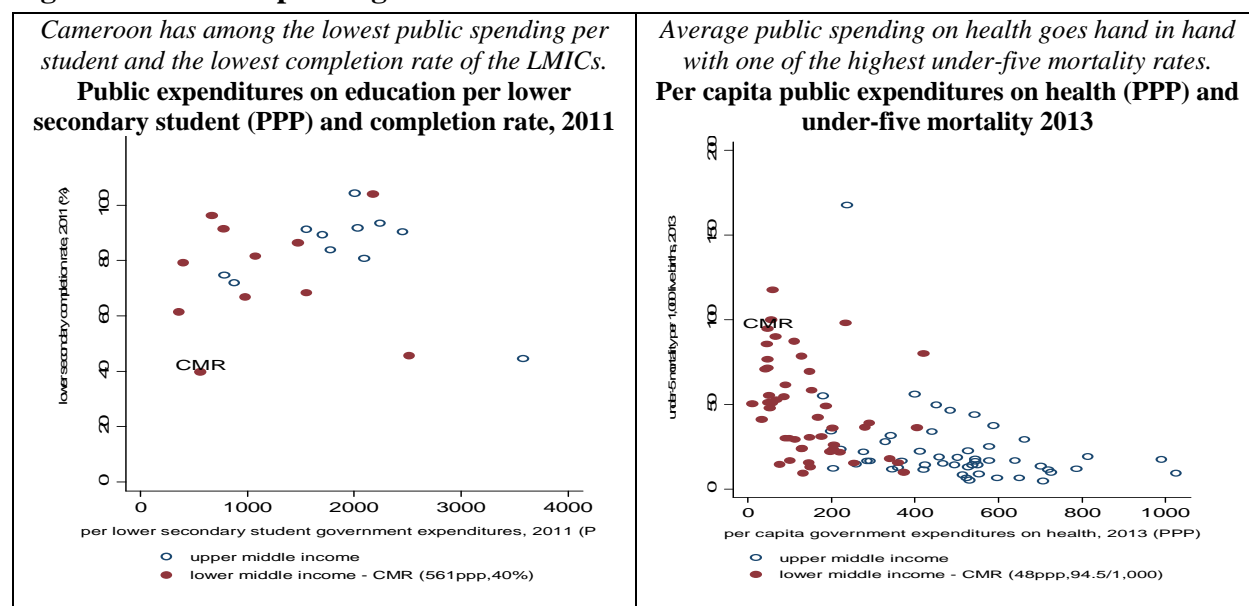
82. **The regional distribution of qualified health professionals, teachers and public spending demonstrate an inefficient allocation of the resources that are available.** The Centre

⁴⁶ See regressions in annex to Nguyen, Di Gropello et al. (2015), Human Capital Priorities for Ending Poverty in Cameroon, background paper to the SCD.

(including Yaoundé) and Littoral regions (including Douala) account for 18 and 15 percent of the national population but 38 and 24 percent of the total number of qualified health professionals. By contrast, all the other regions have a smaller share of qualified health professionals than their share of population. Even though the North and Far North regions have the highest child mortality rates, they receive the least in terms of per capita spending on health from the Government. Similar regional disparities are observed in the education sector. Typically, the most socioeconomically disadvantaged regions have the highest numbers of pupils sharing a teacher or a classroom - two to three times more than that of the regions with the lowest numbers - and barely receive more investment per student from the Government.

83. **Households bear a large share of healthcare and schooling expenditures, which exacerbates socioeconomic inequalities due to relatively greater financial burden on poorer households.** As illustrated in Figure 3.8, Cameroon has among the highest shares of private spending, at over 60 percent of healthcare expenditures. Moreover, according to Figure 3.8, as of 2011, households paid over 40 percent of national expenditures on education. Figure 3.8 shows that poorer households are much more likely to have to sell goods and livestock to cover the cost of health services. The poorest also have little savings to draw from.

Figure 3.9: Public spending and health/education outcomes



Source: Author's calculations using data from Edstats and Healthstats databases, accessed by author at www.worldbank.org on October 26, 2015.

84. **Comparisons with other middle income countries provide evidence on inefficiencies in spending on health and education.** As shown in Figure 3.9 (right panel) Cameroon has public per capita health expenditures of US\$48 in PPP terms, similar to the level of several other middle-income. Yet under-five mortality is the fifth highest overall, at 94.5 per thousand live births. Similarly, in education, Figure 3.9 (left panel) shows that Cameroon has the very lowest rate of lower secondary school completion, at 40 percent. While two other countries have lower public spending per lower secondary student and five other countries also have public spending per lower secondary student at less than US\$1,000 PPP, Cameroon trails them by 23-57 percentage points

in lower secondary completion rate. Given that the majority of healthcare expenditures in Cameroon are borne by households, data on private expenditures demonstrates even more severe inefficiencies. At US\$90 PPP per capita spending exceeds that of 23 of the 100 other middle income countries; yet under-five mortality is worse in Cameroon than in 22 of those countries. In other words, large private spending does not result in good health for households, indicating a severely ineffective healthcare system.⁴⁷

85. Underlying the lack of public resources for the health and education sectors, as well as their poor allocation and use, are a lack of accountability and transparency. A recent report by the GAVI Alliance on results from in-depth audits of management of funds in donor-funded health sector projects reveals serious corruption and poor governance.⁴⁸ In 2010, in an effort to address widespread corruption, the Ministry of Public Health set up an anti-corruption unit, which by 2013 had reviewed about 400 reports of corruption, with sanctions applied in most cases to lower level staff. The most common issues reported were supplementary payment for laboratory services, sale of illegal drugs, falsification of statistics, work in a private clinic during public service hours, and double billing for services.⁴⁹ However, this is only a first step in addressing a deeply rooted system-wide problem.

86. In education, Cameroon was ranked 130 out of 168 countries in the perception of corruption index published by Transparency International in 2015. In 2010 Cameroon had the second highest share (more than 35 percent) of surveyed individuals reporting having paid a bribe in education. Moreover, primary schools were found to have a 15 percent teacher absenteeism rate, meaning teachers are paid for at least three days per month that they do not work. Basic equipment provided by the Government to guarantee proper school functioning usually arrives late, is of poor quality or is unsuited to school needs. These findings are corroborated by findings from a study on governance in the education sector in Cameroon, which highlighted pervasive issues of lack of accountability and poor governance capacity.⁵⁰ There is an absence of public information on financial and material resources at all levels.

87. Lack of accountability and transparency is enabled by a lack of quality standards, poorly designed and implemented human resource policies, and performance measurements which do not focus on outcomes. The current management system in education is fragmented, with each of the five ministries⁵¹ responsible for their own sub-sector. No unified system of collection and management of data and information exists to inform policy design and implementation. Standardized learning assessments are also lacking. Moreover, there is extensive attrition of teachers in remote and rural areas. Regular civil servant teachers in Cameroon are evaluated via generic confidential reports, which are unaligned with educational activities. Even contract teachers, who are closely monitored, do not perform better because of lack of performance

⁴⁷ Similar data on countries' private expenditures on education is not available.

⁴⁸ GAVI Alliance. 2012. "Investigative Mission within the Scope of the Implementation of the GAVI Health System Strengthening (HSS) Programme in Cameroon." Investigation report.

⁴⁹ World Bank. 2013a. "Cameroon Country Status Report on Health"

⁵⁰ World Bank. 2012. "Cameroon: Governance and Management in the Education Sector" Policy paper

⁵¹ One ministry for primary, one for secondary, one for technical and vocational training, one for higher education, and one for youth affairs and policies.

measurement and management.⁵² In higher education, at times qualified staff are recruited to teach but then appointed to administrative positions. Moreover, while access to higher education is inadequate, there is no autonomous agency for accreditation of new institutions and programs (Skills for Development in Cameroon, 2015 *mimeo*).

88. The health sector also lack strategies to stimulate workers to offer health care services in disadvantaged areas. No comprehensive harmonized Health Information System exists to support tracking of outcomes, personnel and resources and inform effective and timely management and decision-making. The current regulatory framework provides many loopholes that may act as performance disincentives. The revenue-sharing system being one example. At the same time, mechanisms for internal control and auditing in hospitals and facilities are missing.⁵³

89. There is a dearth of policies, mechanisms and resources to empower officials, personnel, and communities at the local level. Such approaches could improve the adequacy and quality of service delivery in health and education at the frontline. The poor outcomes in maternal and child health, especially in socio-economically disadvantaged and hard-to-reach areas, point to important gaps in engagement with local communities to help raise awareness and promote best practices. Moreover, facility-based services are critical to remote areas, but health facility managers are not equipped with management capacities and not given autonomy to make decisions to tailor service delivery to local needs. No mechanism exists for information dissemination and feedback communication, so that communities can exercise social control.⁵⁴

90. Parents and communities barely have a voice with regards to the quality of their children's education, due to lack of information and mechanisms for communication and action, as well as lack of resources.⁵⁵ Schools' parents' associations or management councils often exist but have very limited functionality. Additionally, although there are local inspectorates to monitor school operations, they are seriously understaffed and do not have the means of transport to reach many schools.⁵⁶ In technical and vocational training and in higher education, the offering of programs and courses is not linked with strategies for economic growth, industrial development and job creation, and it is not coordinated with the private sector either. This gives rise to low employability and low productivity, undermining the cost-effectiveness of public and household investment.⁵⁷

⁵²World Bank. 2015. "Republic of Cameroon: Fostering Skills for Inclusive Workforce Development, Competitiveness, and Growth", see also: World Bank. 2012. "Cameroon: Governance and Management in the Education Sector" Policy paper

⁵³ World Bank. 2013a. "Cameroon Country Status Report on Health"

⁵⁴ World Bank. 2013a. "Cameroon Country Status Report on Health"

⁵⁵ World Bank. 2013b. « Le système d'éducation et de formation du Cameroun dans la perspective de l'émergence. »

⁵⁶ World Bank. 2014. "Cameroon Economic Update: Revisiting the Sources of Growth – the Quality of Basic Education"

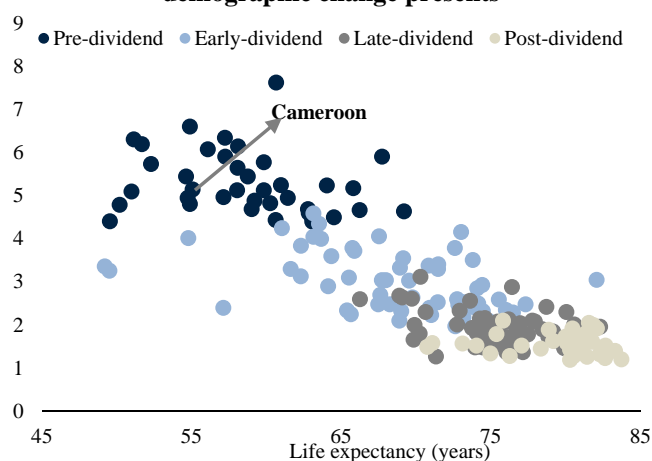
⁵⁷ World Bank 2015. Skills for Development in Cameroon, *mimeo*.

Box 3.1: The demographic transition and demographic dividend in Cameroon

Demographic dividend refers to a period – usually 20 to 30 years – when fertility rates fall due to significant reductions in child and infant mortality rates. As families realize that fewer children will die during infancy or childhood, they begin to have fewer children thus reducing the proportion of dependents. This fall is often accompanied by an extension in average life expectancy that increases the portion of the population that is in the working age-group. This cuts spending on dependents, increases means available for productive investments and spurs economic growth. A country with both increasing numbers of young people and declining fertility has the potential to reap a demographic dividend.

According to the 2015/2016 Global Monitoring Report, Cameroon is a pre-demographic dividend country. The demographic dividend refers to the potential for accelerated economic growth made possible by opportunities created by changes in the age structure of the population that occur when countries go through their demographic transition.

Four groups of countries can be identified based on the opportunities for growth and development that demographic change presents



Two distinct phases can be defined. The first dividend can be captured as the demographic transition speeds up and the population age structure becomes more concentrated around working ages. Everything else being equal, a larger share of working age citizens delivers higher per capita growth. The second phase comes later when countries are able to increase savings and investments (in physical and human capital) as a result of fewer dependent children, more disposable income and prospects for longer lives.

During the initial part of the demographic transition, the rise in the ratio of working-age to dependent population produces an automatic demographic dividend, but the dividend is even greater if young workers are employed productively. This may be difficult in the early part of the transition, when the absolute numbers of youth are rising and the economy might not be able to absorb the cohort into productive employment. However, there is scope for higher productivity in the formal sector, the agriculture sector, and the nonfarm informal sector.

To harness the demographic dividend, policies are required that hasten the transition and enable the ability of people to be productive. Policies in three key areas would help to accelerate the fertility transition and increase the demographic dividend: reductions in child mortality, increases in female education, and improved access to comprehensive family planning services. Improvements in these three areas are desirable regardless of the potential economic payoffs, but they should receive even higher priority than they do today.

Source: World Bank 2015. Global Monitoring Report 2015/2016

4. ECONOMIC GROWTH AND CROSS CUTTING ECONOMIC SERVICES

Cameroon is a lower middle income country but its economy remains oriented towards the primary sector. Opportunities for rapid growth are ample but require investments in economic infrastructure and an improved regulatory framework to be realized. To grow the economy will need to attract more domestic and foreign private investments, which in turn requires a friendlier business environment.

4.1 Introduction

91. **Cameroon is a small sized economy ranking as the world's 98th largest by nominal GDP.** The economy is largely driven by its primary sector, agriculture and mineral resources and benefits from its location in the Congo Basin, the world's second largest tropical forest zone which provides an exceptional ecological diversity. The country's mineral wealth includes deposits of oil, natural gas, gold, iron, manganese and uranium. Crude petroleum is an important resource. It accounts for 10 percent of GDP and is the main export product by value. Timber is the second largest export product. Imports are dominated by manufactured goods and come mainly from Europe, Africa and Asia. Cameroon is a member of the Central African Economic and Monetary Community (CEMAC by its French abbreviation). CEMAC countries (Cameroon, Central African Republic, Chad, Republic of Congo, Equatorial Guinea and Gabon) share a common currency, the CFA Franc which is pegged to the Euro and which is overseen by the Bank of Central African States (BEAC).⁵⁸ Within CEMAC Cameroon is the largest economy, making up approximately 30 percent of its GDP and hosting about 50 percent of its population.

92. **Two complementary perspectives on Cameroon's economy can be put forward. One is that the economy is well-managed.** Since the crisis that started in the mid-1980s and the devaluation of 1994 the economy has grown steadily (see Figure 1.3). The country has remained a haven of stability in an otherwise unstable region and managed to avoid major macro-economic problems. The debt to GDP ratio is low (thanks to HIPC) and prices tend to be stable. These are major achievements, particularly when one considers that a key characteristic distinguishing rich and poor countries is not that they have higher positive growth rates when they grow (they do not), but that rich countries experience fewer years of negative income growth and smaller declines when negative growth occurs.⁵⁹ So the fact that Cameroon has managed to avoid negative growth altogether for almost 25 years is noteworthy.

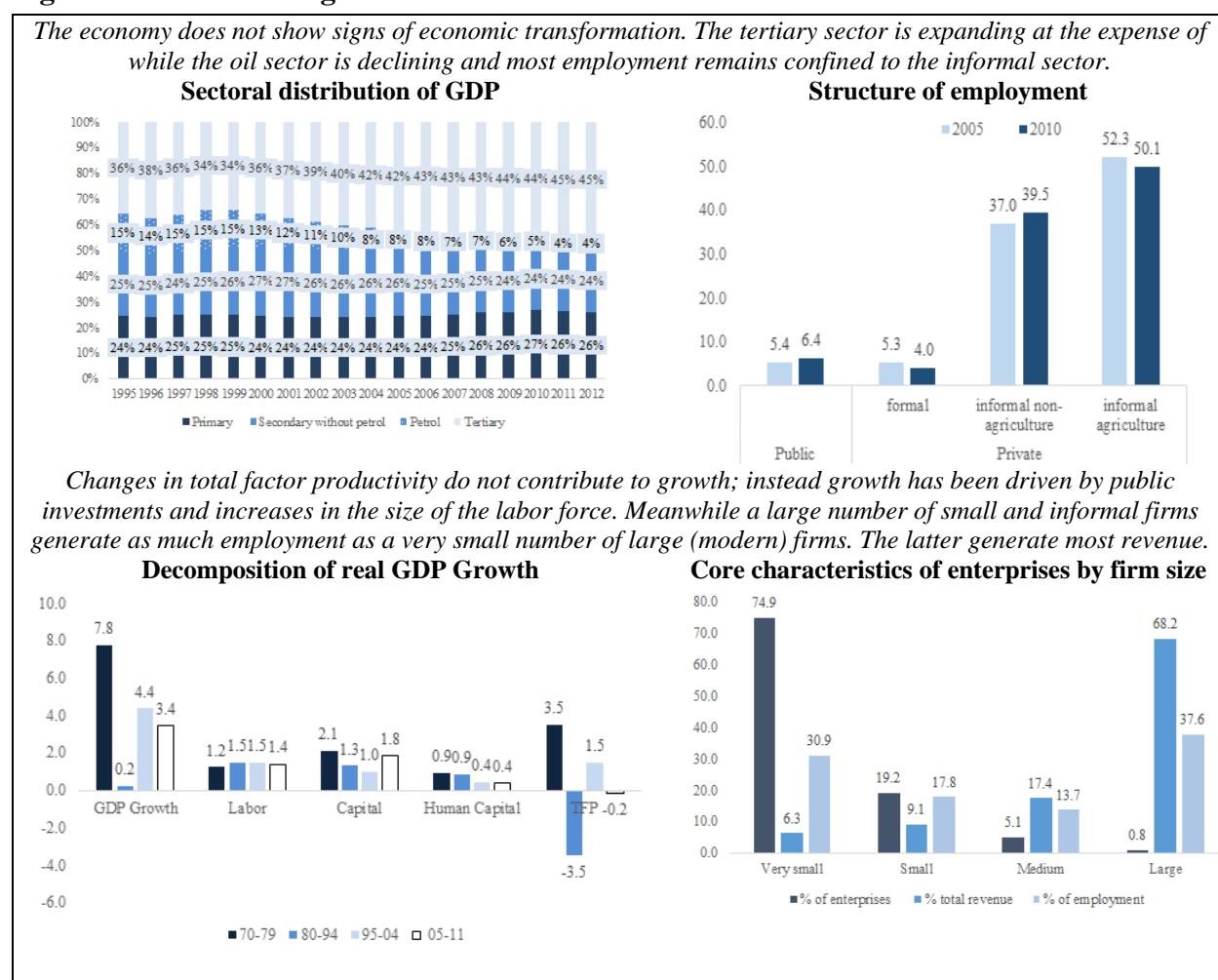
93. **At the same time the economy operates well below its potential.** This view is underscored by the observation that despite the potential offered by natural resources, access to the sea, a capable bureaucracy and a stable macro-economic environment, the country is not growing very rapidly. Growth has been reasonable over the last five years (3.1 percent per capita

⁵⁸ The CEMAC countries maintain a common external tariff on imports from non-CEMAC countries. In theory, tariffs have been eliminated on trade within CEMAC, but full implementation of this has been delayed. Movement of capital within CEMAC is free.

⁵⁹ North, D.C., J.J. Wallis and B.R. Weingast 2009. *Violence and Social Orders. A conceptual framework for interpreting recorded human history.* (Cambridge, Cambridge University Press).

per year) but this is mostly attributable to large public works and favourable rains. The natural resource boom has bypassed the country and growth is not driven by increases in total factor productivity. The share of the industrial sector (excluding oil) is stagnant, while the tertiary sector, a sector in which the country has no international comparative advantage is expanding. Economic opportunities are limited and many educated Cameroonians who have the opportunity, prefer to leave.

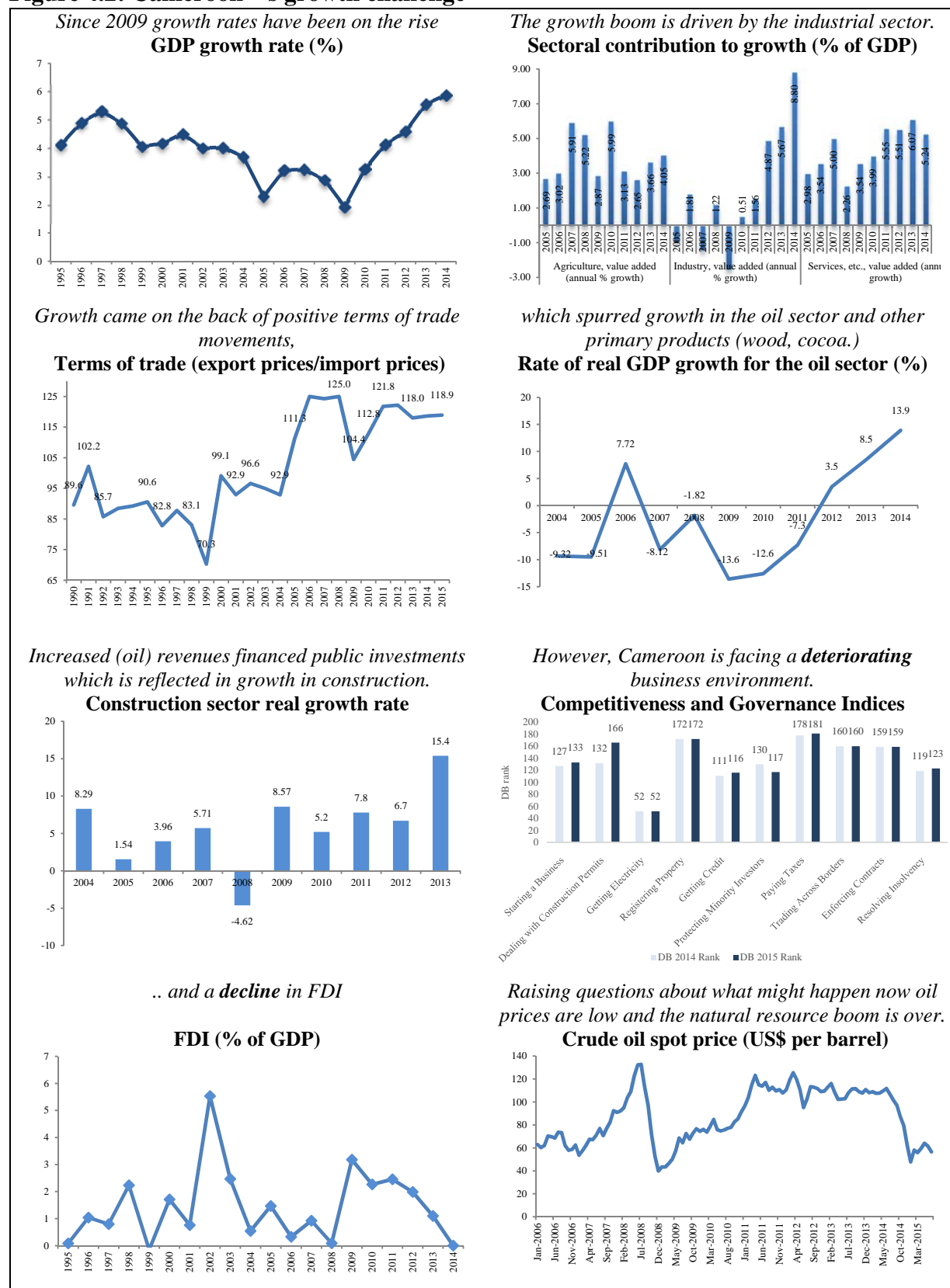
Figure 4.1: The challenge of economic transformation



Source: ECAM4 2014 and INS statistical yearbook and World Bank 2014 and the Survey on Employment and the Informal Sector (Enquête sur l'Emploi et le Secteur Informel) EESI1 (2005) and EESI2 (2010)

94. **The outlook for the future is uncertain.** The end of the oil boom and a rapid increase in debt (from a low base) create macro-economic uncertainty. The increase in debt is the result of large outlays to deal with the security threats in the north and a boom in public investments –for which it is not clear whether the necessary returns will be generated. While these risks are manageable –inflation, for instance, remains below 3 percent- they do raise questions as to whether Cameroon will be able to uphold its reputation for prudent macro-economic management or whether much of the progress made over the last two decades may be lost during a recession induced by unsustainable public spending, as happened in the 1980s.

Figure 4.2: Cameroon's growth challenge



Source: INS Statistical Yearbook, 2014; World Bank Pink Data sheets 2015; Doing Business 2015.

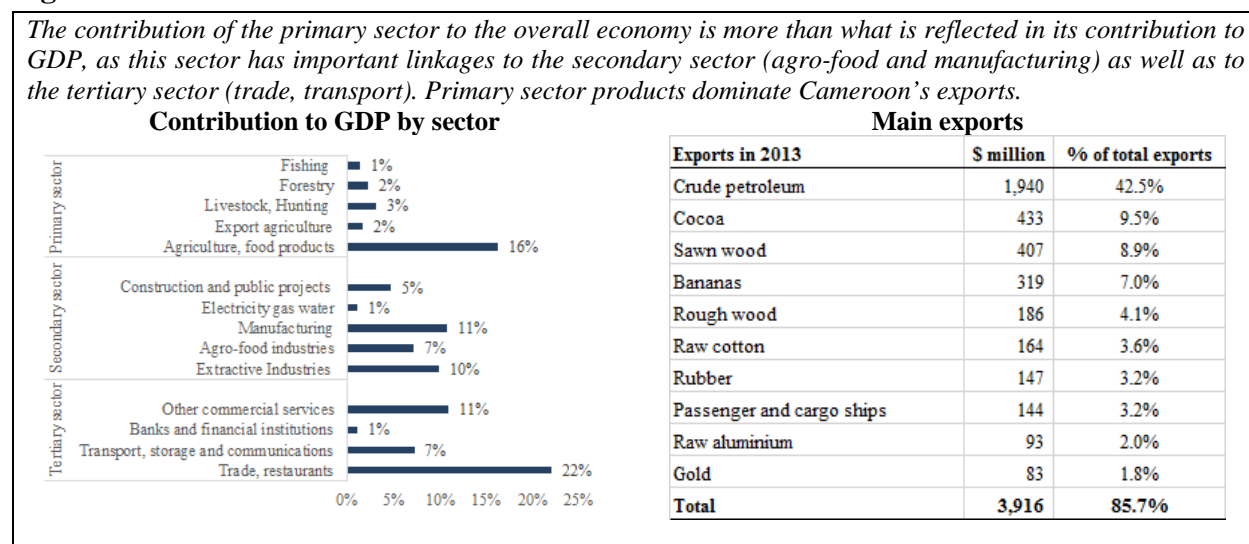
4.2 Structure of the economy

95. **The structure of Cameroon's GDP has remained relatively stable since 1995.** The primary and secondary sector (excluding petroleum) each contribute 25 percent to GDP. The contribution of the tertiary sector has been gradually expanding, from 36 to 45 percent of GDP at the expense of the petroleum sector which declined from 15 percent of GDP to 5 percent in 2012 (Figure 4.1).

96. **The primary sector is dominated by the production of food crops grown almost exclusively by smallholder farmers.** This is followed by livestock production and export agriculture (cocoa, bananas and cotton) but the contributions of these sectors to primary GDP are five to eight times smaller than that of food production. The contribution of forestry to primary GDP is surprisingly low, given the abundant availability of this resource. However, wood products, raw as well as sawn wood, made up 13 percent of all exports in 2013.

97. **Within the secondary sector, manufacturing and extractives are the dominant activities.** The extractives industry is dominated by the petroleum sector which made up 43 percent of Cameroon's exports in 2013, followed by gold with less than 2 percent of exports in 2013. Agro-food industries are the third most important sub-sector within the secondary sector.

Figure 4.3: Core economic indicators



Source: INS Annuaire Statistique and MIT: Observatory for Economic Complexity 2013

98. **(Retail) trade and food services are the largest subsectors within the tertiary sector.** The large share of the (retail) trade sector is reflected in the presence of a large non-farm informal sector in the economy. Within the tertiary sector, the telecommunications sector is surprisingly underdeveloped –at least relative to other countries such as Cote d'Ivoire, Kenya or Tanzania.

99. **The expansion of the tertiary sector is also reflected in changes in the composition of the labor force.** Between 2005 and 2010 the fraction of the labor force (those aged between 15 and 65) engaged in the primary sector fell by more than 2 percent, while the fraction engaged in the tertiary sector increased by almost 4 percent. In absolute terms, the number engaged in the

secondary sector remained constant at 1.6 million people, while those engaged in the primary and tertiary sectors increased from 6.3 to 6.9 million and from 3.5 to 4.4 million people respectively.

100. Cameroon has yet to enter the world market for processed goods. In 2012 182 products were exported⁶⁰ to 77 trading partners, 66 percent of these exports were raw materials, 18 percent consumer goods and 14 percent intermediate goods. Exports comprise largely of unprocessed primary goods. This is plausibly the consequence of the resource curse brought by the dominance of the oil sector.⁶¹ It is also the result of an unattractive regulatory business environment and high transport, energy and telecommunication costs. The top export products are petroleum with 43 percent of 2013 total exports, food products (17 percent) and wood (13 percent). The only niche market of transformed goods that Cameroon seem to have been able to exploit is that of the maintenance of oil rigs that operate in the Gulf of Guinea. It is registered under passenger and cargo ship in Figure 4.3.

101. The economy remains dominated by the primary sector and non-tradeable services. This dominance is reflected in the country's low ranking on the economic complexity index. In 2013 Cameroon ranked 118th on this index, seventh from the bottom. The complexity index⁶² measures the total amount of productive knowledge that is embedded in an economy. It is calculated by accounting for the number of different types of products a country produces, and the complexity of these products as measured by the number of other countries that are also able to make these products. A country should plausibly seek a development path that builds on the knowledge already captured in its existing product mix, and aim to gradually increase the complexity of the products produced. Countries don't 'jump' from exporting cotton or gold to exporting cars, but build their productive capacities over time until the economy possesses the knowledge required to move into a complex product area like cars.

102. The trade regime needs to be liberalized. Cameroon has one of the highest average trade tariff rates in the world. According to the Global Competitiveness Report of 2014-2015, when compared to other countries Cameroon ranks 132 out of 144 in terms of weighted average tariff rates. According to the World Trade Organization (WTO), agriculture is the most protected sector in the CEMAC countries with an average tariff rate of 23.6 percent. On the other hand, the sector comprising the extractive industries is the least protected, with most of the tariff lines corresponding to a 10 percent tariff rate. Cameroon applies some exceptions to the Common External Tariff (CET) including exemptions to the trade of live animals, animal products, and vegetable products. The country has 107 tariff lines that have higher rates than those of the CET.⁶³ Many products face an excise duty rate of 25 percent, the maximum rate provided in CEMAC agreements.⁶⁴

⁶⁰ Total number of products exported by Cameroon at the Harmonized System 1998 (HS 2) six digit level.

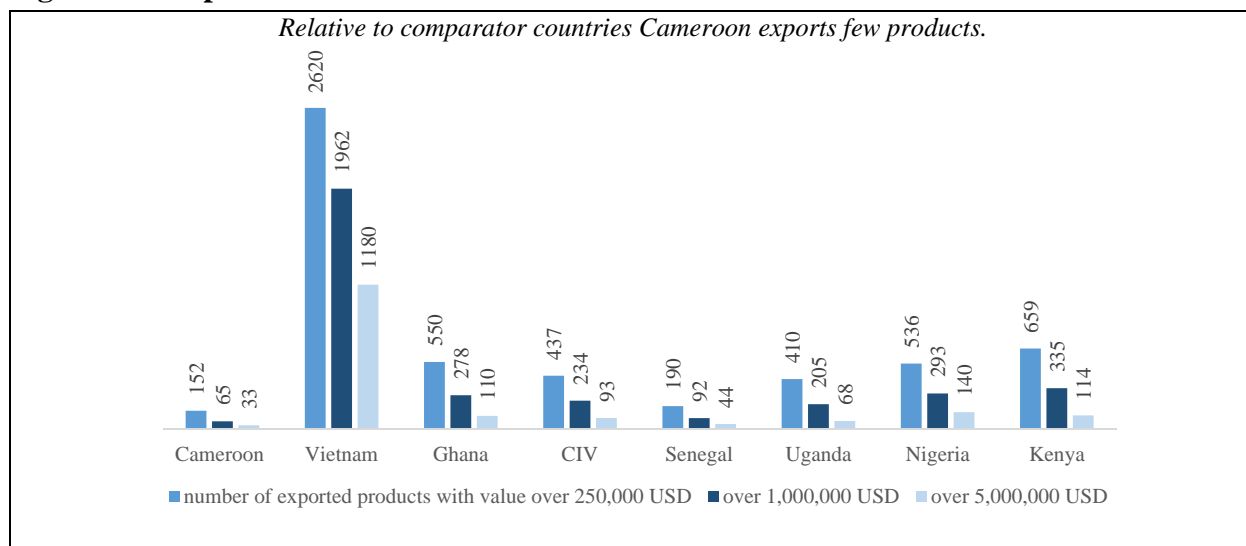
⁶¹ Other signs of the resource curse affecting Cameroon's economy are the fact that prices for non-tradeables are high. Yaoundé, for instance, is the city with one of the highest per diems, only to be surpassed by capital cities in other natural resource rich nations, such as Angola, DRC, Nigeria and Gabon. Other capital cities ranking higher are Dakar in Senegal and Victoria in the Seychelles. Also on the Mercer 2015 Cost of Living Index Yaoundé appears amongst the most costly African capitals (rank 12).

⁶² The Economic Complexity Index was developed by Hausmann and Hidalgo (2008).

⁶³ WTO 2013

⁶⁴ fruit juices, aerated beverages, mineral waters, malt beers, vermouth and other wines made from fresh grapes, other fermented beverages, eaux-de-vie, whisky, rum, gin and spirits, cigars, cigarillos and cigarettes, chewing tobacco and

Figure 4.4: Exports diversification



Source: MIT Observatory for Economic Complexity 2015.

103. **Exports dominated by natural resources, make the country vulnerable to price shocks.** This was the case in the run up to the crisis in the 1980s, which was driven by a decline in oil revenue at a time when public spending had increased. History may currently be repeating itself in that public spending (and particularly public investments) have increased significantly at a time when oil revenues have declined,⁶⁵ contributing to large deficits on the trade balance.

104. **Low levels of exports (25 percent of GDP in 2015) limit aggregate demand and diminish growth prospects.** Growth in Cameroon is driven by domestic consumption and public investment with active implementation of major public infrastructure projects in energy, transport and Information and Communications Technologies (ICT). Since independence, Cameroon's export to GDP ratio has exceeded 30 percent only during the oil boom and in 2007 and 2008. Given Cameroon's rich natural endowment, this is in stark contrast with a country like Côte d'Ivoire that has experienced export to GDP ratios higher than 35 percent since independence and exceeding 50 percent since 2005. Furthermore, it appears that the trends of GDP per capita and exports per capita became decoupled in 2000, with the latter gradually declining while per capita GDP increased.

105. **Cameroon's economy is characterized by an active public sector involvement.** State-owned enterprises (SOEs) are many, as are companies with Government participation.⁶⁶ State

snuff, other manufactured tobaccos, foie gras, caviar and its substitutes, salmon, precious stones and metals, and jewelry, are subject to a 25 percent excise duty.

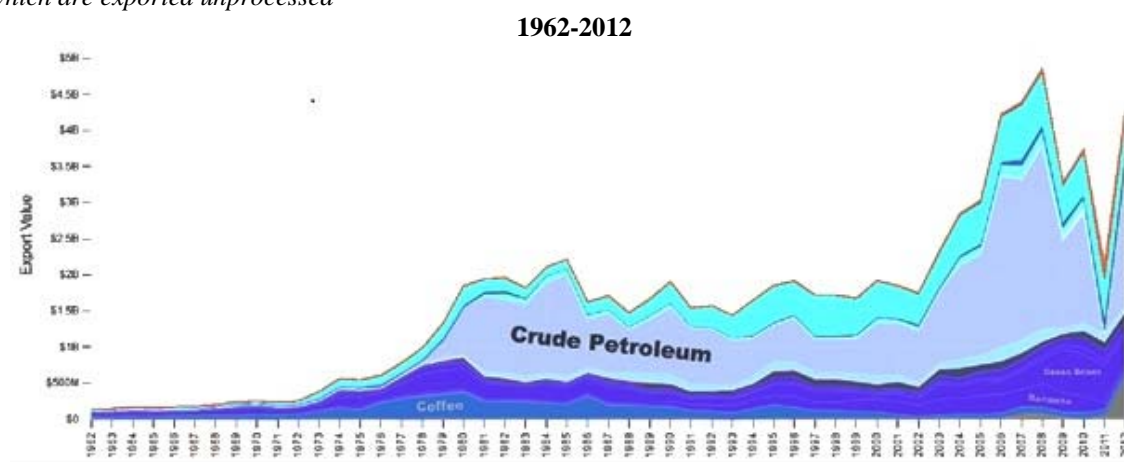
⁶⁵ The decline in oil revenue is somewhat mitigated by the fact that production has increased.

⁶⁶ According to the Product Market Regulation database used for the analysis in this sector, an SOE is defined as a company in which state or provincial governments (not including local governments or municipalities) hold, either directly or indirectly through a government-controlled company, the largest single share of the firm's equity capital. Public ownership is measured by the extent to which the government participates and intervenes in markets through the scope and scale of its SOEs. Publicly controlled firms also include government entities that are not organized as companies, but operate in business activities.

owned enterprises range in size from a few employees to Cameroon's second largest employer—the Cameroon Development Corporation—which employs over 22,000 workers.⁶⁷ They are relatively important in agricultural exports and hold monopolies in key network infrastructure, notably in energy, transportation, and telecommunications. Cameroon Telecommunications (CAMTEL) holds a monopoly in national telephone landlines, the international gateway, and internet infrastructure. In the oil and gas sector state companies dominate extraction, refinery, storage, and distribution. SOEs collectively employ about 40,000 workers, with an annual average total wage bill equivalent to about 0.8 percent of annual average GDP in 2009-2013. This compares to 6 percent for the public sector, and 4 percent for the formal private sector, highlighting the importance of SOEs for formal employment.⁶⁸

Figure 4.5: Resource curse limits the potential for economic diversification

Exports depend largely on the oil sector and comprise, apart from oil almost exclusively of primary products, most of which are exported unprocessed



Source: Observatory of Economic Complexity, MIT. 2015.

106. **SOEs contribute to an inefficient allocation of resources.** Many SOEs are loss-incurring, draining scarce budget resources. Between 2009 and 2013 net subsidies to the sector varied from 0.4 to 1.1 percent of GDP. The debt of SOEs stood at 12.6 percent of GDP in 2013. In addition, SOEs have amassed significant contingent liabilities—of nearly 15 percent of GDP in the form of debt and arrears, which suggests increasing fiscal risks for the state. Weak corporate governance is a key factor in poor SOE performance. Symptoms include politicized boards and managements, weak accountability for results, ownership arrangements prone to conflicts of interest, limited transparency, and inefficient oversight and capacity in key functions such as procurement.

⁶⁷ The Cameroon Development Corporation (CDC) is an agricultural-industrial enterprise which acquires, develops, and operates extensive plantations of tropical cash crops.

⁶⁸ IMF 2015. Cameroon Selected Issues Paper.

Table 4.1: Characteristics of selected goods and services markets

Subsector	Number of firms	Market share - largest firm	State participation in the largest firm	Regulations/ Government actions that limit competition
Sugar	3	90%	Yes	Yes, price control, import restrictions
Palm oil (industrial)	5	58%	Yes	Yes, price control, import restrictions
Banana	4	47%	No	No
Rice	33	5%	Yes	Yes, price control, import restrictions
Ginned cotton	1	100%	Yes	Statutory monopoly
Frozen fish	2	80%	No	Yes, price control, import restrictions
Cement	3	67%	Yes	Yes, price control, import restrictions
Mobile telecom	3	60%	No	Yes, allocation of spectrum
Fixed telecom network	1	100%	Yes	Yes, lack of access regulations
				Yes, lack of vertical separation
Electricity generation	2	90%	Yes	Regulation expected to allow for competition in the future
Port services	1	100%	Yes	Competitive selection of entrant expected to allow for competition
Rail transport	1	100%	Yes	Yes, lack of vertical separation and access to infrastructure policy

Source: World Bank, Country Economic Memorandum, chapter 4, 2016 (draft).

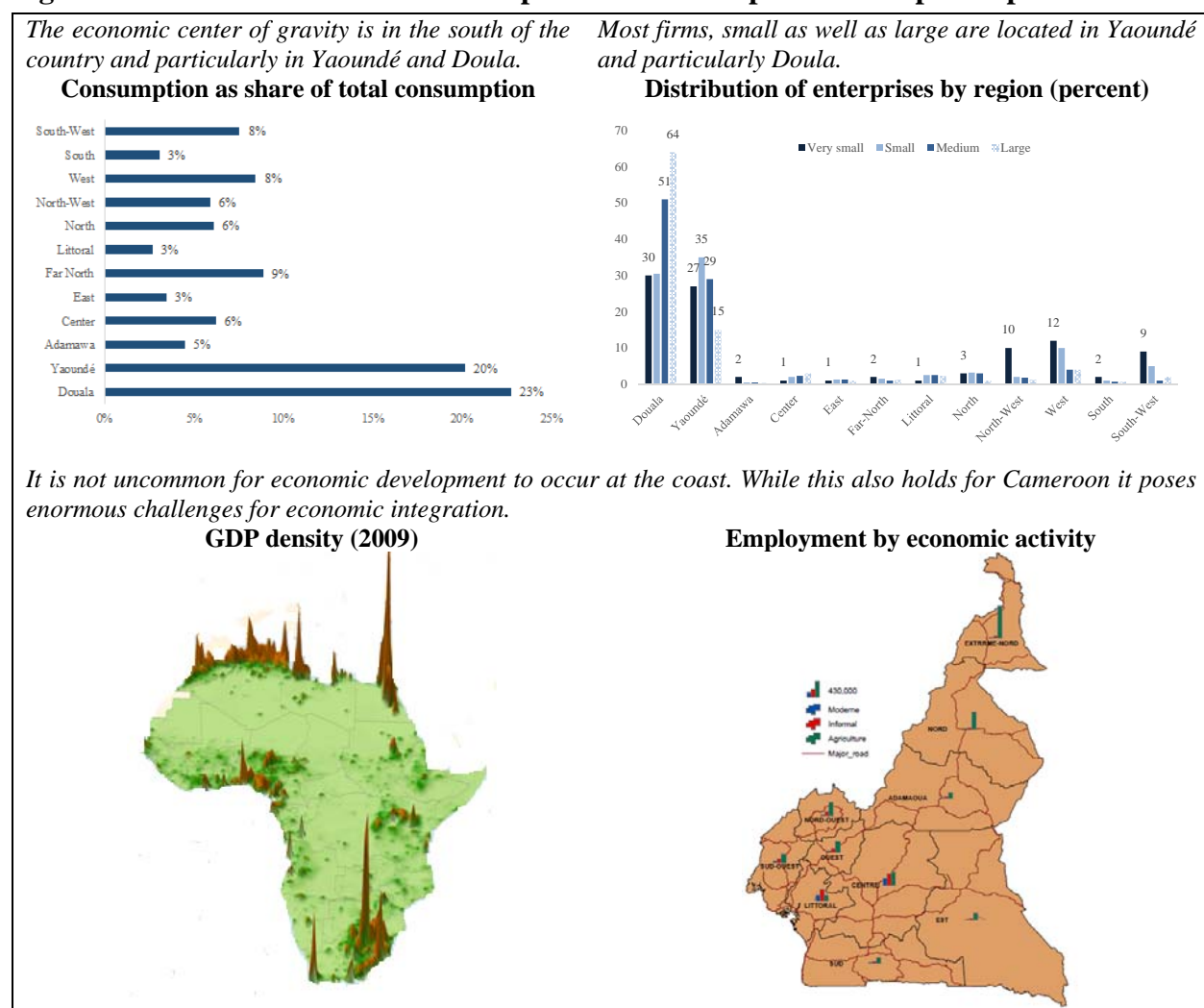
107. Douala and Yaoundé demonstrate their economic dominance by hosting the majority of non-farm enterprises. Cameroon's two largest cities host 24 percent of the country's population who enjoy 45 percent of all consumption in the country. It is not uncommon for economic development to be concentrated in cities. It is easier to grow and develop in areas of high population density and income per capita. The ability to trade goods is also important, which is why the coastal zones tend to perform better. Cameroon is no exception to this pattern, although relative to other African Coastal zones, its GDP per km² is not particularly elevated; another hint at Cameroon's unmet economic potential (see Figure 4.6).

108. Less than 10 percent of the labor force is formally employed. Even in urban areas less than 20 percent of the labor force is formally engaged. Because of this low share, even rapid growth rates in the formal sector is unlikely to keep pace with the number of new entrants in the labor market. Improving labor productivity and earnings of those employed in the informal sector, in addition to creating new jobs, is therefore key in making Cameroon's economic growth more inclusive.

109. Informal enterprises abound in a non-conductive business environment. According to the results of the second Survey on Employment and the Informal Sector (EEIS 2), more than 40 percent of non-farm informal sector units don't have any dedicated space in which to carry out their activity with about a third operating simply out of their private homes. Access to public services such as electricity, telephone, or water supply and sanitation is very limited. Access to finance is reported to be the most important constraint. The difficulty to get greater market access and build a client base ranks also high on the list. Few operators, however, make an active effort to reach out and gain new clients. Most of them prefer waiting for a client to come to them or using social networks. Excess regulations, taxes, or the availability of skilled staff do not seem to rank high as constraints. However, when asked what could be done to help develop their business, non-

farm informal operators mention technical training, as well as better access to credit and market information.

Figure 4.6: Characteristics of the enterprise sector and spatial development patterns



Source: INS 2009 Enterprise Census. World Bank World Development Report 2009.

4.3 Cross cutting economic services

110. **The quality of the economic infrastructure is an important determinant of the cost of doing business and consequently, opportunities for growth.** Economic services include transport services, financial services, telecommunication services, water supply and energy services. They are critical in determining whether an economy is competitive internationally and in creating economic opportunities domestically. For instance, where transport costs are high, farming becomes less profitable as the cost of inputs is higher and the price for products lower. Moreover, consumption goods that can be bought with the profits made are more expensive. This creates a wedge that can make production increases unattractive, since the rewards for extra effort, expressed in additional goods that can be bought, is so small. Transport costs can, thus, explain why many rural households participate only to a limited degree in the market. Similarly, absence

of reliable electricity or limited access to finance will have negative consequences for business development.

111. The economic infrastructure is underdeveloped. On the 2015 Global Competitiveness index Cameroon ranks low on the indicators related to economic infrastructure. Out of 140 countries, Cameroon ranks 115th on transport infrastructure, 124th on electricity and telephone infrastructure, 127th on ICT use and 98th on financial market development. Access to and the cost of finance, infrastructure and transport, energy and water are consistently ranked as main obstacles to growth.⁶⁹

112. The road infrastructure is in poor condition. As much as 48 percent of the paved road network and 85 percent of the unpaved road network in Cameroon is in poor condition. Despite heavy investments the portion of roads in poor condition is increasing. Only 27 percent of the rural population have access to an all-season road within 2 km of their home.⁷⁰ Road conditions tend to be worse in northern Cameroon. Moreover, the poor condition of the north-south corridor exacerbates the relative isolation of the northern regions and reduces the international role Cameroon could play as a transport hub connecting Chad and the Central African Republic to the Port of Douala. This is illustrated in the right hand panel of Figure 4.7, which shows the presence of an integrated economic cluster in the Coastal-Center region and another one in the Far North region. The connectivity between these two clusters is limited, reducing the scope for trade and specialization.

113. Prices for road transport are high. They are in the order of US\$0.13 per ton-kilometer, compared with US\$ 0.05 per ton-kilometer in southern Africa and well above the US\$0.04 per ton-kilometer in much of the rest of the developing world.⁷¹ Lack of competition is a key determinant of high transport costs. High freight charges can be attributed to the combination of lack of competition between freight-forwarders with a few dominant firms, and high information asymmetry leaving the space for brokers to extract rents.⁷² In the trucking industry itself, competition is actually high. Yet, this does not translate into lower transport prices because the large number of small informal trucking firms ('artisans') lacks the capacity and collective action to solve information asymmetry issues on the corridors.

114. Railway services have been concessioned and perform well. CAMRAIL operates the 1,000 km line from Douala to Ngaoundéré as well as 245 km of secondary lines. The railway service plays a critical role in serving northern Cameroon, Chad, and the Central African Republic (CAR). The initially obsolete rolling stock and deteriorated rail track infrastructure are gradually being renewed. CAMRAIL competes directly with road operators in both domestic and international freight. The share of rail freight to total freight between Douala and Ngaoundéré is about 39 percent. More than two thirds of Chad's imports and a large share of CAR exports (especially timber) are transported by rail between Douala and Ngaoundéré for Chad and between Belabo and Douala for the CAR. Rail-road competition is driving down road transport costs and

⁶⁹ INS, 2009 Recensement General des Entreprises, partie II : etat de l'industrie Camerounaise.

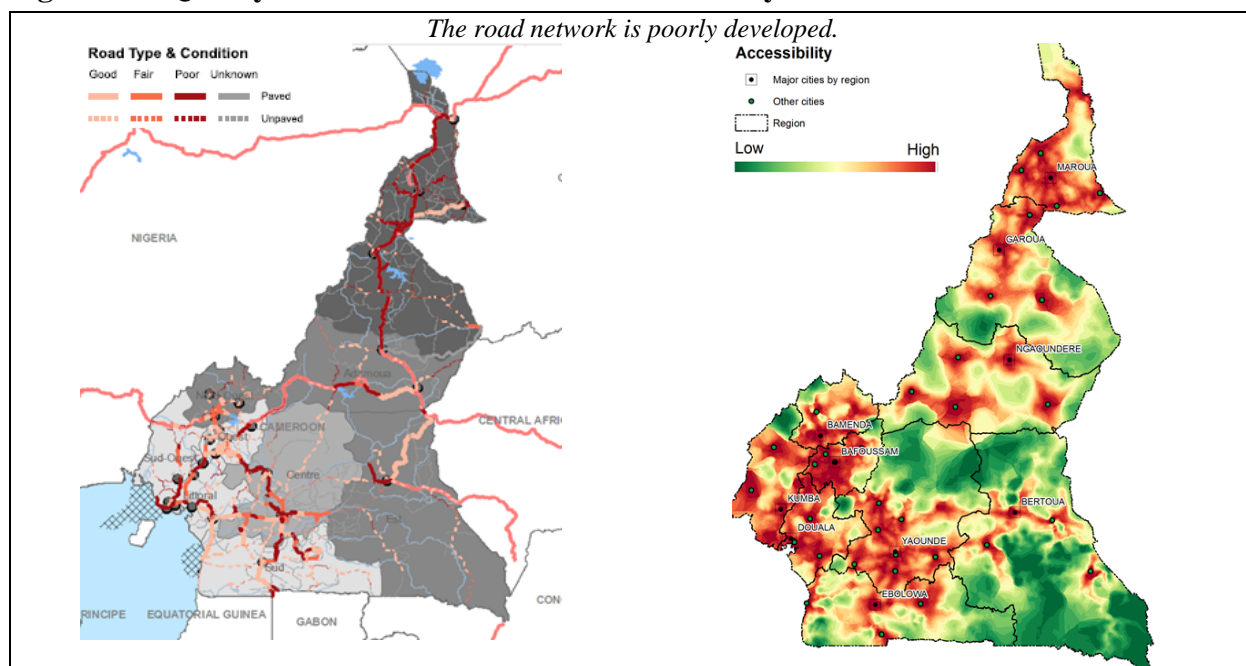
⁷⁰ AICD (2010).

⁷¹ World Bank 2011. Cameroon Economic Update.

⁷² Gael Raballand and Patricia Macchi 2009. Transport Prices and Costs: the need to revisit donors' policies in Transport in Africa. Mimeo.

helps to curb excess loads on the main road corridor, thus helping to reduce the deterioration of the corridor and its maintenance costs. In 2013, tariffs per ton-km and per container were approximately 20 percent lower by rail than by road.

Figure 4.7: Quality of the road network and accessibility



Source: Ministère des Travaux Publics (MINTP) ; World Bank 2015.

115. **The port of Douala is affected by congestion.** An efficient Port of Douala would be a key source of growth, as it would ensure that imports including intermediate goods for domestic production are cheaper in the domestic market and exports are more competitive on foreign markets. However, the port ranks amongst the least efficient in Africa. The cost of importing a container in Douala is high and dwell times are long, causing congestion. This makes Douala an unattractive location for export oriented manufacturing companies. For these companies to be economically profitable cargo dwell time should be less than five to six days on average. One reason for the long dwell times is that many economic operators, including the Port Authority of Douala have limited incentives to ensure the port functions efficiently. Many traders use the port as a cheap place of storage. The daily storage fee has been set at a very low level of CFAF 600/day (around US\$1 per day) making it economically interesting for importers to keep cargo within the port as external storage is more costly.⁷³ This “rent”, is actively sought. For instance, in 2005, rice importers convinced the Government to allow an exceptional 90 days free storage time for rice (the normal free time is 11 days) as this commodity is the main imported food consumed in Cameroon (about 700,000 tons per year). This decision has not been reversed since.

116. **To help decongest Douala, the ports of Kribi and Limbe are being developed.** The thinness of the Cameroonian economy and the existence of similar ports in the region raise doubts

⁷³ This is particularly true for the dwell time of refrigerated containers for which the daily fees per container is CFAF 10,000 (around US\$15) while the cost for the terminal operator is twice higher (CFAF 24,500) due to the cost of electricity. World Bank, 2015. Cameroon Economic Update.

about the economic viability of three ports, certainly in the short run. Moreover, new port developments, managed by the same Port Authority, are unlikely to address the competitiveness issues that affect the Port of Douala.

117. Air transport is seriously underdeveloped. The public air-company CAMAIR-CO has the monopoly on domestic flights. The company is in financial difficulties as a result of inadequate management, poor investment decisions (large planes only) and overstaffing. As a result, internal air transport is erratic and limited to a few routes between the main cities.

118. Power supply and reliability have long been important impediments to economic growth in Cameroon. According to the World Bank's 2007 Investment Climate Assessment, two thirds of manufacturing firms cite power deficiencies as a constraint to doing business, leading to losses as high as 4.3 percent of annual sales. About half of the small and medium enterprises and 90 percent of the large enterprises own generators⁷⁴ and a third of the country's installed generation capacity is met by high-cost, high-polluting back-up generation, at US\$0.46/kWh.

119. Cameroon's public electricity tariffs are comparatively high but still do not cover all costs. The country's low and medium voltage power tariffs – between US\$0.15/kWh and US\$0.18/kWh – are slightly above the regional average of US\$0.14/kWh, but significantly above the regional average of US\$0.10/kWh for countries with hydro-based power systems. This is due to high losses, in large part attributable to an outdated transmission and distribution system. Despite relatively high energy tariffs, these do not recover all production costs, in part because certain producers, such as ALUCAM, the Cameroonian metal scraps and ores manufacturer, get electricity at subsidized rates. Even though the sector has a functioning pricing mechanism in which the regulator sets the tariff at which the sector breaks-even, in recent years the authorities have opted to not to pass on cost increases, but to subsidize the sector instead.

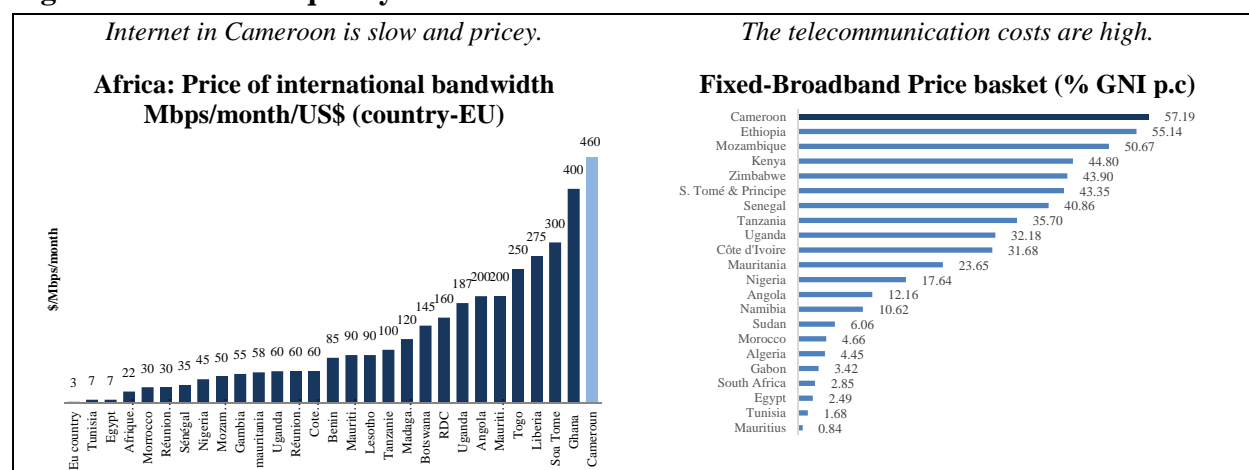
120. Important progress has been made to address the energy shortfall, including the commissioning of the 216-MW Kribi Gas Power Plant, as well as the construction of the Lom Pangar hydropower dam. Nonetheless, electricity demand exceeds supply (especially during the dry season) by 80 - 100 MW and with an annual increase in demand of approximately 7 percent, the supply for electricity will need to continue to increase. Cameroon's vast hydropower potential offers an important opportunity and could become the basis for a regional power pool.

121. The main constraint to the sector's performance is investor uncertainty. The electricity sector has benefited from major policy reforms, including the unbundling of transmission and generation and the setting of the electricity tariff by an independent authority. This has paid off, as suggested by the fact that the new Nachtigal hydro-dam will be mostly privately financed. Yet, the sector needs to do more to gain the confidence of investors and attract PPPs. The automatic adjustment of tariffs would be an important signal to foreign investors. In addition, the Government's needs to come through on its commitment to rely on equitable and transparent competitive processes, and avoid sole sourced commercial agreements or ad hoc Memoranda of Understanding (MOUs).

⁷⁴ 2009 enterprise surveys. www.enterprisesurveys.org

122. **Access to water supply has progressed significantly, but remains below standard.** Between 1990 and 2012, the percent of the population using improved water sources has increased from 51 percent to 74 percent. In urban areas almost 94 percent uses water from an improved source, but only 28 percent has domestic connections. Others rely on collective standpipes and vendors. While recent investments helped rehabilitate and expand water production capacities (mostly in Yaoundé and Douala), distribution networks are insufficient to address a demand fuelled by urbanization. Service provision is intermittent and of unreliable quality. In rural areas, progress in access has been higher; yet only 52 percent of the rural population has access to improved water sources from communal standpipes or protected wells.

Figure 4.8: Cost and quality of internet and telecommunications



Source: "Broadband status in Africa - Regional progress report - Market- Political-legal and regulatory Frame work Cross border infrastructure" C. de Jacquilot Octobre 2015, ITU December 2014

123. **Lack of coordinated and strategic planning constrain water and sanitation development in rural and urban areas.** While MINEE holds the overall coordination on the sector, limited capacities and institutional fragmentation have hindered progress in these sub-sectors. Expanding access to rural water relies mostly on external financial sources and on NGO interventions. The implementation of the urban water sector reform and the PPP that started in 2007. It established a public asset holding company (Camwater) and a private service provider (Camerounaise des Eaux, CDE). Progress has been limited due to governance issues and the sector's financial equilibrium is yet to be restored. There is a need to strengthen the PPP governance and to rationalize ongoing and future investments in order to expand and improve service delivery to cities and small towns.

124. **The ICT sector is hindered by policy and regulatory bottlenecks.** Although a new legal and regulatory regime was adopted in 2010 and a third mobile license was granted in 2012, the process of liberalizing the fixed line and broadband sectors has been slow. CAMTEL maintains a monopoly on the access to international networks and the operation of national backbone. As a result, competition dynamics do not play their role in improving the quality of services and reducing prices for users, in fostering innovation, and in boosting cross synergies with the financial, transport, energy, agriculture, education or health sectors.

125. **Eleven percent of Cameroonian adults had bank accounts in 2014.**⁷⁵ Only 4.5 percent receive a loan from the formal financial sector, even if between 2008 and 2013 banks increased the number of branches by more than 90 percent. Financial inclusion through non-banks is quite important. At the end of 2013 there were 1.9 million accounts in banks, 1.5 million in microfinance institutions (MFIs), and at least 3.1 million in electronic money accounts. Unfortunately less than 7 percent of the e-money accounts are used in practice.⁷⁶ Similarly, whereas only 8 percent of the adult population saves at a financial institution, 35 percent participate in a savings club. These savings clubs are used more by women (38 percent) than men (32 percent), and more by the better-off (40 percent in the richest 60 percent) than the poor (27 percent in the bottom 40 percent).⁷⁷ Savings clubs come in all shapes and sizes and some involve very significant amounts of money.

126. **The formal banking system, dominated by commercial banks, is underdeveloped.** With liquidity estimated at US\$1.5 billion, the banking sector provided credits to the private sector to the tune of 13.7 percent of Cameroon's GDP as of August 2013. This figure is well below the roughly 20 percent average in the West African Economic and Monetary Union. It confirms the difficulty of enterprises in getting loans. The banking sector is concentrated and competition is relatively low. The three largest banks hold about 70 percent of total assets of all commercial banks. These three banks dominate the banking landscape and could be seen as market setters in terms of pricing of financial products and services. Spreads are high, at 10 percent, making credit unattractive and reflecting the lack of effective competition among commercial banks.

127. **Investment banking is underdeveloped.** The role of investment banks is carried out mainly by licensed commercial banks which act as "universal" banks. Because the traditional banking activities of these banks are in competition with less lucrative investment banking activities, there is limited promotion and development of financial markets. This in turn substantially limits the capacity to mobilize long-term resources. This is aggravated by the co-existence of two stock exchanges, one regional and one Cameroonian, the low rate of savings, the limited core of institutional investors such as insurance companies and pension funds, and the absence of demand from corporations to be listed.

128. **Financing constraints thus remain acute for private enterprises, formal as well as informal.** In the 2009 Enterprise Census, access to credit is listed as a critical constraint to growth, irrespective of the sector in which the firm operates. The 2009 Enterprise Survey digs deeper into this issue and finds that almost 70 percent of all investments are financed internally by firms and only 13 percent by banks. Collateral requirements are high, 213 percent of the loan amount. Access to credit is also one of the top constraints in the informal sector.⁷⁸ At times questions are raised about whether firms are truly credit-constrained or whether banks are simply not able to assess the credit-worthiness of firms. In Cameroon the latter is not relevant as more than 80 percent of formal firms have audited accounts.⁷⁹

⁷⁵ 2015 Global Findex.

⁷⁶ Source: 2015 CEMAC FSAP.

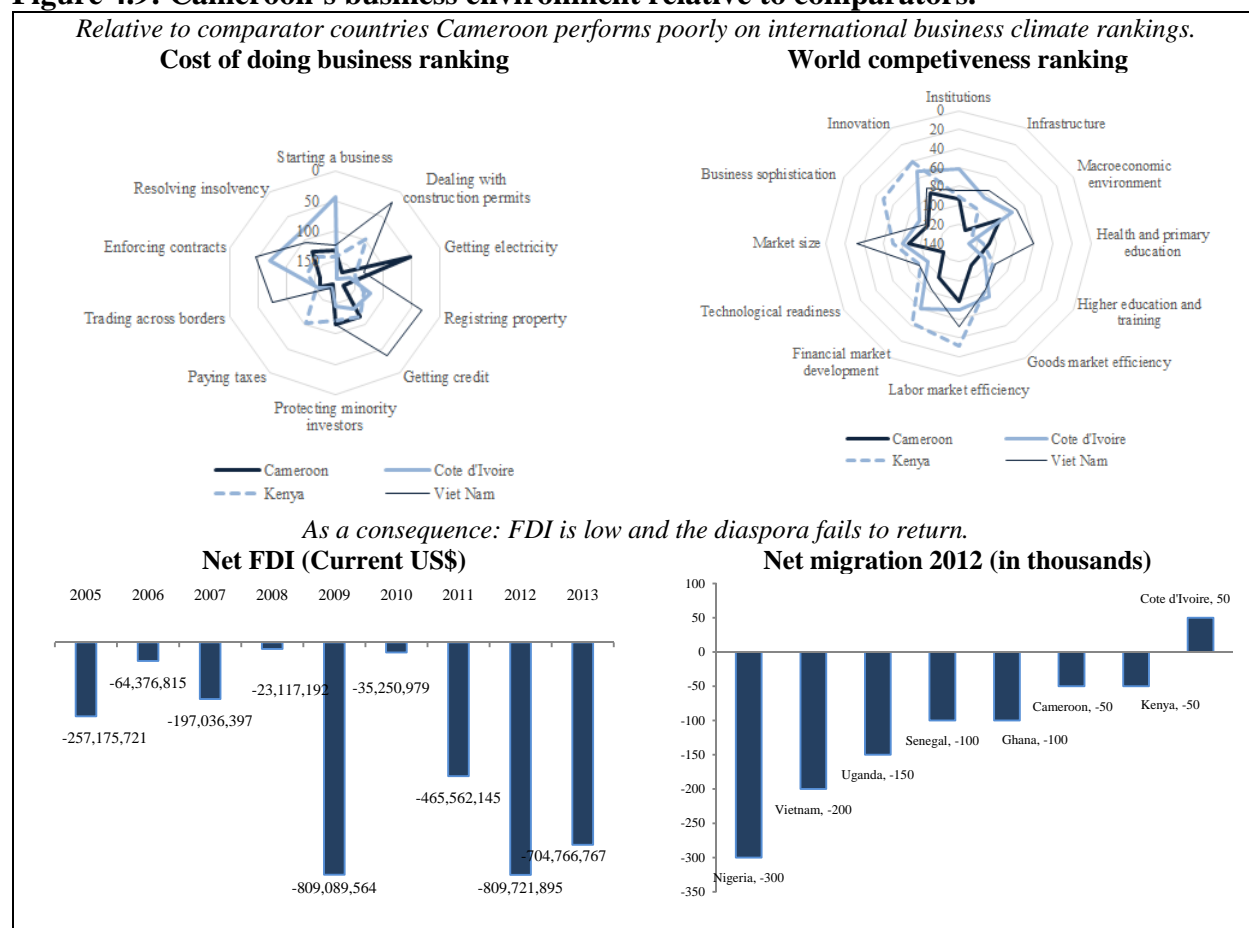
⁷⁷ Data from World Bank: Global Financial Inclusion Database.

⁷⁸ INS 2011. Enquête sur le secteur informel.

⁷⁹ Data from www.enterprisesurveys.org

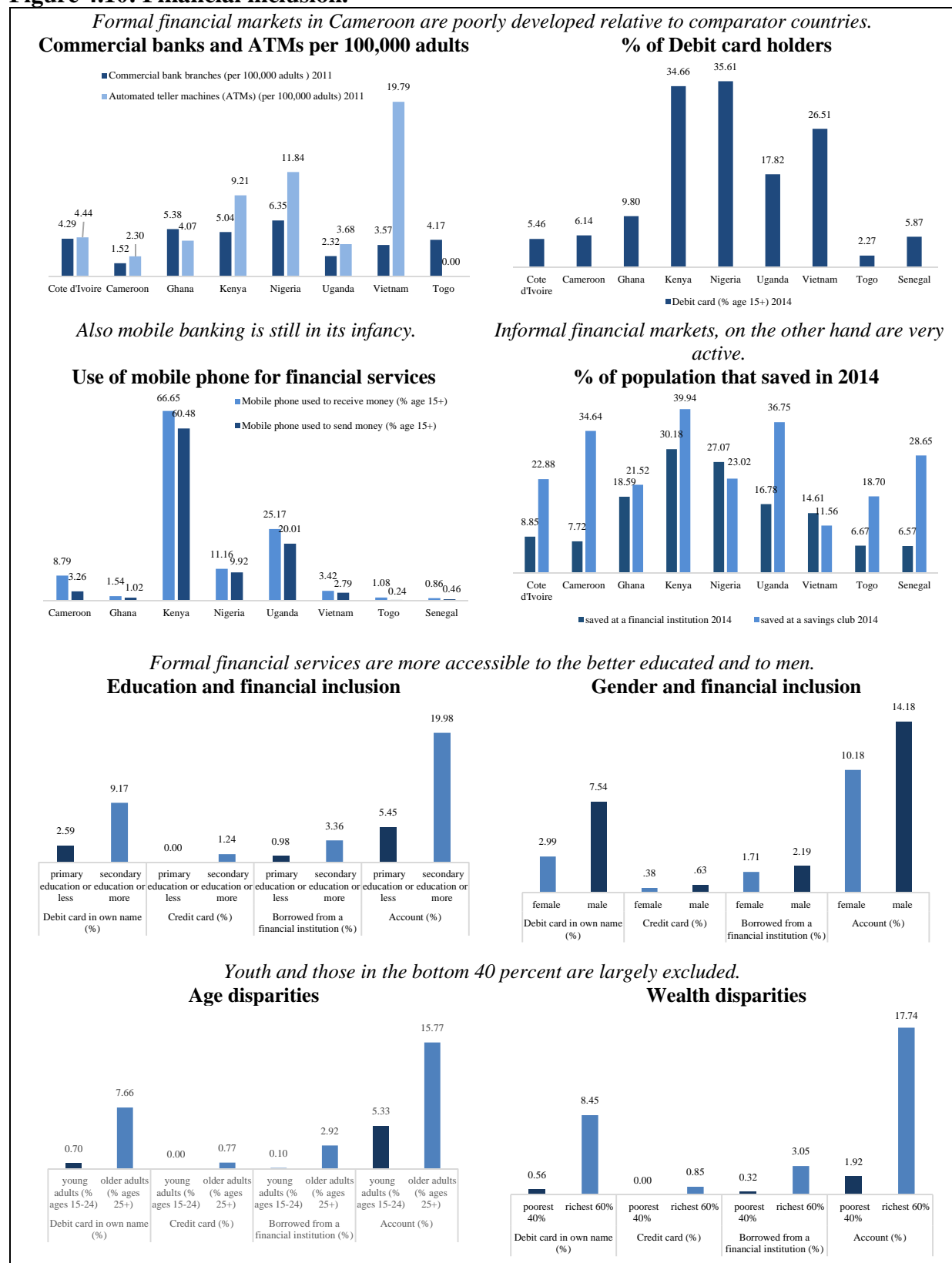
129. **The private sector faces significant regulatory constraints.** In addition to the constraints associated with expensive and inadequate economic services and the presence of a many state owned companies (often with local monopolies), doing business is made more complicated by a large number of regulatory and other constraints. This is well illustrated by the cost of doing business survey, and the world competitiveness rankings, which show that Cameroon belongs to the worst performers. This is particularly true in aspects like paying taxes (180th out of 189 – it takes more than 600 hours to file a tax return), registering property (175nd) or trading across borders (185th, it costs US\$2,267 to import a container in Cameroon as opposed to US\$1,190 in Togo or US\$1,360 in Ghana). These inefficiencies are reflected in the poor score on the ease of doing business index and low total factor productivity. It also shows up in very low levels of FDI – in fact there is a net outflow of FDI.

Figure 4.9: Cameroon's business environment relative to comparators.



Source: World Bank 2015 and World Economic Forum 2015.

Figure 4.10: Financial inclusion.

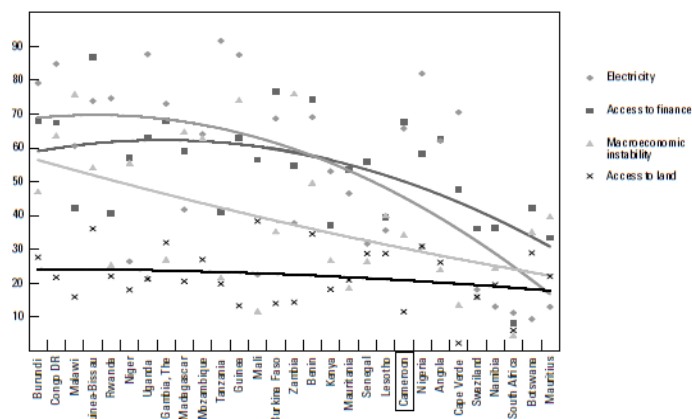


Source: WBG Global Financial Inclusion Database 2014.

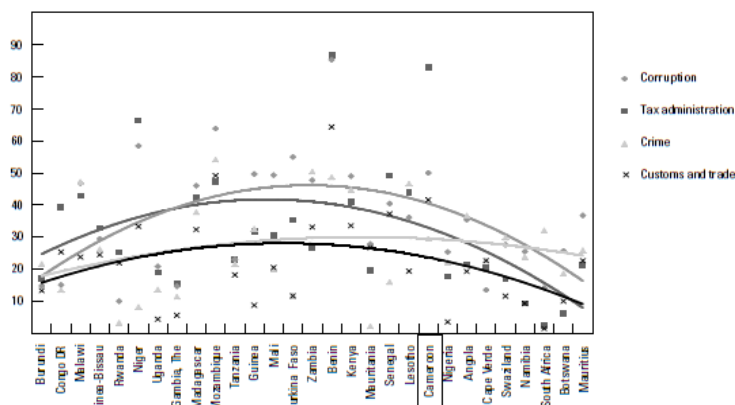
Figure 4.11: Firm rankings of business environment constraints

Relative to other countries with comparable levels of income, firms in Cameroon indicate to be most constrained by governance constraints (tax administration and corruption, customs) followed by infrastructure (electricity) and access to finance. Access to land, macro-economic stability, crime, a shortage of labor and labor regulation are not the most pressing constraints. Firms do indicate a shortage of skilled labor.

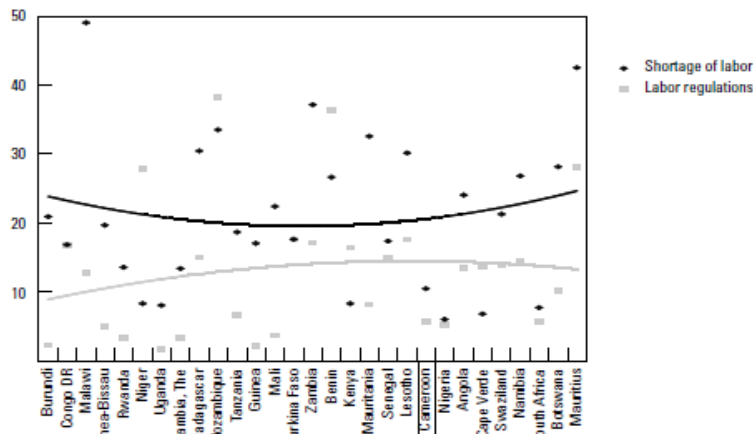
Elemental constraints



Governance constraints



Labor constraints



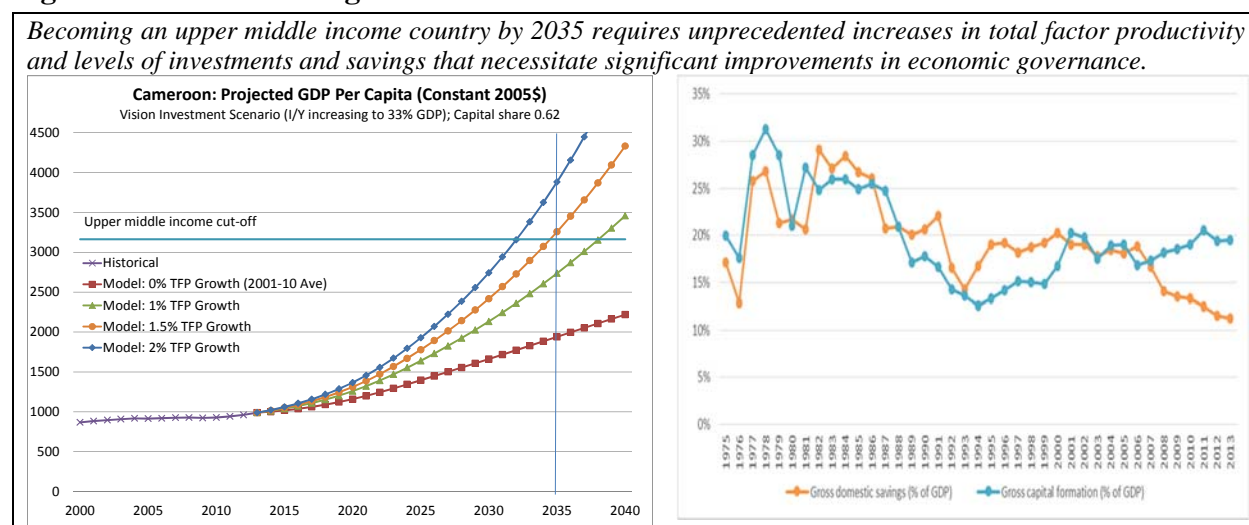
(*) countries ordered by per capita income.

Source: Ramachandran V., A. Gelb and M.K. Shah. 2009. *Africa's private sector. What's wrong with the business environment and what to do about it.* Center for Global Development.

4.4 Pathways to economic growth

130. **The challenges brought about by the ambition to become a middle income country by 2035 are enormous.** As formulated in the *Vision 2035* Cameroon is expected to become an upper-middle income country with a Gross National Income per capita (in 2013 Atlas US\$) of above US\$4,125. Cameroon's level of income (measured in the same terms) was US\$1,290 in 2013, thus requiring a growth of around 5.4 percent per capita over 2013-2035 to achieve the objective. As population growth is about 2.5 percent per annum, real GDP must grow by around 8 percent for over 20 years. Just how ambitious this is, is illustrated in Figure 4.12, which shows the path of real GDP per capita for the Vision investment scenario. Even with an unprecedented increase in the investment share of GDP (to 32 percent, requiring a level of domestic savings that was only achieved during the height of the oil boom) Cameroon will miss its goal of becoming an upper middle income country unless productivity growth is at least 1.5 percent per year. With 0 percent Total Factor Productivity (TFP) growth - the average achieved over 2001-2010, Cameroon would only achieve *less than half* the increase in GDP per capita needed to reach upper middle income status by 2035. In other words, if, and only if Cameroon manages to increase the efficiency of its economy, and only if Cameroon manages to attract significant amounts of foreign direct investment, which are, in turn, dependent on improvements in economic governance, can Cameroon's growth ambitions be achieved.

Figure 4.12: The challenge of vision 2035



Source: World Bank 2015. Cameroon Country Economic Memorandum

131. **The scope to increase the economy's efficiency is huge: it requires investments in the economic infrastructure and accompanying policy reforms.** The analysis has demonstrated the cost imposed on the economy by unreliable electricity, pricy transport services, inadequate telecommunication services, and an overall poor business environment. Investments will be needed to address the most pressing bottlenecks, including rural access, the road to the north of the country or the electricity transmission network. But equally important are policy reforms. Roads need to be maintained, roadblocks abolished, transport cartels broken, inefficient ports restructured, and competition in telecom and air transport improved. Electricity tariffs need to reflect costs, regulatory obstacles to starting a business removed, the tax system overhauled, city

planning improved and informal sector activities considered important to the country's overall growth. Without accompanying policy reforms, the effects of the new investments in public infrastructure will be limited and powerful elites will capture most of the rents.

Table 4.2: Priority reforms and investments to improve economic service provision

Sector	Priority reforms
Roads	Competition in trucking markets Road maintenance financing Road block abolition
Port	Competition in freight forwarding Efficiency of Port Authority
Telecom	Incumbent restructuring Liberalization and open access to national and international bandwidth capacity and creation of a competitive environment for national fiber infrastructure and international bandwidth Definition and implementation of reform pathway in spectrum management and implementation of Digital Switch Over (DSO)
Electricity	PPP financing of new power generation and distribution projects Tariff reform Unbundling of generation and distribution
Water	Tariff reform Implement the national sanitation strategy
Finance	PPP law Competition in financial sector
Air transport	Competition in domestic air traffic

132. **PPPs would be an appropriate financing investment for infrastructure, yet policy reforms are necessary to attract the private sector and ensure a sufficient return.** The right policy environment will free public resources, as certain investment projects become privately financed. Energy is a case in point. As long as energy tariffs are insufficient to recover cost, private investments are unlikely and the authorities will need to allocate scarce investment resources in sectors that could otherwise benefit from private capital flows. With the right policy environment, private investors can be expected to be ready to invest in energy generation in the form of PPPs or otherwise. A comprehensive strategy to crowd-in international and domestic private investors for the financing of infrastructure PPP projects and SMEs could include the development and implementation of a Strategic Investment Fund (SIF).

133. **A better developed financial sector is equally critical for the development of a range of financial services available in other low and middle income economies such as ATMs, mobile banking, e-wallets, and microenterprise loans that have not yet been fully developed.** The absence of these services has direct implications for the ability of poor households to generate an income. Absence of access to credit or crop insurance forces farmers to opt for low risk, low return crops like sorghum and millet, and limits the use of modern inputs which have to be purchased using cash. Following a shock, people rely on friends and family (44 percent) or own savings (32 percent) for emergency funds. Assets lost can only be rebuilt through a process of savings and self-accumulation as credit opportunities are largely unavailable. In the absence of a warehouse receipt system, poor farmers are often forced to sell at low prices to repay debts. The absence of leasing services for basic equipment other than vehicles and heavy machinery, hinders access to services such as plowing.

134. **The opportunity cost of these missing financial services is significant.**⁸⁰ The availability of mobile financial services has been transformative in reducing levels of the unbanked funds across Africa, but has not yet reached Cameroon. For SMEs and rural non-farm businesses, financial products such as factoring, leasing, and warehouse receipts could mean increased productivity and competitiveness, particularly in manufacturing and agriculture sectors. Factoring plays an important role for SMEs and new firms in emerging markets that have difficulty accessing bank financing.⁸¹ Similarly, for farmers and rural businesses, warehouse receipt systems can foster higher productivity, higher producer prices, greater access to financial services, and better quality crops.⁸² For example, following the introduction of a warehouse receipt system in Tanzania for cashew nuts, farmers doubled both prices and output over a two year period.

Table 4.3: Food balance sheet for Cameroon, 2015

CEREAL SUPPLY/DEMAND BALANCE FOR 2015 MARKETING YEAR (JANUARY/DECEMBER)				
Cereal Supply and Utilization Data (1,000 tons)	Wheat	Rice	Coarse Grains	Total Cereals
Previous year production (including paddy rice)	0	190	2940	3131
Previous 5 years average production (including paddy rice)	-	167	2839	3006
Previous year imports	403	560	36	999
Previous 5 years average imports	394	511	30	935
2015 Domestic Availability	50	157	2940	3148
2014 Production (incl. paddy rice)	0	203	2840	3044
2014 Production (incl. milled rice)	0	132	2840	2973
Possible stock drawdown	50	25	100	175
2015 Utilization	400	717	2977	4095
Food use	321	687	2044	3052
Non-food use	4	30	783	817
Exports or re-exports	75	-	150	225
Possible stock buildup	-	-	-	-
2015 Import Requirement	350	560	37	947
Anticipated commercial imports	350	558	37	945
of which received or contracted	106	102	3	216
Food aid needs	-	2	-	2
Current Aid Position				
Food aid pledges	-	-	-	-
of which delivered	-	-	-	-
Donor financed purchases	-	-	-	-
of which for local use	-	-	-	-
for export	-	-	-	-
Estimated Per Caput Consumption (kg/year)	14	30	90	134
Cereal Supply and Utilization Indices (Percentage)				
2014 Production compared to average (incl. paddy rice)	0	122	100	101
2015 Import requirement compared to average	89	110	23	101
Cereal share of total calorie intake				43

Source: Staff calculations using FAOSTAT 2015.

⁸⁰ Gine, Yang, Dean, 2013.

⁸¹ Klapper, 2006.

⁸² A warehouse receipts system can allow rural farmers to delay sales of recently-harvested crops by providing them with credit, storage space and market information until the market has stabilized and prices have increased.

135. Food and animal products present a potential growth sector in the short run. Cameroon has already shown promise with the export of cereals, bananas, livestock, coffee, cocoa, and cotton, and the markets for these products are far from saturated. An existing food grain deficit (Table 4.3 - about a quarter of Cameroon's food needs are imported), rapid urbanization and an emerging middle class ensure a good domestic and regional market. This is particularly true for products with a high income elasticity like meat, rice and milk. Logistics to serve the regional market, mining⁸³ and sustainable forest products present other growth opportunities.

Box 4.1: Increasing economic complexity by participating in global value chains

The proven potential of raw materials (mines, timber, agricultural products) and production factors (electricity, arable land) have shaped Cameroon's participation and positioning in global value chains. The raw material-producing sectors (timber, agriculture and mining) and high voltage electricity-consuming sectors (basic metals and cement) are most involved in global value chains. Various services sectors are also integrated into global chains: ship repair and maintenance, information technology and transport.

Cameroon's participation is limited mainly to activities at the ends of the chains in lower value sectors and little benefit for the rest of the economy. At the top of the chains, Cameroonian businesses simply supply raw materials, or at best supply products that have been through primary processing. At the bottom, Cameroonian firms act as intermediaries for foreign industries, providing, for instance, packaging, assembly and distribution to the local market or the Central African region. In some industries, however, the Government has adopted measures to encourage increased local processing of raw materials. This timber industry has moved towards primary and secondary processing. Moreover, strong demand from CEMAC and ECOWAS countries is attracting more and more agro-industries (processing of palm oil, cocoa, etc.). Sluggish global demand for some raw materials has forced manufacturers to look towards domestic and sub-regional markets. These changes should gradually lead to a shift away from commodity exports and towards the production of finished goods. Capacity-building in ship repairs has, for example, enabled Cameroon to participate fully in this global value chain, at least within the Gulf of Guinea region. Sectors that have increased their participation in global value chains have contributed to economic growth, created jobs, developed capacities and improved infrastructure.

However, Cameroon's position in the value chains (at the extremes of the chains) exposes it to fluctuations in commodity prices and global economic cycles. The recent global financial crisis highlighted this vulnerability, especially among export-oriented industries. These industries have a large number of small operators that are often poorly equipped and largely disorganized. Their integration into clusters will allow them to regroup and upgrade more effectively.

Analysis of geographical distribution identifies opportunities for participation in global value chains in the north of the country, thanks to the concentration of livestock farming and cotton cultivation. SODECOTON produces cotton fibers and refined cottonseed oil. The enhancement of livestock farming, meat products and leather is held back by a lack of coordinated action. The southern part of the country enjoys a tropical climate, making it ideal for developing agricultural industries (cocoa, palm oil, natural rubber, cassava, fruit and vegetables, etc.). On the coast, the potential development of hydroelectricity and gas-based thermal electricity and access to the sea offer Cameroon opportunities to participate in global value chains (ship repairs, shipping, light metals, etc.). Furthermore, Cameroon's strategic position as a country of transit towards several countries in the sub-region provides opportunities to develop global value chains at the borders with neighboring countries.

Source: Doffonsou R.A. and L.S. Singh 2014. Cameroon. www.africaeconomicoutlook.org

136. In the longer run the economy will need to move to greater economic complexity. By gradually expanding the complexity of products that are produced, and by improving human

⁸³ For lack of private investment, there has been little or no exploitation of most of Cameroon's the natural resources, apart from oil and timber. Yet the mineral wealth includes deposits of oil, natural gas, gold, iron, manganese and uranium.

capital in general, productive knowledge is expanded and the foundation for economic transformation is laid. Cameroon should preserve its stable macro-economic environment and capitalize on its developed human capital, capable bureaucracy, coastal location, and availability of natural resources. Doing so successfully will require addressing the constraints that also hold back the domestic market development: costly transport, a poorly functioning port, inadequate energy supply and pricey telecommunications.

5. GOVERNANCE AND INSTITUTIONAL ENVIRONMENT

The political settlement offers unity and stability in exchange for access to rents. The consequence is an ineffective public sector that adheres to a personalized, clientelist model of state-led growth characterized by high levels of corruption and fragmentation. Such a public sector is unable to realize opportunities for growth, poverty reduction and adequate service delivery. Opportunities for change exist but may be hard to realize as vested interests defend their benefits. Openings for change are likely to arrive opportunistically or as a result of stresses on the regime. Debt distress could, for example, be a catalyst to enhance the efficiency of public spending, and fragility in the north could spur improved public service provision.

5.1 Governance

137. **Cameroon ranks poorly on most governance indicators (Figure 5.1).** The country rates amongst the bottom 25th percentile for all governance indicators tracked by Kaufman and Kraay over the last ten years, and ranks 144th out of 177 countries on the 2013 Transparency International Corruption Perceptions Index. Corruption is pervasive - 62 percent of respondents declared having paid a bribe over the past 12 months.⁸⁴ Moreover, scores on the CPIA sub-categories "transparency, accountability, and corruption in the public sector" and "property rights and rule-based governance" were both 2.5, compared to an average of 2.9 among IDA borrowers. The 2016 Doing Business report, ranked Cameroon 172th out of 189 economies.

138. **Poor governance outcomes can be traced to the political settlement.** Colonialism did not foster the emergence of a large national capitalist middle-class. It did, however, establish a state-wide bureaucracy, paving the way for a clientelist political system with dominant leaders, who successfully centralized power. These elites, following a low intensity civil war in the late 1950s, and a failed coup in 1984, gained legitimacy by offering unity and stability in exchange for an environment in which political, justice⁸⁵ and economic relations are personalized, as opposed to institutionalized and anonymous. In this environment, elite members benefit from rents earned through the misappropriation of revenues, such as oil and tax revenues, from favorable treatments, for example jobs or tax exemptions, or from exclusive arrangements, such as monopolies or import licenses. This weights down the economy and comes at the expense of service delivery.

139. **Cameroon, thus, fits the description of a limited access order.**⁸⁶ Limited access orders can be described as political settlements in which a relatively small elite of politicians, businessmen and those in charge of the institutions exercising legitimate state violence (police, military) provide stability to a country in return for access to rents. The outcome is a situation with high levels of corruption, occasional state repression against citizens claiming their rights, and stunted growth. However, this outcome is generally more acceptable to the population than a state of generalized violence, which would be the alternative. It illuminates the regular public references

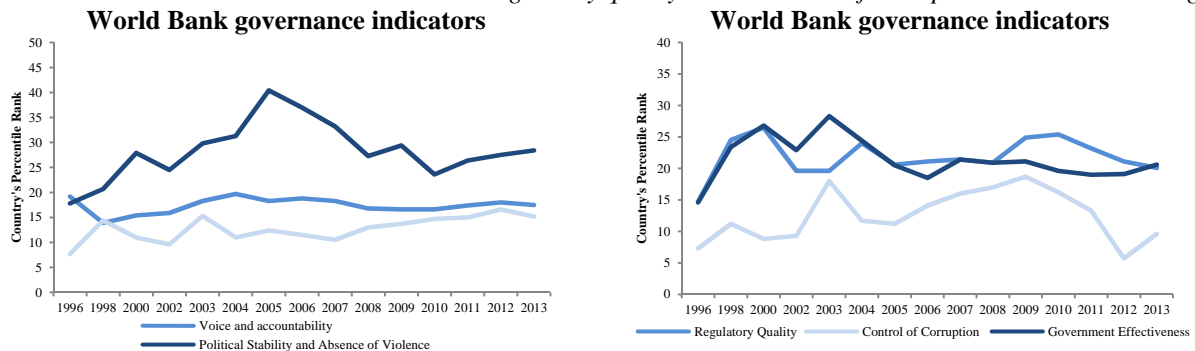
⁸⁴ 2013 TI Global Corruption Barometer.

⁸⁵ Judges are appointed by the president for instance.

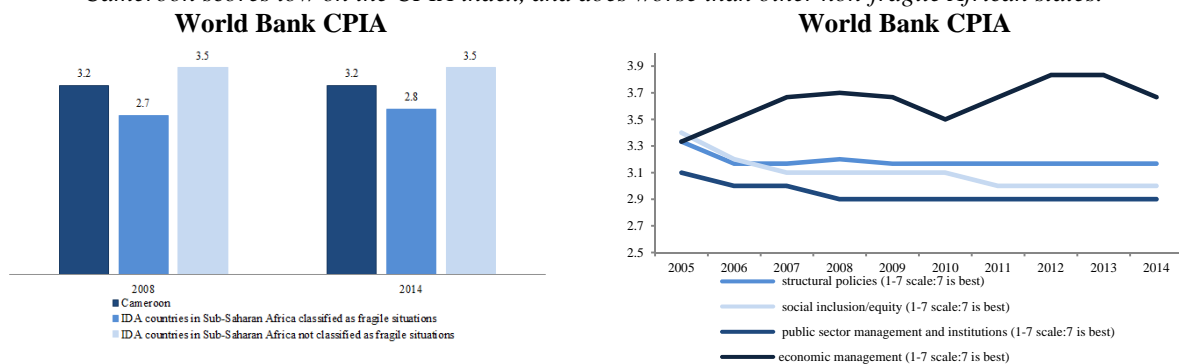
⁸⁶ Douglass C. North, John Joseph Wallis, Steven B. Webb and Barry R. Weingast 2007 Limited Access Orders in the Developing World: A New Approach to the Problems of Development. World Bank Policy Research Working Paper no. 4359.

Figure 5.1: Governance indicators

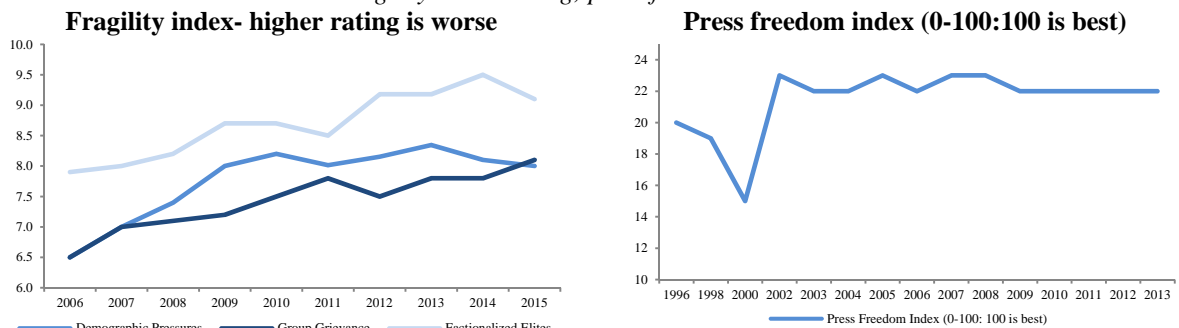
Governance indicators are generally poor. Following an initial improvement political stability and absence of violence has been on the decline since 2005. "Regulatory quality" and "control of corruption" are also declining.



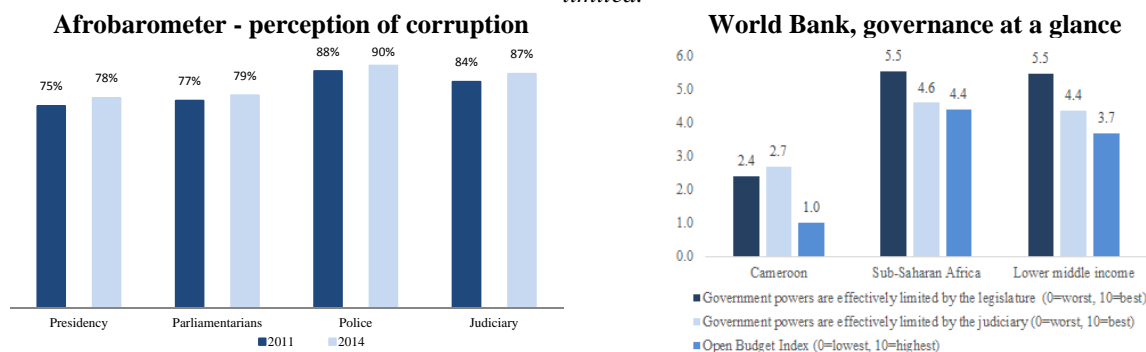
Cameroon scores low on the CPIA index, and does worse than other non-fragile African states.



Fragility is increasing; press freedom is limited.



The perception of corruption is high, budget transparency low and oversight over the Government's powers limited.



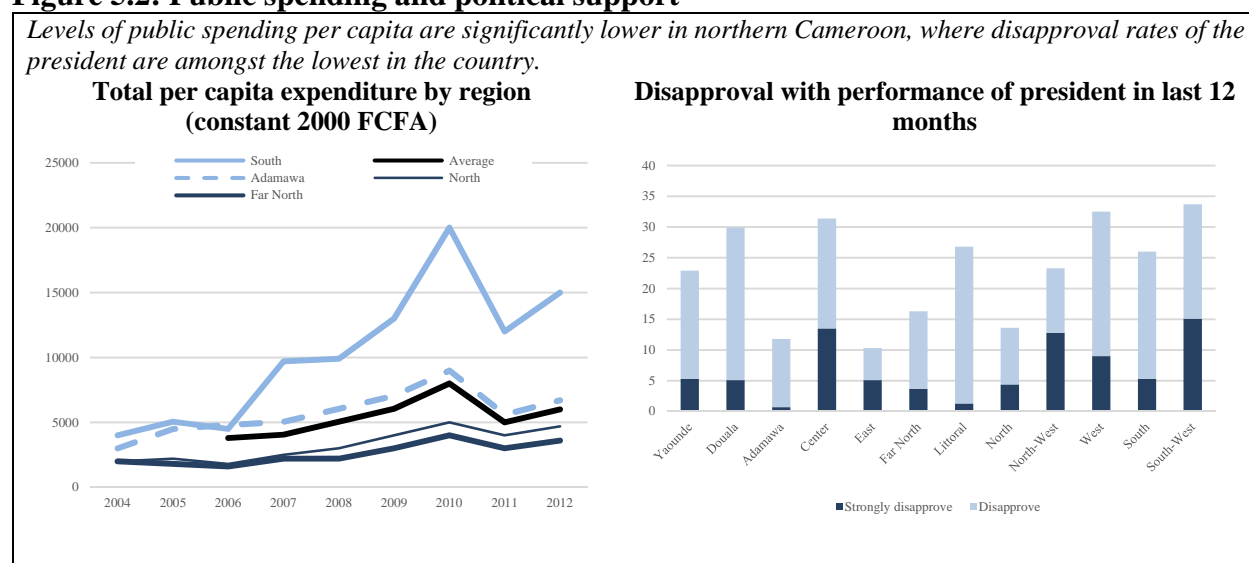
Source: World Economic Forum 2013; Afrobarometer 2011, 2014; Freedomhouse 2013, Institute for Peace 2014, World Bank CPIA, World Bank Governance Indicators 2014.

to unity and peace made by the authorities. A limited access order is characterized by personalized, as opposed to anonymous, relations. People are not equal before the law, connection matters more for outcomes than merit, and institutions depend on personalities and are not long-lived.

5.2 Political settlement and the business environment

140. **The political regime features all the rules and processes associated with a formal democracy and a Weberian administration, but in practice the distribution of resources and civil service appointments is largely a function of regime loyalty.** A plethora of public institutions and “best practices” laws related to audits, decentralization, or mining provide the impression of a functioning administration. The reality is different with form being privileged over function. As a consequence, the public administration is inefficient. Public services are poorly targeted and of low quality, hence the large fraction of people opting for privately provided services. The business environment is skewed towards elite interests and stacked against new entrants, hence the high degree of informality. There is significant leakage of resources and inertia delays decision-making.

Figure 5.2: Public spending and political support



Source: Staff calculations using data from Direction Générale du Trésor and Afrobarometer 2014.

141. **Broadly speaking, the public sector plays three roles vis-à-vis the private sector: regulator, business-promoter and actor.** As regulator, the public sector sanctions anti-competitive behavior and oversees markets characterized by natural monopolies or other market failures. As promoter of competition and private sector participation, the public sector ensures that procedures related to doing business are simple, predictable, accessible and universal. A government can also intervene in specific markets directly as an economic actor, through state-owned enterprises or via participation in firms; or indirectly through measures affecting market functioning, like price setting, import quotas, licensing, etc. There is a lot of potential for the state to improve its performance in each of these three roles.

142. **Inefficient regulator: the judicial system needs to improve its reliability and speed.** While laws have been adopted to protect investors and contractual rights, courts often fail to follow the law and create the impression of acting corruptly. The judiciary lacks independence as all

magistrates and judges are appointed by the President. The legal system is painstakingly slow in adjudicating matters. Hearings can be delayed multiple times due to the failure of one party to appear. The court often takes no action to end disputes, stretching them out for years. Plaintiffs can use delay tactics as a method of harassment and can cause their opponent to incur significant legal fees by delaying the hearings dozens of times. A common tactic involves bringing frivolous criminal charges against an opponent in a commercial dispute. Judges can be swayed by bribes or by political clout. The enforcement of judicial decisions is slow and fraught with administrative and legal bottlenecks.⁸⁷ Unsurprisingly, one out of three managers believes that the functioning of the legal system is a major obstacle to business, nearly three times the complaint rate of the rest of Sub-Saharan Africa (Doing Business 2015).

Box 5.1: Products subject to price and import controls.⁸⁸

Price controls

- Food products: sugar, milk, crude palm oil, imported frozen fish, wheat flour, maize flour, imported rice, table salt, edible oils;
- Building materials: imported portland cement, and iron bars;
- Other products: domestic, industrial or medical gas, medicines and hospital supplies, books and textbooks;
- Services: water, electricity, ancillary maritime transport services, services provided by *Ports Autonomes du Cameroun*, public passenger transport (road and rail); and services offered by hotels and tourist facilities, social housing, school and university accommodation.

Import controls

- For palm oil and oil, imports are approved during periods of shortage. To import refined petroleum products a "shortage certificate" drawn up by the fuel price stabilization fund has to be obtained.
- In the case of sugar, rice and cement importers have to obtain import licenses. Discretion in granting the licenses can also limit the number of importers and import volumes.
- Sugar imports are subject to valuation determined at the administrative level (CFAF 458,000/ton in 2012), which in combination with customs duty of 30 percent, may reduce the competitiveness of imports.
- Some companies have access to reduced import tariffs in case of a shortage in the market determined by the Ministry of Trade. In the case of sugar SOSUCAM and other companies in the subsector can import at a 10 percent tariff instead of the 30 percent CET. Similarly, the Special Program for imports of fast-moving consumer goods such as petroleum products, palm oil, sugar, biscuits, beverages or confectionery allows operators in sector to import goods at a lower tariff if there is a "shortage".
- In some cases imports are completely banned. For instance, since 2006, the import of frozen chicken has been banned by MINEPIA. Currently the Government is evaluating the establishment of an import ban on cement to protect the domestic industry.

Source: World Bank 2015. Chapter 4 Country Economic Memorandum.

143. Promotor of competition: the legal environment relevant to foreign investment needs to be made transparent. In 2002, with the intention to attract investors, the investment code of 1990 was replaced with the Investment Chapter of 19 April of 2002, permitting 100 percent foreign equity ownership. In practice, the Investment Chapter has not been fully implemented. Decree No 2009/001 of May 2009 postponed the deadline for implementation, setting the new date for 2014. In 2013, in order to promote and attract productive investment, the Investment Code was supplemented by Law No 2013/004. This created confusion regarding which law prevails. In certain sectors, restrictions on foreign ownership still apply, including: mining (95 percent of

⁸⁷ U.S. Department of State: 2014 Investment Climate Statement.

⁸⁸ Order No. 00011/CAB/MINCOMMERCE of 5 May 2008 determining the list of products and services whose prices and rates are subject to the prior approval procedure.

foreign ownership is allowed), power transmission and distribution (foreign ownership is not allowed), railway freight, domestic air, international air, airport and port operations (49 percent of foreign ownership is allowed), television broadcasting and newspapers (49 percent of foreign ownership is allowed). Meanwhile, the Investment Code of 1990 establishes a requirement of, at least, 35 percent Cameroonian equity ownership for enterprises under the small and medium enterprise regime. This kind of confusion is illustrative for the policy environment and explains the limited readiness of foreign direct investors to enter the market.

144. **Economic actor: market interventions through price controls.** In response to a hike in international food prices, the authorities reinstituted, in 2008, a price control policy initially enacted in 1972 to reduce inflation. In addition, import bans were set to shield local producers from increasing imports of certain products, such as frozen chicken, sugar and cement. In other cases, imports are subject to licenses that are only issued when the Government determines that there is a shortage in the market. These controls suppress market forces and distort an efficient allocation of resources.

145. **There is no clarity on the way price controls are applied.** There is no publicly available list of maximum prices. There are some services whose tariffs have never been approved by the Ministry of Commerce, mainly due to the existence of sector agencies in charge of regulating electricity, ports, and hospitality services. For goods for which a maximum price has been set (for instance in sugar and cement), no specific methodology for calculating the price is published. The maximum price has resulted from discussions between the Ministry and firms operating in the sector. In some cases, firms were granted import permits under the condition that they respect an agreed maximum price. The Ministry of Commerce (which sets the maximum prices) is also in charge of ensuring compliance. Penalties can be up to 50 percent of the realized profit or 5 percent of the sales of the merchandise. In periods with no inflationary pressures, controls are non-binding but still present a business risk and an administrative regulatory burden, especially for supermarkets that are usually the target of inspectors.

146. **While the previous examples illustrate the distortionary and costly impact of the political settlement on the economy, some improvements have been achieved.** The Government introduced, in 2014, tax-related reforms that improved the total tax rate and simplified and accelerated payments. Still, as a rule of thumb, policies are frequently inconsistent, not approved, or when approved not implemented or when implemented not properly executed.

Box 5.2: Patronage and public enterprises and entities

Public enterprises and establishments offer opportunities for patronage. There are 120 such entities in Cameroon⁸⁹ putting the country in the same league with China in terms of state involvement in the economy. First there are the opportunities to allocate favors by appointing staff. The President appoints, for instance, the managing directors of the largest SOEs on the recommendation of the responsible line ministries. In a sample of 33 board chairmen, 66 percent were found to combine this function with a Government function, despite this being against the law; 70 percent are or were members of the Central Committee of the ruling Party. Patronage extends beyond board members. For example, Camair Co, the public airline company employs about 800 staff for a fleet of three aircraft, whereas 70 staff per aircraft is the norm. In addition, each state-owned enterprise has a board that tends to be very well remunerated.

These patronage opportunities are an important reason for the continued and active involvement of the public sector in the economy, despite the fact that the combined losses generated by the sector amounted to more than US\$100 million in 2013, and irrespective of the fact that these enterprises carry a level of debt equivalent to 17 percent of GDP. Below, for instance the remuneration of the board of the Société Immobilière du Cameroun (SIC), a real estate company that lost US\$6 million in 2013.

Table 5.1: Annual of cost board meetings of Société Immobilière du Cameroun

	Unit cost (FCFA)	Quantity	Total cost	Cost in dollar
Monthly allowance for the chair	1,000,000	12	12,000,000	US\$20,168
Annual allowance for the chair	12,000,000	1	12,000,000	US\$20,168
Three-yearly housing allowance	10,000,000	1/3	3,333,333	US\$5,602
Allowance for 12 members per session (2 per year)	300,000	24	7,200,000	US\$12,101
Monthly fuel allowance for 12 members	100,000	144	14,400,000	US\$24,202
Catering (two meetings per year)	300,000	2	600,000	US\$1,008
Annual cost for two board meetings				US\$83,249

Source: World Bank staff 2015.

5.3 A fragmented and inert bureaucracy

147. **The political settlement has led to bureaucratic inertia.** The Government often fails to come to a decision, to stick to its stated policy course or to implement agreed policy decisions. For example, it took 17 years to operationalize the Senate. It was created through an amendment to the constitution in 1996. However, the power to convene the Electoral College and call elections remained with the President, who signed the necessary decree to do so only in 2013. On the other hand some decisions are made swiftly. When a group of soldiers protested in September 2015 the non-payment of their allowances for peace-keeping work done under UN auspices, the issue was resolved within 24 hours. Three reasons for the inertia can be identified: institutional fragmentation; patronage and a low wage policy.⁹⁰

148. **The administration is unusually fragmented.** The bureaucracy is characterized by a large number of line ministries, a large number of cross-sectoral committees and a “shadow cabinet” of

⁸⁹ i.e. 19 Mixt Economy Enterprises; 21 Public Capital Enterprises; 80 Public Administration Establishments; seven Special Public Administration Establishments; approximately 30 companies in which the state has minority interests and which does not fall into any of the above categories.

⁹⁰ World Bank 2004. Cameroon Development Policy Review.

ministerial rank within the Office of the President. One consequence is a plethora of Members of Government: 70 for 36 line ministries. Institutional fragmentation and overlapping responsibilities lead to conflicting decisions, lack of accountability, policy indiscipline and poor cohesiveness. The fragmentation hinders steadfast, consistent and effective actions. It also constitute a major obstacle to cross-supporting or integrated actions, especially in the area of structural reforms and service delivery.⁹¹

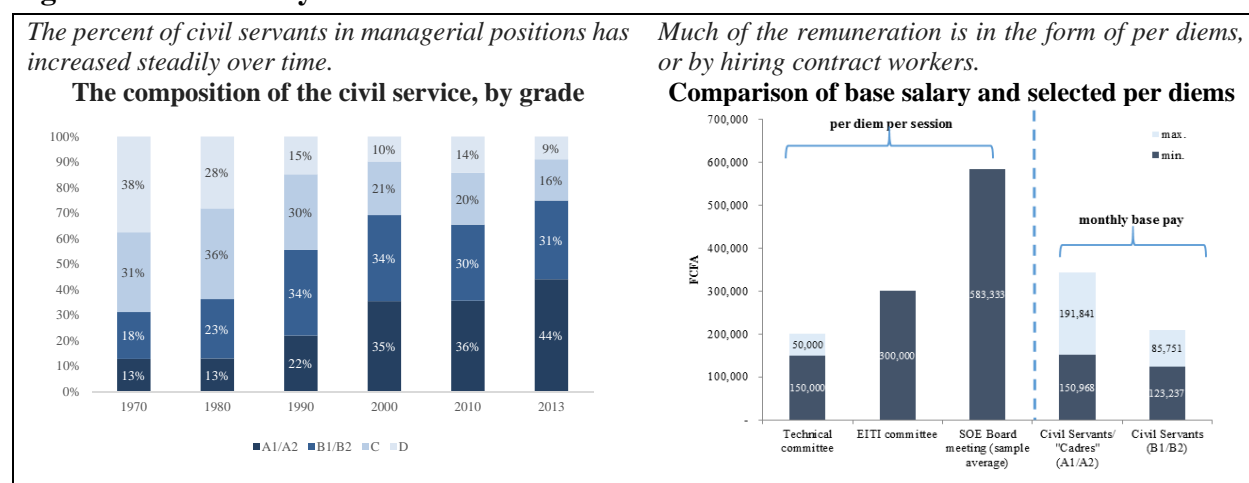
149. **A patronage-based promotion/demotion system contributes to low civil servant morale and ineffectiveness.** Initial personnel decisions are usually merit-based, as most civil servants enter after passing the civil service entry exam, yet favoritism and political patronage in appointments and promotions/demotions are widespread. The regional balance remains important, whether in civil service recruitment or Government reshuffles (*‘un frère remplace un frère’*). Given the general lack of accountable and transparent performance standards and processes, patron-client relationships and personal and factional loyalties permeate the system. In this climate, decision-makers tend to become excessively timid, risk-averse and ultimately self-serving. The outcome is administrative bottlenecks, mismanagement and very slow decision making.

150. **A policy of low wages, disconnected from productivity and responsibilities undermines the emergence of a stable technocracy within the administration.** Low wage levels and a reliance on contract workers reduces incentives for service delivery. Following the economic downturn and devaluation of the early 1990s, civil servant wages were reduced by more than half in real terms, a decline from which they have not recovered. Moreover, in the wake of structural adjustment, many new civil servants, who constitute a third of the work force, often those employed as teachers, have been hired as contract staff, while existing civil servants have been promoted. This has led to a situation in which the number of managerial positions (Grade A) is almost as high as that in technical positions (Grades B and C). Hence, low wages, an inverted salary structure and the high reliance on poorly paid contract workers without clear career prospects, explain low morale and widespread corruption. This is reflected in accounting irregularities and reduced productivity within the administration. For example, many government employees see no fault in insider-trading, “selling” influence, and profiteering from public work contracts. Ultimately, these problems translate into the misappropriation of public funds and the ineffective execution of key programs.

151. **Performance incentives are distorted by a widespread reliance on allowances to top up wages.** The authorities have attempted to respond to the challenge of low wages by creating special assignment committees, which generate significant salary top-ups for their participants (Figure 5.3). This has had the unintended consequence of exacerbating the proliferation of committees. The practice has distorted work incentives within the administration, unduly bloated the institutions of public administrations, and worsened the problem of overlapping of mandates. It also compounded the problems of patronage.

⁹¹ The institutionalized fragmentation may well be intended as it does enable power-sharing between competing elites, under the arbitrage of the Presidency.

Figure 5.3: The salary structure is distorted



Source: INS statistical yearbooks (various years) and World Bank 2015, CEM chapter 4

152. **Frustration about the absence of meritocratic human resources management and the inadequacy of incentives facing civil servants emerged from a perception survey.** The survey, administered in January 2015, with 245 respondents, was randomly distributed amongst civil servants in different grades and categories, and across the administration. It found that 90 percent of respondents felt that the base salary is very low (all respondents requested to reevaluate the salary scale) and 80 percent felt that the criteria for promotion were unclear. Eighty percent of respondents are aware of the indemnities and benefits which they may be entitled to, yet 20 percent are not aware of the allocation criteria. Ninety percent indicated not to benefit from fuel allocations and 99 percent are unaware of the criteria used for their allocation. The survey found a latent desire for professional growth and a greater attention to performance; 43 percent of respondents hope to get professional training and 28 percent support the introduction of merit-based and performance-based evaluations and promotions.

5.4 Public financial management

153. **Major deficiencies exist in public finance management.** Public expenditure tracking surveys consistently showed leakages in the 2009 transfers from central level to frontline provider, in education and health. The 2007 Public Expenditure and Financial Accountability (PEFA) report, the only one to date for Cameroon, shows that deficiencies are substantial. A D-score was attributed to 12 out of the 28 categories, a C-score to nine, a B-score to five and only two categories, namely budget classification and transparency of taxpayer obligations and liabilities, received A-scores.

154. **Some technical improvements have been made, however.** Cameroon passed a PFM Act in 2007 to transition from the traditional, input-based line item budget to a multi-year program-based budget. Starting in 2013, the budget has been approved on a programmatic basis. Progress has also been made in the reliability of the accounts, as evidenced by: (i) the production of a full set of financial statements, including a balance sheet, profit and loss statements, and cash flow

statements, for the first time ever in FY 2012,⁹² and (ii) the elaboration of a new chart of accounts, including accounting instructions.

155. The intended benefits of the reforms have yet to materialize. Despite the move to program budgeting, traditional annual line item budgeting persists in budget execution, due to weaknesses in the upgrade of the newly developed budgeting system (PROBMIS). Moreover, program performance indicators continue to be essentially activity and output-based, with no real foray into outcomes. As a consequence, the benefits and flexibility of multi-year program-budgeting are not leveraged. Improvements in the reliability of accounts are limited by non-compliance with standard budget procedures and the statutory grace period, which is designed to allow for a timely closing of accounting records (*journées complémentaires*). This translates into a significant use of suspense accounts (about 23 percent of transactions in the 2012 and 2013 budget transited through suspense accounts) and the poor comprehensiveness of in-year accounting reports.⁹³

156. Procurement processes are also problematic. Procurement data from 2007 demonstrated how 10 companies won 51 public bids, representing 56 percent of the total contract value going through the public procurement process. An important share of the contracts was awarded through non-competitive bidding: sole sourcing represented 24.7 percent of the total amount of the contract value.⁹⁴ To address weak performance in the areas of budget execution, service delivery, value added by public spending, and widespread corruption in the line ministries, public procurement was assigned to a dedicated new Public Procurement Ministry. The reform has left the Ministry of Public Works (MINTP) responsible for management of most public procurement processes for high value contracts, and with a key role in monitoring of execution and payment. Yet, the legal and institutional framework remains inconsistent and fragmented and capacity is not aligned. This has led to institutional confusion, overlapping mandates, increased inefficiency and delays in the procurement system, affecting the budget execution rate for capital expenditure.

157. The core problems identified in the 2007 PEFA remain unsolved. The execution of line ministries' capital budget remains low (Figure 5.4), with (i) an absence of coherence between procurement plans and commitment plans, and delays in their availability; (ii) duplication of controls in the expenditure chain between financial controllers and accountants, which creates delays in the processing of vouchers with no commensurate improvement in the compliance with rules and regulations; (iii) in-year cash rationing which affects budget execution and results in an increased use of exceptional budget execution procedures (*mises à disposition, dépenses non ordonnancées*) towards the end of the fiscal year.

158. PFM problems extend to the revenue side. Revenue collection by the Customs Administration and Taxation Directorate has improved, but without concomitant improvements in tax payer's experience or dwelling times at the port. To reverse a downward trend of domestic

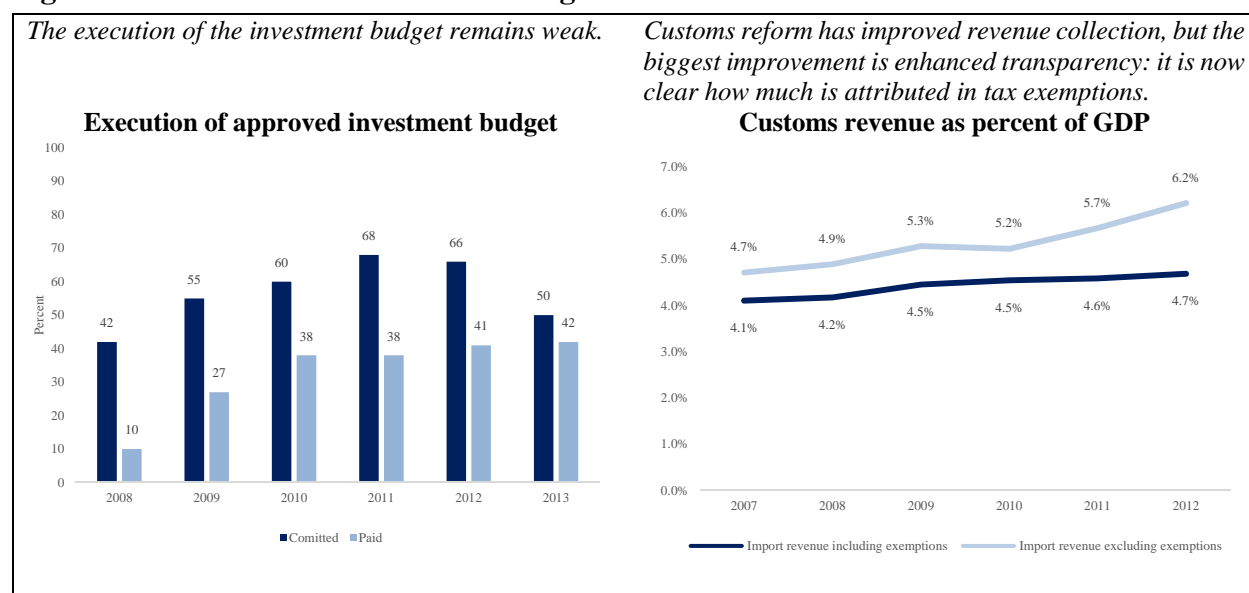
⁹² Financial statements for FY 2013 and FY 2014 were also elaborated.

⁹³ Budget preparation procedures are not always respected either. The 2015 program budget was overhauled at the very last moment to accommodate the President's Emergency Plan for the North. At the start of the 2016 Parliamentary Budget Session, the draft budget had not yet been submitted to Parliament, undermining its ability to scrutinize what it had received for approval.

⁹⁴ World Bank (2010) Cameroon: Fiscal Policy for Growth and Development.

revenue mobilization,⁹⁵ both entities developed strategies and associated action plans. As a consequence, interactions with users reduced the time of customs clearance and improved customs revenue (Figure 5.4). However, tax collection remains one of the worst scoring aspects in the Doing Business indicators. Any positive impact from more efficient customs on the dwelling time in the port of Douala was undone by increased inefficiencies elsewhere. All in all, the main impact of the customs reform has been an increase in transparency, demonstrating clearly how much revenue is foregone by offering tax exemptions.

Figure 5.4: Execution of investment budget and customs revenue



Source: Ministry of Finance 2014.

159. Audit committees lack independence and reach. Cameroon has two supreme audit institutions. Of these, the Audit Chamber has relatively stronger independence from the executive, but its mandate is limited to the judgment of accounts and does not include the actual performance of public spending. The Ministry of State Oversight (CONSUPE) has a broader mandate but reports to the Presidency, which limits its independence. As a consequence, most of its audit reports are not publicly available, or followed up in terms of sanctions. In addition to these weaknesses, the reach of both institutions remains limited: less than 50 percent of the state-owned enterprises are audited every year.

5.5 Conflict and (in)stability

160. Borderland areas in the north and east, already poor and fragile, are particularly affected by insecurity in neighboring countries. With almost 300,000 refugees from Nigeria and CAR, these conflicts have a significant impact on these already impoverished regions, particularly in terms of service provision, social stability and access to livelihoods. The social and economic consequences of insecurity caused by Boko Haram in the Far North region are also far-reaching. Already this was the region with the highest incidence of poverty in the country, subject to greatest climatic variability and the most adverse weather. The economic impact is serious. Trade between

⁹⁵ 2010: 13 percent of GDP, 2011: 10.7 percent of GDP and 2012: 10.5 percent.

localities in the North and with Nigeria, one of the most important markets for products from the Far North, has virtually come to a standstill leading to a sharp economic downturn. This is aggravated by the disruption of public investments and donor activities as the security situation is too dangerous to operate in. Businesses in tourism and construction in the Northern regions are affected directly by the conflict.

161. The insecurity caused by Boko Haram has a destabilizing potential. Boko Haram was founded in 2002 by a charismatic religious leader, Mohammed Yusuf, to oppose the Nigerian secular education and legal system, which according to him was leading Muslims away from the true faith and a pious way of life. This is reflected in the name that the group chose for itself, which in Hausa means “Western Education is a sin”. Initially, Boko Haram was a non-violent movement, which held on to a puritanical view of Islam, propagated the introduction of the Sharia legal code and demonstrated a strong disdain for western institutions which were perceived to support the inequitable political and economic system. Boko Haram members saw themselves at odds with the secular authorities, whom they came to view as representatives of a corrupt, illegitimate, Christian-dominated federal government. Their peaceful approach changed in 2010, after Nigerian security forces killed Yusuf, and violence escalated exponentially. Boko Haram is active in isolated areas, with particularly weak state presence, creating a serious challenge for Cameroon’s security system.⁹⁶ Because of its violent and indiscriminate attacks and the important displacement they generate, Boko Haram has deep impacts on the social fabric and the overall development outcomes of the affected communities. This situation poses a significant risk of deepening existing divisions between the North and South, Christians and Muslims and the center and periphery. High levels of poverty and unemployment, low levels of education, low productivity and lack of economic opportunities particularly for the youth, characteristic of the Far North, provide a breeding ground for recruitment and mobilization of youth by violent organizations. While the bulk of the group’s activity takes place in Nigeria, there are major spillovers in Cameroon. Moreover, Boko Haram may not have started in Cameroon, now that it has spilled over into the country and a situation of widespread violence has emerged, it creates its own self-sustaining vicious cycle of violence and deprivation, with deprivation in turn offering a base for the recruitment of new fighters.

162. In Cameroon, Boko Haram has been perpetrated violent incursions all along the Nigerian border, in the Far North region, including its capital, Maroua.⁹⁷ According to a July 2014 announcement by Cameroon’s Ministry of Defense, Boko Haram, has 15,000-20,000, members but journalistic sources claim that this figure could be as high as 50,000.⁹⁸ As a result of the escalation, the Cameroonian Government has stepped up the efforts against Boko Haram and

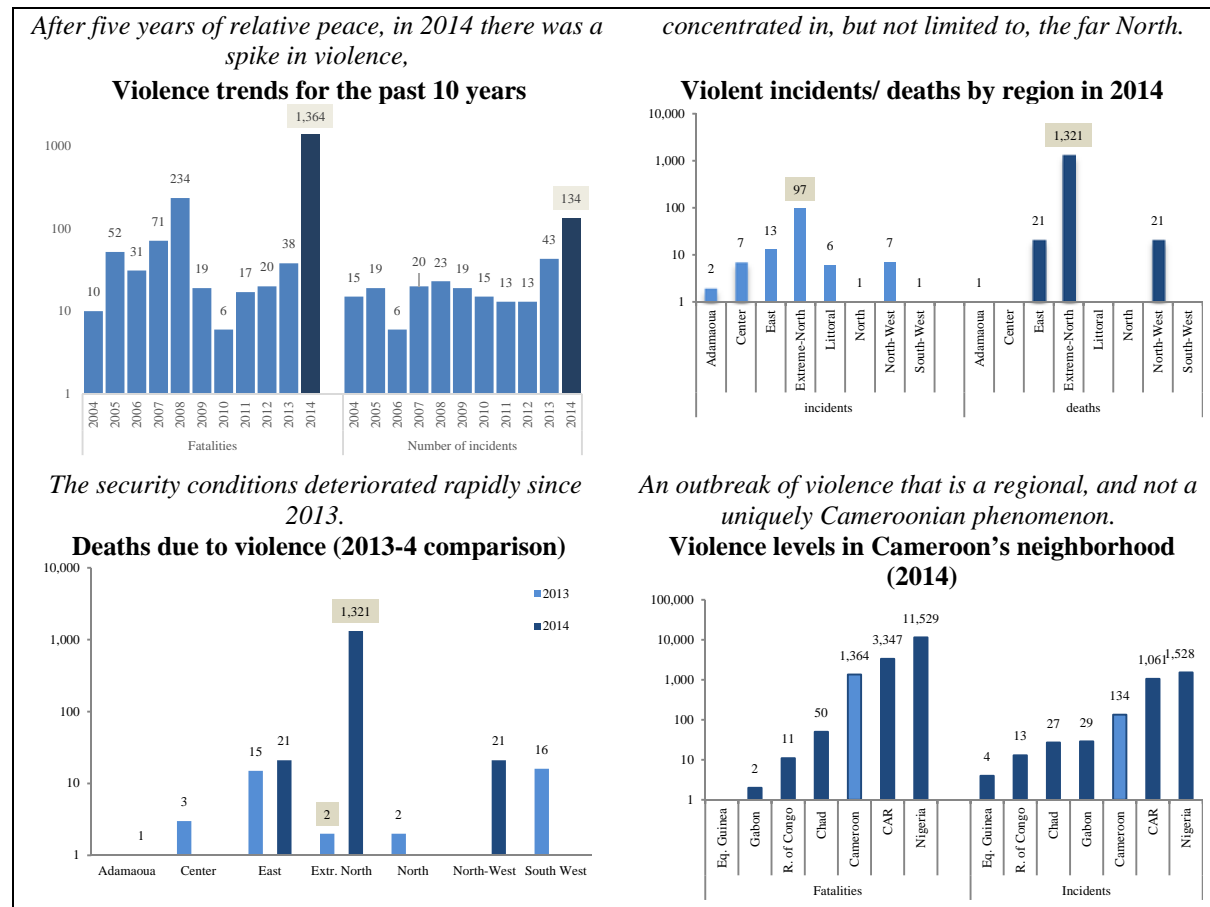
⁹⁶ See Suleiman M.N. and M. A. Karim 2015. Cycle of Bad Governance and Corruption: The Rise of Boko Haram in Nigeria. Sage Open 1-11: doi 10.1177/2158244015576053). Boko Haram is responsible for the deaths of more than 3,500 people, just in 2015 (Amnesty International, “Boko Haram Remains a Deadly Threat in the Region despite Military Advances”, September 2015, <https://www.amnesty.org/en/latest/news/2015/09/boko-haram-remains-a-deadly-threat-in-the-region-despite-military-advances/>).

⁹⁷ According to the International Crisis Group report, in the end of 2013 Boko Haram has sent extortion letters to the authorities of Mayo-Sava, the administrative department where Kolofata is situated, demanding that the Far North authorities impose Sharia law and cease all collaboration with the West.

⁹⁸ Jacob Zenn, “Boko Haram: Recruitment, Financing, and Arms Trafficking in the Lake Chad Region” October 31, 2014, Combating Terrorism Center West Point, <https://www.ctc.usma.edu/posts/boko-haram-recruitment-financing-and-arms-trafficking-in-the-lake-chad-region>.

strengthened its cooperation with Nigeria;⁹⁹ other nations including the US and France also support Cameroon in its fight against Boko Haram.¹⁰⁰ The Government has also launched its “Emergency Plan” which focuses on improving connectivity, productivity and basic service delivery in northern Cameroon.

Figure 5.5: Violence and fragility



Source: ACLED 1997-2014, 2015.

163. Boko Haram tests the stability and unity of the state. Boko Haram activity has brought attention to the disenfranchisement of the population living in the north, to the sub-standard levels of service delivery and poor governance in general. In the short run the security situation has the effect of fostering patriotism and mitigating criticism against the authorities. The trend is confirmed by the improved perception of the Presidency and the Army in Afrobarometer since the violence broke out. But as the conflict lasts (or spreads), or as more resources are allocated to the

⁹⁹ “In May 2013 1,500 troops of its Rapid Battalion Intervention (BIR), Infantry and Motorised Brigade (BIMA) and gendarmerie moved to the northern border. The BIR has an agreement with the Nigerian Joint Task Force that allows each to pursue bandits and criminals across the border for up to 8km” for further information see: International Crisis Group, “Curbing Violence in Nigeria (II): The Boko Haram Insurgency”, Africa Report N°216, 3 April 2014, <http://www.crisisgroup.org/~media/Files/africa/west-africa/nigeria/216-curbing-violence-in-nigeria-ii-the-boko-haram-insurgency.pdf>.

¹⁰⁰ Mark Rivett-Carnac, “The U.S. Is Sending 300 Military Personnel to Cameroon to Help Fight Boko Haram”, Time Magazine, October 15 2014, <http://time.com/4074393/cameroon-boko-haram-us-troops/>.

north this improved perception may not last and could even become another reason for popular discontent.

164. **Internal stresses also affect stability.** Historic grievances rooted in real or perceived identity-based injustices continue to simmer (e.g. Anglophones, Bamilekes, Northerners). Land related conflicts, such as pastorals versus farmers, large scale agriculture versus communities, or displaced and refugees versus indigenous population, could intensify. Also, generational (youth ‘*cadets sociaux*’ versus seniors) or religious issues (Muslims versus Christians; orthodox versus liberal) issues could ignite. This multiplicity of grievances could be harnessed by political entrepreneurs and used either narrowly, leading to society’s fragmentation, or nationally by transcending ethno-regional identities. This is not just a theoretical scenario. In 2008, the rapid rise of food prices combined with a politically tense context following the elimination of the Presidential two-term limit. Violent protests emerged in Douala, Yaoundé and other urban centers. A scenario of unrest becomes increasingly plausible as the spoils of growth are unequally distributed. The urban educated middle class have higher expectations for service delivery. Youth have expectations for jobs and political inclusion, are progressively less influenced by traditional authority, and have lower opportunity costs to violence. All these pose risks to stability and the prevailing political settlement.¹⁰¹

165. **Fragility is reinforced by the weak social contract between citizens and the state.** Even though civil liberties are ensured since 1991, the right to demonstrate is shrinking and access to information necessary to hold politicians and policymakers accountable is, de facto, not provided, leading to little functional oversight of the Government. Grievance redress mechanisms and dialogue are weak,¹⁰² while organized collective action questioning the performance of the state is suppressed. The absence of space for a constructive political contestation or for the venting of social frustration lead to a disengagement of citizens, particularly as the perception takes root that wealth depends on luck and political connections and is no longer associated with talent and hard work. The social contract between citizens and the State is very weak. The State does not deliver services, nor does it rely on broad-based taxation. It relies mostly on a few large formal firms for tax revenue, as well as import/export taxes mostly from timber and the oil sector. Consequently, the state apparatus does not need to be highly responsive to citizens’ needs and a virtuous circle of state-building is not triggered.

166. **The institutions that support the stability of the nation are highly personalized, fragmented and dependent on the President.** This limits their capacity to respond and to accommodate demands of enhanced inclusiveness and efficiency of the political system.¹⁰³ Cameroon is thus experiencing an increasing tension between a society that longs for change, and a system that cannot accommodate this desire without perturbing the delicate equilibrium upon which the unity of the nation rests. The taboo of political transition – even though inevitable – adds a layer of risk, given the President’s age and the electoral calendar. Already, the pending uncertainty erodes trust between different elite factions needed to negotiate and secure the overall

¹⁰¹ Afrobarometer data demonstrate that overall perceptions of the Government are low (at the exception of the Presidency and the Army). Specifically urban populations tend to have lower perceptions of the system compared to rural populations, despite urban lower poverty and higher access to services.

¹⁰² See for instance International Crisis Group 2015. La menace du radicalisme religieux. Rapport Afrique no. 229.

¹⁰³ See also International Crisis Group 2010. Cameroon: Fragile State? Report no 160.

political coalition, and leads business people to postpone investments. If a power vacuum does happen, internal and external stresses could undermine the existing equilibrium and throw the country into chaos.

5.6 Opportunities and constraints to improving governance

167. **Generally speaking, the scope for governance improvements in a limited access order is limited.** A mistake that is often made is to introduce institutions from open access orders (typically the Organisation for Economic Co-operation and Development -OECD- countries) into limited access orders (typically developing countries). As a consequence, anti-corruption agencies, business environment initiatives and even democracy are introduced, but often with disappointing results. This is unsurprising, as it is not clear why the ruling elite would allow its power to be undermined.¹⁰⁴ Institutions only assimilate their OECD counterparts in form and not in function (isomorphic mimicry, as coined by Lant Pritchett).

168. **There are many areas where reform could improve performance significantly, but which are nonetheless unlikely to succeed.** For example as a market regulator *the Commission Nationale de la Concurrence* (CNC) controls and sanctions anti-competitive behavior by state enterprises. The legislation guiding CNC is in accordance with best practices, but its actions have little impact because CNC faces serious human and financial resource constraints. Other regulators dealing with sectors with natural monopolies – such as telecom, rail, energy, air, and port – also perform poorly, as funding is inadequate and their independence and neutrality are not guaranteed. While the importance of regulatory agencies is undisputed, addressing these shortcomings is extremely difficult, because doing so would negatively affect core elite interests.

169. **What holds for the regulators also holds for changes in the business environment: reforms are critical but unlikely to materialize.** The authorities have passed legislation for a number of reforms to improve the ease of doing of business, but implementation has been partial, slow and largely unmonitored. As reform has been slow, the business environment worsened and Cameroon dropped even further on the Doing Business Index between 2014 and 2015. Many state-owned companies generate negative value added (i.e. Cameroon would be better off if these companies did not produce anything) and absorb large state subsidies. Nonetheless, there is no strategic vision regarding the costs and benefits of direct State participation in the economy and regarding ways of handling companies that impoverish the nation. Similarly, the costs and benefits of direct interventions in markets are not systematically assessed.

170. **This does not mean nothing can be achieved.** Long-awaited large infrastructure projects are now well advanced (Lom Pangar dam, Kribi power station, Kribi deep sea port, Douala-N'djamena-Bangui corridors, Wouri Bridge, etc.) and a second generation of *Grandes Réalisations* is under preparation. The execution of these first and second generation transformational infrastructure projects, is one of the highest priorities of the Presidency. The new PFM Act and the 2012 procurement system reforms have laid the ground for structural change, related to public finance and human resource management. Lastly, the ongoing deployment of an integrated

¹⁰⁴ In a limited access order, elections are rarely free and fair and anti-corruption agencies typically become places of corruption themselves, as well as vehicles to deal with political enemies (*viz.* operation “*Epervier*”).

HR/Payroll system (SIGIPES II) is expected to create more transparency in the personnel file, and control over the wage bill.

171. Fear of instability and a constricted fiscal space may provide incentives for reform. High levels of violence in northern Cameroon put the legitimacy of the state at risk, but also offer an opportunity to bring to the fore the need for poverty reduction. The reduction in oil revenue and the rapid deterioration of the country's debt status may increase the interest to identify alternatives for revenue generation- including from a vibrant private sector- and create an appetite for reforms in Public Financial Management. Public Financial Management reforms may also improve the legitimacy of the state by increasing transparency, accountability, and efficiency.

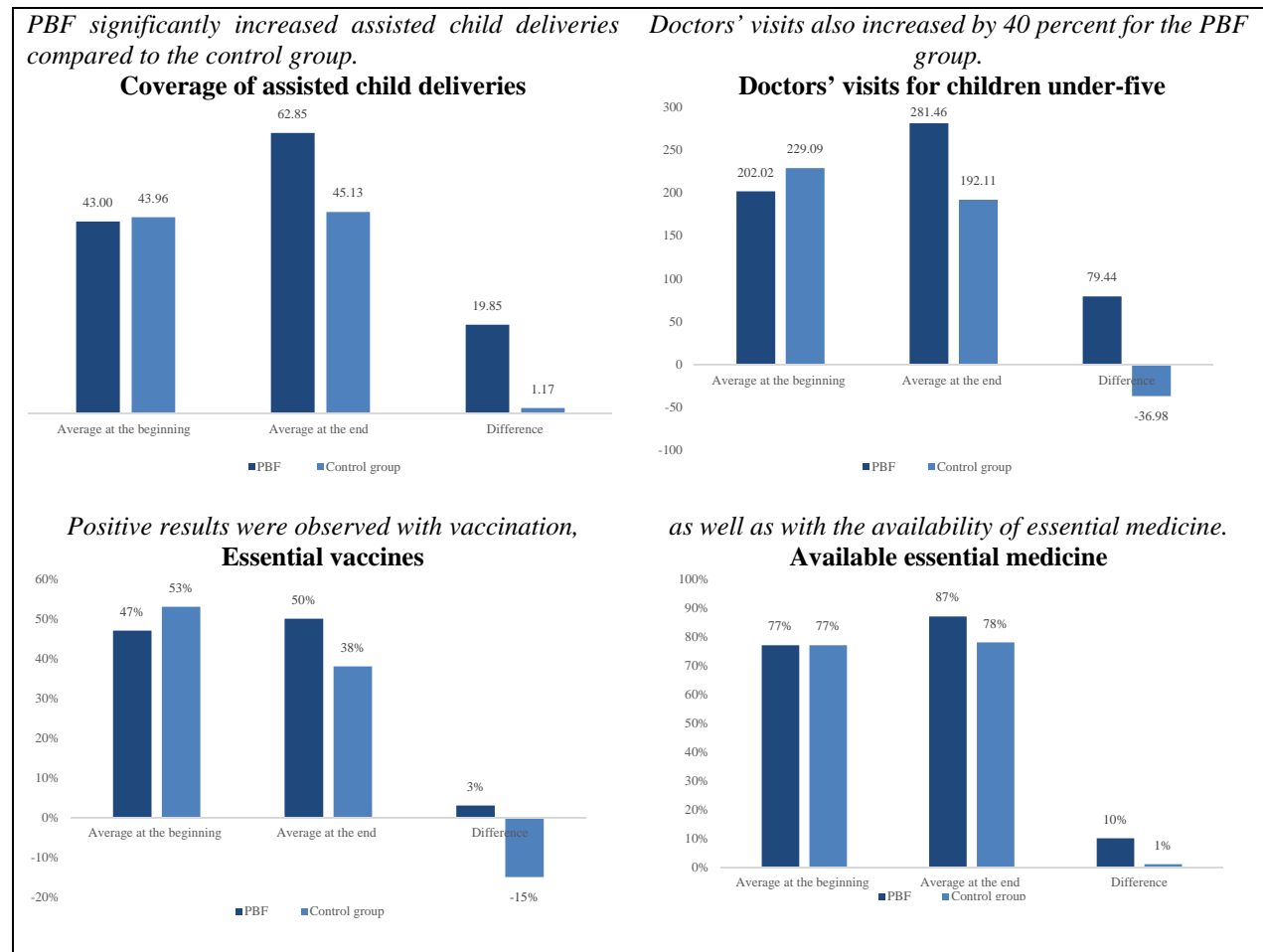
172. Reforms in the health sector suggest that bottom-up successes can be achieved. The pilot project of Performance Based Financing (PBF) in the health sector has shifted health financing from centralized and input-based financing to financing based on performance. As a consequence, service delivery outcomes have improved significantly. The PBF project provides performance bonuses, based on the quantity and quality of health services provided. Results are verified and users' feedback¹⁰⁵ is integrated in the performance assessment, which dictate the levels of bonuses provided. In addition, through contractual arrangements, health facilities are granted greater management autonomy in return, i.e. allowing them to make local decisions on how to use PBF revenue to improve service delivery and motivate their health personnel. Four years into the project, both the utilization and quality of health services have improved, as has the internal human resource management through the introduction of transparent performance assessments of individual staff.¹⁰⁶

173. Cameroon has institutionalized an innovative procedure to allow citizens' budget oversight over the capital budget. Since 2006, multi-stakeholders committees exist at the local level in which citizens (through civil society) and mayors are invited to review quarterly, the physical and financial execution of the Public Investment Budget. The quality of information, with regards to physical execution, greatly improved as a result of this, both at local and national level, enhancing the efficiency of the Control Brigade and reducing the number of ghost projects. It also contributed to improvements in investment execution. Finally, in districts where Civil Society Organizations (CSOs) were actively engaged in monitoring, not only the execution rate, but also the quality of execution improved.

¹⁰⁵ Measured through patient satisfaction and perceived quality of care.

¹⁰⁶ Results of the program are published on a quarterly basis and can be found at www.fbrcameroun.org.

Figure 5.6: Performance based financing (PBF) in the Cameroon's health sector 2012-2015



Source: World Bank 2015.

6. POVERTY REDUCTION OPPORTUNITIES AND CONSTRAINTS

Achieving the twin goals is feasible with a pro-poor growth strategy. To unlock growth and boost poverty reduction, three areas of binding constraints will need to be addressed: (i) low rural productivity; (ii) a non-conducive business environment, and (iii) fragility and poor governance. Within each of these areas, concrete policy actions have been identified and prioritized.

6.1 Pathways to achieving the twin goals by 2030

174. **The typical pattern of growth and poverty reduction starts with growth in the rural sector.**¹⁰⁷ In this ‘classical’ transformation process agricultural (and livestock) sector output grows by expanding the area under cultivation and through productivity gains, powered by the adoption of new technologies, such as improved varieties and techniques or irrigation. As the share of food consumers relative to food producers grows through urbanization, markets become more important, the non-farm and agribusiness sectors grow and the food value chain and rural-urban linkages are strengthened. As incomes grow, second order effects are likely to emerge. The stock of human and physical capital increases as households invest part of their increased incomes. This leads to further productivity gains, and to migration of now better-educated people to urban areas, which supports the realization of positive agglomeration effects. It also leads to demographic transition, in part because women marry later.

175. **Countries can also leapfrog agricultural development and seek labor intensive industrialization through import substitution.** To do so countries can use protective tariffs, promote export-oriented industrialization using targeted firm-level subsidies, or embrace open-economy industrialization inviting foreign direct investments in domestic industry.

176. **In the short run opportunities for rapid industrialization are limited.** A colonial history, in which Cameroon was exposed to the worst form of predatory capitalism, and a political settlement that requires the careful balancing of many interests, have contributed to an environment in which the state, as opposed to the market is seen as the trusted partner for economic progress. It has brought peace and stability but at the cost of a distorted business environment with many exclusive rights (import licenses, monopolies), a direct involvement of the state in many economic activities, a regulatory environment that is hostile to doing business and high cost of doing business as a result of poor infrastructure. As a consequence the scope for leapfrogging is constrained.

177. **A low ranking on the economic complexity index also makes the economic environment less ready for rapid industrialization in the short run.** A low ranking on the economic complexity index¹⁰⁸ reflects that the economy is mostly capable of producing basic products. The knowledge needed for rapid export promotion or import substitution is largely absent and will need to be built over time. The limited size of the economy (reducing scope for specialization) is another constraint to a poverty reduction strategy rooted in rapid, labor intensive

¹⁰⁷ See Chenery H. and L. Taylor (1968). Development Patterns: Among Countries and Over Time. *Review of Economics and Statistics* 50(3): 391-416.

¹⁰⁸ MIT, 2014. Observatory of Economic Complexity.

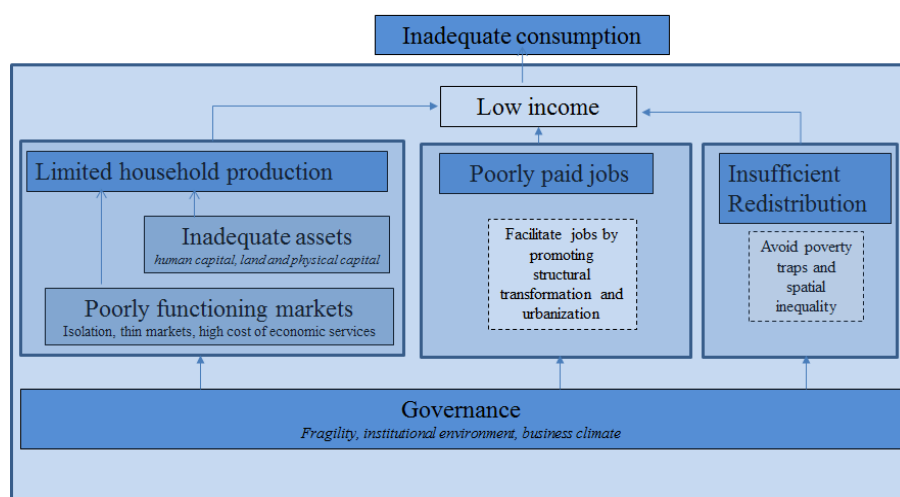
industrialization. This leaves ‘classical transformation’ as the more viable route to poverty reduction in the short run. As economic governance improves, export-led rapid industrialization may become a viable strategy in the medium to long run.

178. **The adoption of new technologies and the development of new, irrigated areas are sources of agricultural growth with immediate positive consequences for poverty reduction.** Different groups of poor people can be expected to benefit from increases in agricultural productivity. Poor farmers will benefit from higher incomes brought about by productivity gains while non-farmers in rural areas benefit from spill-over gains. When increased agricultural productivity leads to increases in food production, lower food prices will benefit the urban poor and net food buyers in rural areas, often the poorest.. This is not inconsequential. High transportation costs make food an imperfectly tradeable commodity. An important transmission mechanism from agricultural productivity to aggregate growth is through the price of food, as it allows sustaining lower labor costs in the rest of the economy.¹⁰⁹

179. **Agriculture, livestock management and agro-forestry are not only sectors in which the majority of the poor are engaged, they are also sectors of competitive advantage.** This is based on three observations. The first is that Cameroon has factor endowments rich in unskilled and semi-skilled labor and natural resources. Cameroon has a unique bio-diversity and is the custodian of global public goods such as the rainforest in the Congo Basin. Only 29 percent of arable land is cultivated, and below 3 percent of irrigable land is irrigated. It thus has a comparative advantage in primary products, agriculture, environment and mining. The second is that high indirect costs on doing business are less limiting on agriculture, pastoralism and agro-industry than they are on more sophisticated manufacturing or high-tech, tradeable services. The third is that Cameroon does not meet the internal nor regional demand for cereals, meat and animal products and the agricultural trade balance is negative.

Figure 6.1: Analytical framework

Problem: high levels of poverty



¹⁰⁹ De Janvry, A. and E. Sadoulet. Agriculture for Development in Africa: Business as Usual or New Departures. *Journal of African Economies* vol.19. AERC supplement 2: ii7-ii39. Doi:10.1093/jae/ejp028.

180. **The various pathways to poverty reduction in a ‘classical’ economic transformation are presented in the analytical framework summarized in Figure 6.1.** It brings to light the core pathways to poverty reduction and demonstrates that to reduce poverty, the budget constraint of poor households needs to be pushed outward, or, while keeping incomes constant, food prices need to be reduced, as food represents a large fraction of poor households’ consumption. The pathways to shifting the budget constraint outwards are by increasing the productivity of self-employed households, by increasing opportunities for wage labor, or through redistribution of income from the better off to the poor. They are discussed in greater detail below.

i. Improving household production

181. **Chapter 2 demonstrated that the vast majority of poor households are self-employed, either in agriculture or in the informal sector,** while relatively few people are engaged as wage laborers. Increasing household income by increasing productivity of these self-employed is one important pathway to poverty reduction in the short run.

182. **Improving the functioning of value chains for staple food crops is particularly important for poverty reduction.** Poor households spend a larger share of their budget on food than non-poor households do. Moreover households in the two poorest wealth quintiles ‘specialize’ in the cultivation of food crops like maize, millet, sorghum, yams, banana, cassava, and beans. These crops are also the staple foods for the poorest households, implying that improvements in production and commercialization for these crops would have the double benefit of increasing farm incomes and reducing food prices for the urban poor who rely on food purchases. Many rural poor will benefit from lower food prices as many are net food purchasers. Good results are already being achieved by linking farmer cooperatives producing millet and sorghum with large industrial enterprises like Guinness. The value chain for milk similarly offers great opportunities, as does the value chain for poultry, meat, eggs or chickenfeed.

Box 6.1: Sustainable forest products

Cameroon is the custodian of considerable global public goods in the form of a rich but disappearing biodiversity. The Congo basin rainforest is the second largest after the Amazon. The forest’s significance for biodiversity, the environment as well as global world heritage is enormous. The 22 million hectares that constitute the country’s tropical forest, are the habitat of over 9,000 plant species, 910 bird species and 320 mammal species. It is also the home of indigenous peoples, like the Baka pygmies and other forest communities.

Since the forest covers around 40 percent of the country’s available land area, sustainable forest management is vital. Forest exploitation, some of which is sustainable but a lot of which is predatory, as well as mining, and large scale agriculture, all compete in the neighborhoods of protected areas. Providing up to 13,000 formal and perhaps 150,000 informal jobs, the forest sector is an important employer and the second largest source of export revenue. Nonetheless, despite efforts to promote sustainable forest management, 3,300,000 ha of Cameroon’s forests have been cleared since 1990, representing an area approximately the size of Belgium. This has an important impact on the environment, as deforestation is the second most significant cause of global warming. The loss can also be felt at the household level, since the forest directly provides about 8 million rural and poor Cameroonians with traditional medicines, important complements to the staple diet, domestic energy, construction materials and a source of income.

Forest exploitation needs to be realized in a more sustainable manner with the aim of capturing as great a share of the profit produced by the raw materials as possible. For instance, rough timber constitutes 4.1 percent of Cameroon’s exports. Yet, rough timber only fetches US\$50 per m3 while sawn timber fetches US\$125 per m3,

indicating lost added value when exporting the rough product. Additionally, the value of timber has dominated perceptions of the forest's value, but this is not fully accurate. The total value of forest products for which trade statistics or estimates exist—timber, charcoal, okok leaves (*Gnetum* spp.), gum arabic, and *Prunus africana* bark—is about US\$580 million. Of this, US\$120 million is derived from products other than timber. Yet many non-timber forest products are not formally traded, and their overall value has not been quantified. The value of domestic energy alone is US\$130 million, however, and if bush meat, fruit, thatching, and medicinal plants are considered along with the value of biodiversity conservation and environmental services, the total value of non-timber forest products will well exceed that of traditional products.

Timber and non-timber forest products, alike, are subject to illegal exploitation, and the consequences can be just as socially and environmentally devastating. Facilitating sustainable development of these resources through strong land use management and regulation, while also protecting the biodiversity and mitigating the contributions to climate change, are a priority for Cameroon, even if the direct or immediately contribution to poverty reduction is limited.

183. There is significant potential for the (domestic and regional) markets to absorb increased food production. Already the demand for food stuffs in Cameroon exceeds supply as evidenced by the large amount of food that is imported (see chapter 4). Also the high levels of chronic malnutrition –particularly in the north of the country, point in the direction of an unmet demand for food. Moreover, there is a large demand for food in the region. Nigeria is a huge market and rice, maize and onions already find their way to markets in Nigeria, but also in Gabon and the Democratic Republic of Congo. But even domestically the demand for food will rise rapidly due to an annual population growth rate of 2.8 percent and increased urbanization. However, the formation of a middle class will be accompanied by the demand for food products with a high income elasticity such as rice, milk and milk products, eggs and meat.

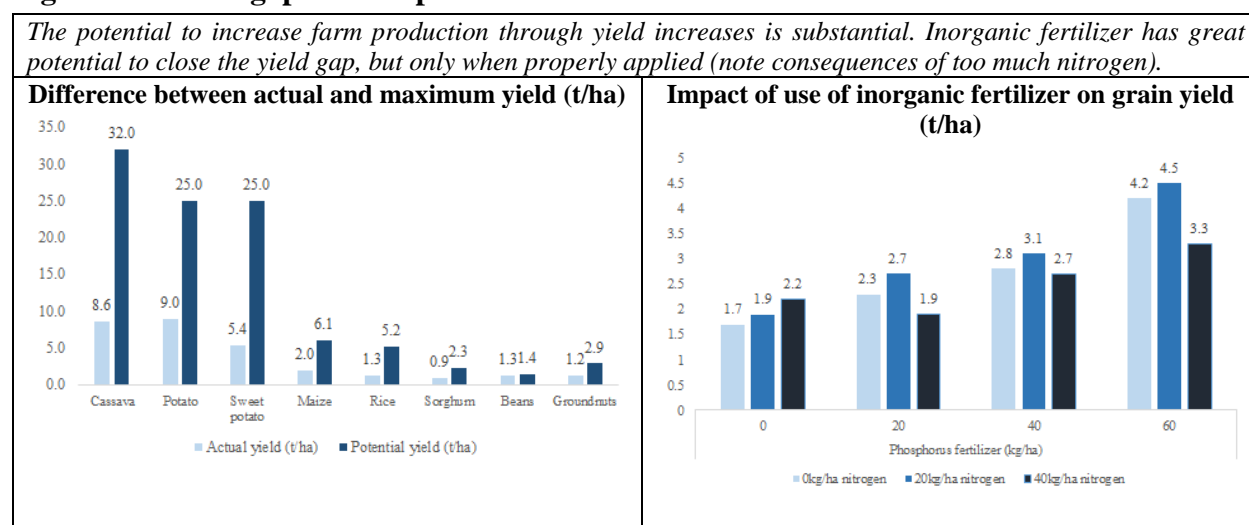
184. In some zones, area expansion offers a means to increasing smallholder production. In the low density areas, in the forest zone with a unimodal rainfall and in the High Guinea Savanah, there is scope to increase production by bringing virgin land under cultivation¹¹⁰ – arable lands currently account for only 64 percent of the agricultural lands, which represent only 21 percent of the country area. Doing so would require enhanced mechanization because low population density is associated with labor constraints. It would also require better land use planning as currently rights given to mining, agriculture, grazing or forestry create overlapping claims resulting in conflicts.

185. The presence of significant yield gaps for the most popular crops suggests scope for productivity increases. Assessing actual crop yields against maximum attainable levels offers important insights into the performance of agriculture and the potential for yield growth and expected productivity gains from agricultural investments and policies, including land and water resources management. The yield gap for Cameroon is substantial.¹¹¹ The largest differences are for sweet potato, rice and cassava, with yield gaps of 78, 75 and 73 percent. Sorghum, maize and potatoes also have sizeable yield gaps of respectively 63, 67 and 64 percent.

¹¹⁰ From an environmental sustainability perspective, this is not a very attractive option and where feasible preference should be given to increasing productivity and improving degraded land.

¹¹¹ See Yengoh, Genesis T. and Jonas Ardö 2013. Crop Yield Gaps in Cameroon. *Ambio* vol. 43:175-190/ doi: 10.1007/s13280-013-0428-0)

Figure 6.2: Yield gaps and impact of fertilizer



Source: Yengoh, Genesis T. and Jonas Ardö 2013.

186. **A multitude of factors constrain yields.** Declining soil fertility, climate change, limited and inadequate use of fertilizer, limited adoption of high yielding varieties and the lack of application of improved farming techniques are among the core reasons for constrained yields. Techniques and approaches to address these constraints exist.¹¹² Cameroon is blessed with a multitude of high quality agricultural research institutions. Unfortunately, the adoption of improved practices remains limited, as evidenced by the size of the yield gaps.

187. **Solutions to address these constraints vary by location.** Agriculture is location specific and what constrains production in one area, does not necessarily constrain it in another. What works in one location, does not necessarily work somewhere else because micro-climates are different, cultural habits, gender roles and tastes vary or because the availability of inputs differs. Yields can be substantially improved if interventions are provided in carefully designed packages that address constraints for particular crops under specific local or regional conditions. Experiential approaches to learning have proved to be effective at successfully introducing new techniques, but they require significant upfront investments in training ‘master’ farmers, who demonstrate new techniques to their peers. They also require adaptability, since what is offered, in terms of improvements, varies between locations.

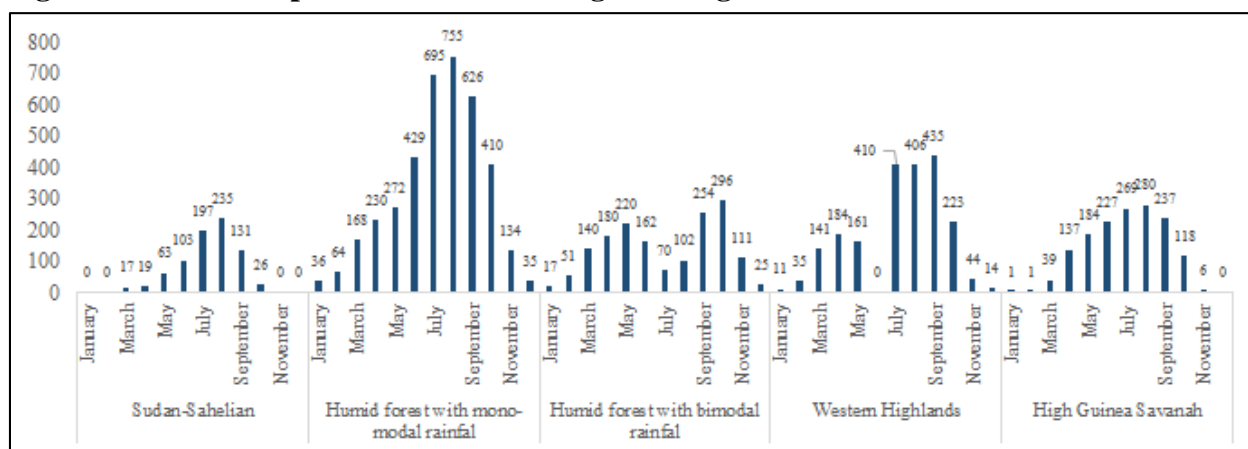
188. **One factor specific to the Sudano-Sahelian and to the High Guinea Savanah (where the majority of the poor live) is that the growing season under rain-fed farming is short (Figure 6.3). Improved water storage, water harvesting, and irrigation are critical to improving farm production.** Improved water management reduces dependence on rains, enhances the ability to withstand climatic shocks and is commensurate with a strategy whereby the production of staples is promoted in rain-fed systems and production of high value cereals (e.g. rice), horticultural crops, and industrial crops in irrigated systems.¹¹³ Other strategies well suited for this zone include improved animal husbandry (pastoralism but also small ruminants and poultry owned frequently by the poor) and an improved integration of animal husbandry and crop farming,

¹¹² Consultations with IITA September 2015.

¹¹³ World Bank 2015. Drylands Report.

a combination that remains largely unexploited even though there exist mutually beneficial opportunities for animal feeding and fertilizing the soil.

Figure 6. 3: Rainfall patterns in different agro-ecological zones



Source: <http://www.cameroon.climatemps.com/>.

189. Poor market access affects agricultural production but more roads are not always the most efficient solution. In the absence of access to the market, to buy inputs or to sell one's surplus, opportunities for production increases are limited. Improved market access requires infrastructure, but this alone is insufficient. This is because farmers who produce limited surpluses do not generate a large demand for transport services and infrastructure to be connected to markets. Improving the road would reduce transport cost a bit, but probably not enough to attract additional traders. Instead, better market integration of rural households depends on a differentiated mix between investments in infrastructure, aggregation at the village level (through collaboration between farmers), improved access to (price) information, storage and support for trading services with quality standards and traceability.¹¹⁴ Improved access to credit to allow small traders and farmers (or farmers' associations) to purchase motorcycles or tricycle are another way to improve access in rural areas.

Box 6. 2: Improving smallholder production

Considerable differences in yield output exist among individual small holder farmers. A paper prepared by Yengoh (2012) investigates what might explain these differences. Data were gathered on various aspects of farmers' agricultural activities: use of inorganic fertilizers, animal droppings, compost, improved seeds and their associated problems and challenges; the role of factors such as gender, age and education in the choices of crops cultivated, sizes of farms, access to farm inputs, overall farm management and yields; factors affecting farm management practices such as intercropping, farm residue management, farm clearing and choices of crops cultivated; and the yield of maize (in tons per hectare) for individual farmers. The influence of biophysical factors was controlled by sampling farmers within the same environment.

The analysis distinguishes three clusters of factors with which food crop yield differences can be associated: the input, management and socio-cultural clusters. In the input cluster, the use of basic inputs such as animal droppings and improved seeds do significantly improve yields. However, there are constraints at farm and household levels that may have to be overcome to optimize the availability and use of these inputs. In the farm management cluster,

¹¹⁴ See also Supee Teravaninthorn and Gael Raballand 2009. Transport Prices and Costs in Africa. A review of the international corridors (Washington DC.:The World Bank).

the method of residue management and the control of pests and crop diseases are important in determining yield differences. Issues of gender rights and access to agricultural production resources dominate socio-cultural clusters.

The main conclusion from the paper is that small investments that are properly targeted to improve basic techniques of farming can make an appreciable difference in food crop yields and food security at the local level. Investments in services, such as extension, may contribute significantly to propagate the use of some technologies such as composting, residue management and manure use. Others technologies such as advanced seed development and improvement, and the production of inorganic fertilizers, would need to be addressed at higher policy levels.

Women are found to play an indispensable role in smallholder production. Addressing constraints to their access to production resources, whether of a physical, financial, cultural or legal nature, is found to be a vital step towards sustainably improving production levels.

Source: Yengoh, Genesis 2012. Determinants of yield differences in small scale food crop farming systems in Cameroon. *Agriculture and Food Security* vol. 1(19).

190. **Cotton is a non-food crop that is nevertheless important to poor households.** Cotton is almost exclusively found in Adamawa, North and Far North, where it is a popular crop grown by 25-40 percent of all households. Cotton is a labor intensive crop and when poor farmers do not grow cotton themselves, they often work on cotton farms as wage laborers. The sector is led by a parastatal enterprise, SODECOTON, founded in 1974. The company has a mandate to purchase all seed cotton grown in Cameroon at a fixed price which gives the company a monopoly on both purchasing and processing of seed cotton. SODECOTON sets the initial producer price in consultation with the cotton farmer union (OPCC) and in profitable years can add a bonus premium at the season's end, which is deposited into an account of the union of cotton producers. Cotton farmers are organized in associations (some 1900 in all) which are member of the union.

191. **The integrated value chain of the cotton sector brings many advantages to farmers but the sector is in financial distress.** Farmers have access to inputs on credit, to be repaid when the cotton is sold and benefit from guaranteed prices and marketing. In a context where public extension services are weak, farmers also benefit from extension offered by SODECOTON. Farmer associations form groups of two or three in order to recruit and pay for their own extension staff. As such, cotton is key to livelihoods in the poorest regions. Unfortunately the sector is challenged by a precarious financial situation (30-35 percent of farmers have not been paid for last year's harvest) caused by poor management and the isolation of the northern part of the country which adds cost and marketing delays.

Figure 6.4: Sources of income by wealth quintile and agro-ecological zone

A key distinction between the poorest and wealthiest households is not that wealthier households derive more income from agriculture but that the poorest households depend on wage labor to make ends meet (i.e. they are unable to earn a sufficient amount from farming alone). Unlike poor households, better off households have access to non-farm income sources and transfers, mostly from other households residing within the country.



Source: ECAM4 2014.

Box 6. 3: Rain-fed or irrigated agriculture: small reductions in poverty for many, or large reductions for few

In seeking to improve the productivity, stability, and sustainability of drylands' agriculture, policy makers face a fundamental question: Should attention be focused on improving rain-fed production systems, expanding irrigated production systems, or both?

Currently, more than 90 percent of the staples produced and consumed in sub-Saharan Africa is produced in rain-fed systems, and only 5 percent is produced under irrigation. Using realistic assumptions about future area expansion and yield growth, FAO projects that rain-fed agriculture can continue to meet 90 percent of incremental demand for decades to come. Noting that investment in irrigation is economically justifiable only when irrigation facilities can be used to produce high-value cash crops, FAO projects that even by 2050, irrigated production is unlikely to contribute more than 10 percent of staples production.

The FAO vision, which is shared by many analysts, suggests that African policy makers and development partners should follow a strategy of promoting production of cereals and grain legumes in drylands, and rice and horticultural crops in irrigated zones. Investments should be tailored accordingly. In zones deemed unfavorable for irrigation, efforts should focus on promoting adoption of improved technologies that can improve productivity and stabilize production of rain-fed agriculture, with an emphasis on reducing risk and increasing resilience among vulnerable households. In zones deemed favorable for irrigation, efforts should focus on developing irrigation and promoting production of high-value crops, with an emphasis on increasing revenues, improving food security, and reducing poverty.

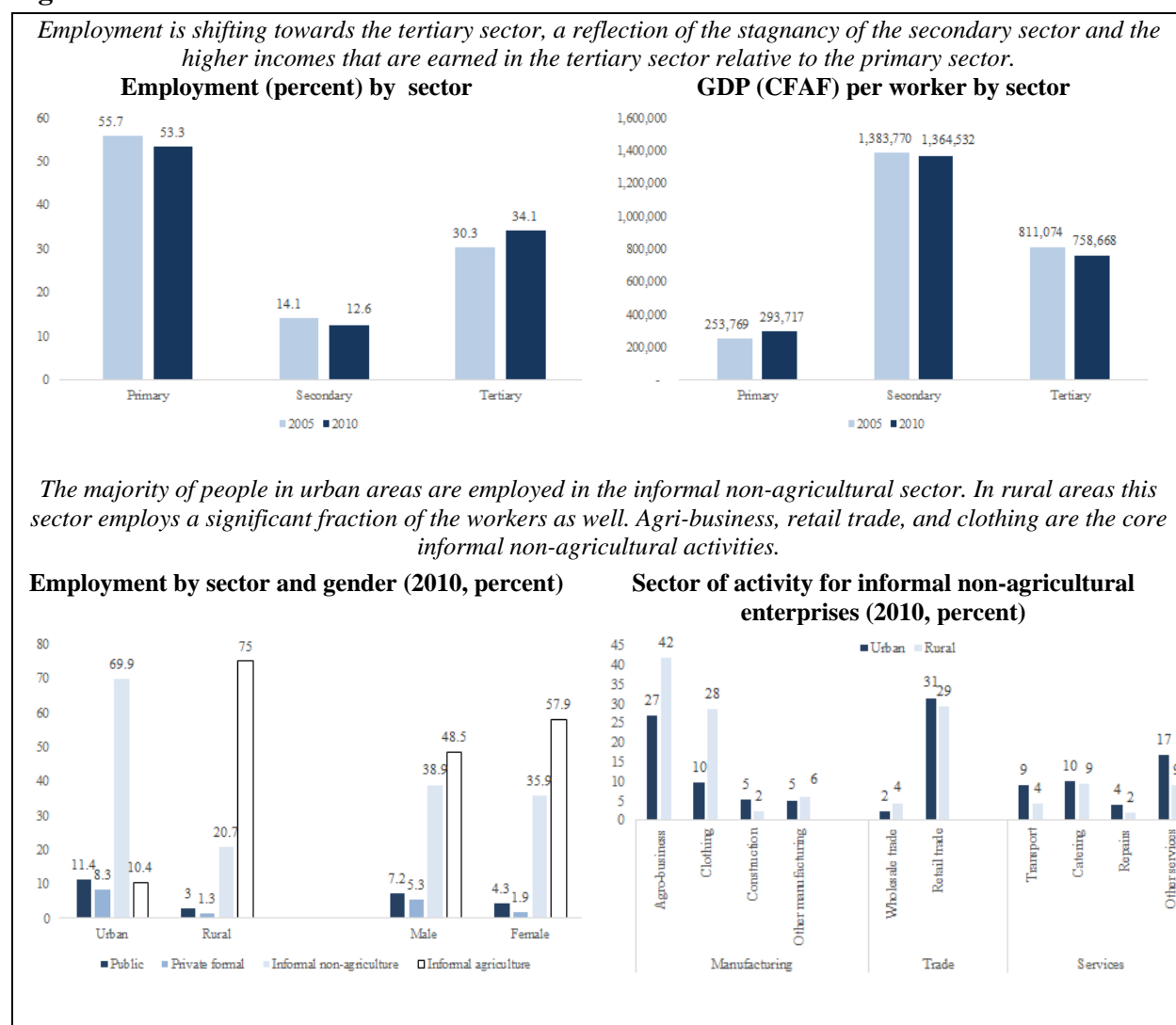
Deciding an appropriate balance between these two complementary objectives will not be easy. From a public policy perspective, given a fixed amount of resources, there is a clear trade-off between investing in small improvements for the large number of households that engage in rain-fed production in the drylands, and investing in large improvements for the relatively small number of households that could take advantage of irrigation technology. Investments that target rain-fed production systems will not promote highly visible results, but because they can benefit so many households, they have the potential to improve the livelihoods and increase the resilience of the large majority of the population. The policy choice thus pits small reductions in poverty for the many against large reductions in poverty for the few. And given the vast discrepancy in the numbers of households falling into each category, as well as the high cost of irrigation development, targeting drylands agriculture is likely to be the better choice.

Source: World Bank 2015: Confronting drought in Africa's drylands: opportunities for enhancing resilience.

Creating (informal sector) jobs through urbanization and structural transformation

192. **In the present economic environment growth is brought about by increases in human and physical capital and less by increases in total factor productivity.** To the degree that there are increases in total factor productivity, it is less due to economic innovation (Cameroon scores very low on this) and more due to labor shifting from the unproductive primary sector, where underemployment is a major issue, to urban areas and the tertiary sector where underemployment is less an issue. One immediate benefit from moving to urban areas is that one can be productive year round. In rural areas, and certainly in the northern parts of the country this is much more difficult, particularly for farmers depending on rain-fed agriculture. This is reflected in the value added per worker for someone self-employed in agriculture and self-employed in the urban informal sector. It is more than double for those in the urban informal sector (FCFA 300,000 versus FCFA 750,000, see also Figure 6.5).

Figure 6.5: Labor characteristics



Source: INS, ISEE 2005 & 2010; INS, Statistical Yearbook; staff calculations.

193. **The shift out of agriculture towards the urban (informal) sector is likely to continue.** Since 2000, the service sector has been the main contributor to growth. The sector expanded by more than five per cent in 2013, with transport, communications, and financial services being the most dynamic. At the same time exports per capita have been steadily declining which suggests that the increasing share of the services sector comes mainly from non-tradable services and informal activities. Continued urbanization is thus an essential element of a poverty reduction strategy. The process is relatively slow, but over time, urbanization can significantly contribute to poverty reduction, even when the immediate effect may be a displacement of poverty from rural areas to urban slums.

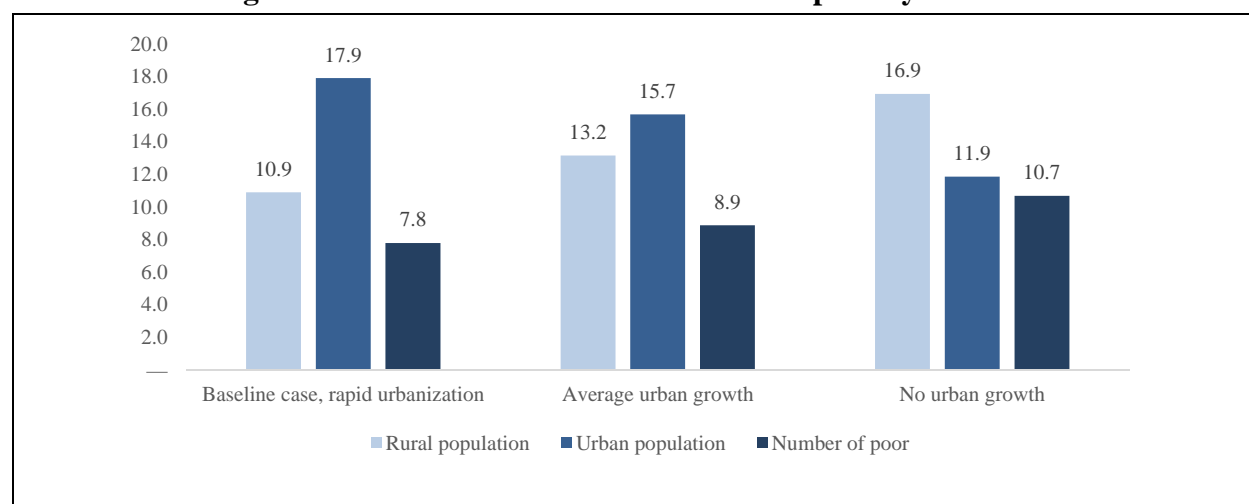
194. **Investments in health and education will help the poor to migrate successfully.** Better educated, healthier people are not only more likely to be more productive in rural areas, they are also more likely to migrate successfully and end up as a non-poor person in an urban area. Investing

in human capital, particularly in areas like northern Cameroon which are currently deprived of many education and health services, is an important element of a poverty reduction strategy.

195. **In the DSCE the Government aims to slow urban growth, but from the perspective of poverty reduction continued urbanization is important**, given the positive linkage between urbanization and rural poverty reduction. This can easily be discerned by considering a counterfactual without rapid urbanization. We consider two scenarios in which the speed of urbanization is reduced. In the first scenario urbanization is successfully brought to a halt (zero growth). In the second scenario urban areas grow at the same rate as the overall population growth. To consider the impact on the number of poor, it is assumed that rural and urban poverty rates remain unchanged at 57 and 9 percent respectively. Results are presented in Figure 6.6. They

196. demonstrate that if poverty rates and the speed of urbanization do not change, one can expect 7.8 million poor people in Cameroon. If the rate of urbanization slows down, or if urbanization is stopped altogether the number of poor would increase to 8.9 or 10.7 million people.

Figure 6.6: Contribution of urbanization to poverty reduction



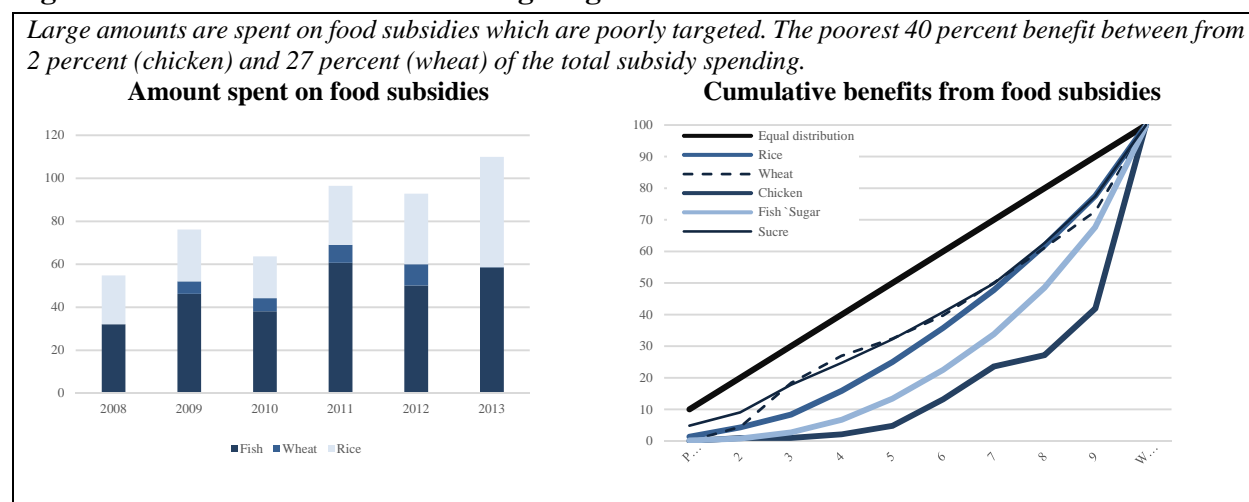
Source: Authors' calculations based on UN population projections.

197. **Moving to urban areas alone is insufficient, the business environment has to improve as well for formal and informal enterprises.** Those working in the industrial sector generate about FCFA 1.4 million in value added per worker. This is almost twice as much as those working in the tertiary sector, illustrating the importance of promoting a business environment that ensures jobs are created in high value added activities. Presently the majority (75 percent) of non-farm enterprises is very small, informal and located in the two largest cities. While these enterprises are numerous their contribution to overall employment is limited (31 percent), and less than the contribution of large enterprises which represent only 0.8 percent of all enterprises. Also in terms of contribution to total firm revenue the role of very small enterprises is limited (6 percent): almost 70 percent of all firm revenue is generated by the small fraction of large firms. This composition of the non-farm enterprise sector summarizes one of the key challenges to poverty reduction in Cameroon: how to increase productivity in a sector in which many of the poor engage, while also unlocking the potential transformative contribution that a small number of large firms can make.

ii. Redistribution

198. **A third pathway to poverty reduction identified in the analytical framework is through redistribution.** Targeted safety nets and transfer programs can increase household wellbeing and investments in both human capital and productive activities. Safety nets can be seen as strategic investments for directly increasing the share of growth generated by the poorest (making growth more pro-poor). In countries such as Brazil targeted safety net programs that provide limited but regular support to the poorest households have been found to contribute to the significant reduction in extreme poverty and inequality rates over the last decade. A large number of impact evaluations of targeted transfer programs in Africa also point to knock-on effects where direct transfers to the poorest produce positive economic multiplier effects, increase economic activities and help poor households diversify livelihoods and contribute to the economy. Often these programs also boost investments in human capital, which in turn can improve future labor market outcomes and economic activity. Well-designed safety nets, thus, not only alleviate poverty in the short run by increasing consumption, they are also instrumental in assisting chronically poor households build their productive asset base. In so doing, safety nets enhance income growth and alleviate poverty in the medium term.

Figure 6.7: Food subsidies and its targeting

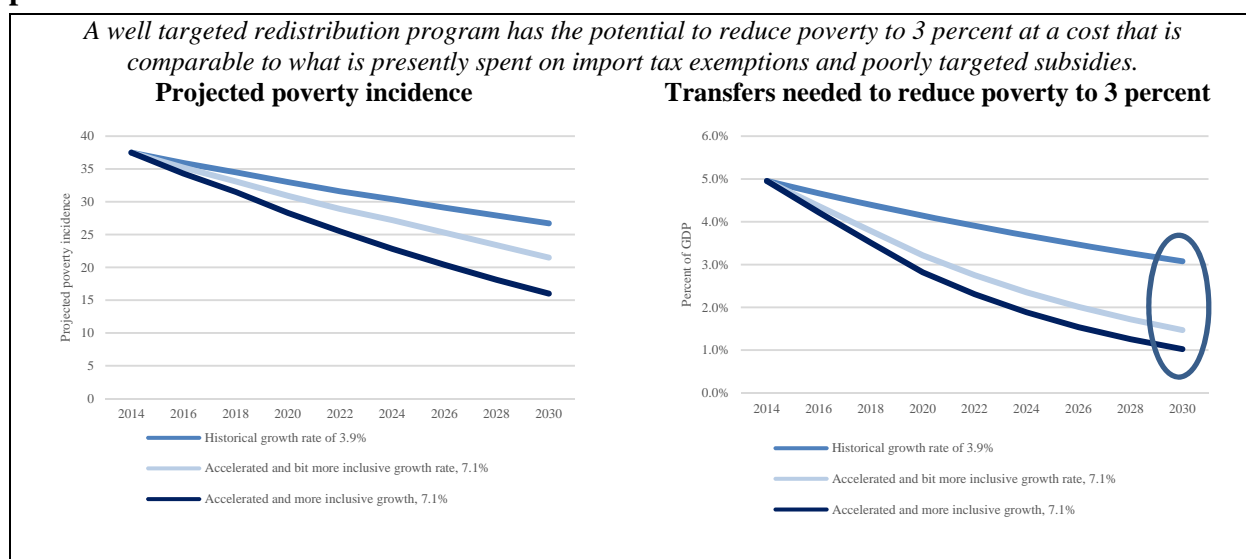


Source: World Bank staff calculations using ECAM4 2014.

199. **Cameroon invests less in resilience and safety nets than most other African countries.** There is no national social protection strategy, nor are there any coordinated mechanisms for providing targeted support to the poor. A 2011 review of social safety nets confirmed that existing safety nets are not designed to address either chronic or transient poverty. Cameroon has a number of small-scale and ad hoc safety net programs ranging from school feeding and fee waivers to small cash transfers as well as some temporary food emergency assistance. Targeted programs (excluding universal subsidies) cover only one percent of the population. Because coverage of existing programs is low and its targeting to the most disadvantaged groups is weak, these programs have had only a very limited impact in terms of reducing household vulnerability and overall poverty. These programs accounted for only 0.23 percent of GDP and averaged 0.76 percent of total public spending between 2006 and 2011. Around 80 percent of this was spent on emergency programs implemented in response to shocks such as droughts and floods.

200. **Meanwhile costly and poorly targeted subsidies do not benefit the poorest.** In an effort to mitigate the negative effects of the 2008 rise in food and fuel prices, the Government launched a universal subsidy program (food and fuel), which by 2011 was costing the Government around 2.7 percent of GDP. In 2013 more than US\$100 million was spent to subsidize fish, wheat and rice alone. These subsidies benefit the urban middle and upper class and only very small amounts (between 2 percent and 27 percent depending on the food item) benefit the poorest 40 percent (Figure 6.7). These persistent subsidies and the attempts to stabilize the market through interventions act as a disincentive for local food production and not only aggravate rural poverty, they also sustain the country's dependency on food imports.

Figure 6.8: Cost of a perfectly targeted redistribution program that reduces poverty to 3 percent.



Source: ECAM4 2014.

201. **There is great scope for a well-designed safety net program to have a major impact on poverty reduction.** This is illustrated in Figure 6.8. The amount of transfers (expressed as percent of GDP) needed to reduce poverty to 3 percent can be estimated using poverty projections. Presented are three projections, which assume that the population will grow at the same rate as during the period 1987-2005 (5.5 percent on average in urban areas, 1.9 percent in rural areas and 2.6 percent at the national level) and which employ two GDP growth rates: (i) the average growth rate registered between the last two surveys (2007-2014) and (ii) the average growth rate forecasted by the Ministry of Planning for the period 2014-2020. Three projections are presented. The first one uses the historical growth rate (3.9 percent) and the assumption that the poor realize half of this GDP per capita growth (2.0 percent). This is already an improvement over the past pattern of growth (section 2.1) necessitating the implementation of pro-poor growth policies to be attained. For the second simulation an accelerated growth rate (7.1 percent) is used with the same assumption about the pass through of growth (half). The last simulation uses the accelerated growth rate (7.1 percent) and the hypothesis 90 percent of growth also benefits poor households. In all three simulations poverty decreases, but at different rates. In none of the simulations is the objective of reducing poverty to 3 percent attained. This is illustrated in the left panel of Figure 6.8. The right panel demonstrates how much would be needed if a perfectly targeted, transaction-

cost-free redistribution scheme would accompany the growth efforts. It demonstrates that the amounts needed to virtually eliminate poverty are between 1 and 3 percent of GDP by 2030. This is surprisingly little, particularly when compared to the amounts already spent on ill-targeted food and fuel subsidies.

6.2 Binding constraints

202. The analysis has revealed the enormous potential for rapid poverty reduction in the short run. With ample natural resources, a fortunate geographic location, climatic diversity, a large demand for food products, a committed civil service and economic and political stability Cameroon is well placed to unlock its potential in the rural sector where most poor people are engaged. With the right policy reforms, particularly reforms which reduce the cost of doing business, the country is uniquely positioned for rapid poverty reduction and economic transformation by increasing the productivity of agriculture, capitalizing on the rapid urbanization, the emerging demographic transformation and the opportunities offered by serving the domestic and regional markets with goods and services produced in Cameroon.

203. For long term growth, the domestic market alone is unlikely to suffice and an export orientation will be needed. The domestic market is limited in size and to reap the benefits for economies of scale the country will need a greater orientation towards foreign markets. To do so successfully the economy's efficiency will need to increase significantly to counter the effects of Dutch disease associated with large natural resource exports. The business environment indicators show that it is extremely challenging to open and operate a business in Cameroon. Hence, an ambitious institutional reform, targeting the simplification of administrative procedures, improving the effectiveness of public administration and fighting corruption should be envisaged. Cities will need to be transformed into centers of endogenous growth and the education system may have to be reformed to put less emphasis on general intellectual development and more on skills demanded by the economy.

204. The political settlement constrains the scope for economic transformation. Cameroon is not an attractive destination for new investors –whether domestic or foreign. The politically connected dominate the formal economic sphere and use their position of influence. The challenge is to enhance competition, while remaining within the confines of the political settlement. After all, poor governance is the price Cameroonians pays for political stability. A critical element of the political settlement is that the regime has forged stability by co-opting a large number of powerful elites from the economic, traditional, administrative, political and military spheres. This co-optation has been inclusive and representatives from all major ethnic, religious or other groupings are represented. It helped create a stable nation in an otherwise restive neighborhood. The price paid for this is unmet economic and development potential. The challenge is that many policy reforms needed to unlock the potential for poverty reduction, touch the core of Cameroon's political stability and may affect the interests of those sustaining the balance of power.

205. In the absence of change, opportunities for poverty reduction may remain elusive for a long time to come. The quality of education is declining with dire consequences for future growth and poverty reduction. Avoiding crises – whether economic or political is of paramount importance. A distinguishing feature between rich and poor countries is not the fact that rich

countries grow faster (they don't), but that they tend to be able to avoid deep recensions of the type Cameroon experiences in the early 1990s and from which the country is still recovering. Economic stability requires more cautious public financial management, prudent public investment planning and more careful debt management than is currently the case. Security is a sine-qua non for economic growth and eliminating the threat posed by Boko Haram is a priority. Political stability needs to remain assured, a major challenge in the face of multiple elections, a restless young population and a pending presidential transition.

206. Rapid poverty reduction requires more attention to the plight of people living in the northern and eastern parts of the country. Not only do 5.1 million out of a total of 8.2 poor million poor people live in the three northern regions (Far North, North and Adamawa) the people living in northern Cameroon are disadvantaged in many respects. They have less access to health and education services. The median years of education of adult women in the northern regions is zero years. They live far from markets, children are less likely to be vaccinated and more likely to be malnourished. Off-late people in the northern regions have been seriously affected by the insecurity created by Boko Haram.

207. The binding constraints presented below stress the measures to preserve and unlock Cameroon's potential for poverty reduction in the short and longer run. The process to arrive at prioritized binding constraints involved three steps. The first was to agree on the SCD process itself and the analytical approach. A desk review considered pathways to economic development and poverty reduction, on the basis of which the analytical approach presented in section 6.1 was formulated. This approach was discussed and endorsed in May 2015 during a country team mini-retreat, along with the process that would be followed to identify and prioritize the binding constraints. This retreat was also used to discuss an emerging storyline for the SCD.

208. During the next step, additional evidence was collected and three areas binding constraints were identified and endorsed. These are:

- Low rural productivity, particularly in northern Cameroon
- Non-conducive business environment for the formal and informal private sector
- Fragility and poor governance of the public and private sector

The constraints were discussed during a country team retreat in September 2015 and during informal consultations with representatives from Government, CSOs and the academic community. It was recognized that they follow from the analytical approach in that they reflect (i) the nature of poverty (mostly rural and especially serious in northern Cameroon where people are affected by multiple poverty traps) and (ii) the necessity to increase incomes in rural and urban areas through labor intensive private sector led growth and increases in productivity. The third set of core constraints reflects the evidence that poor governance is a major obstacle to achieving better development outcomes.

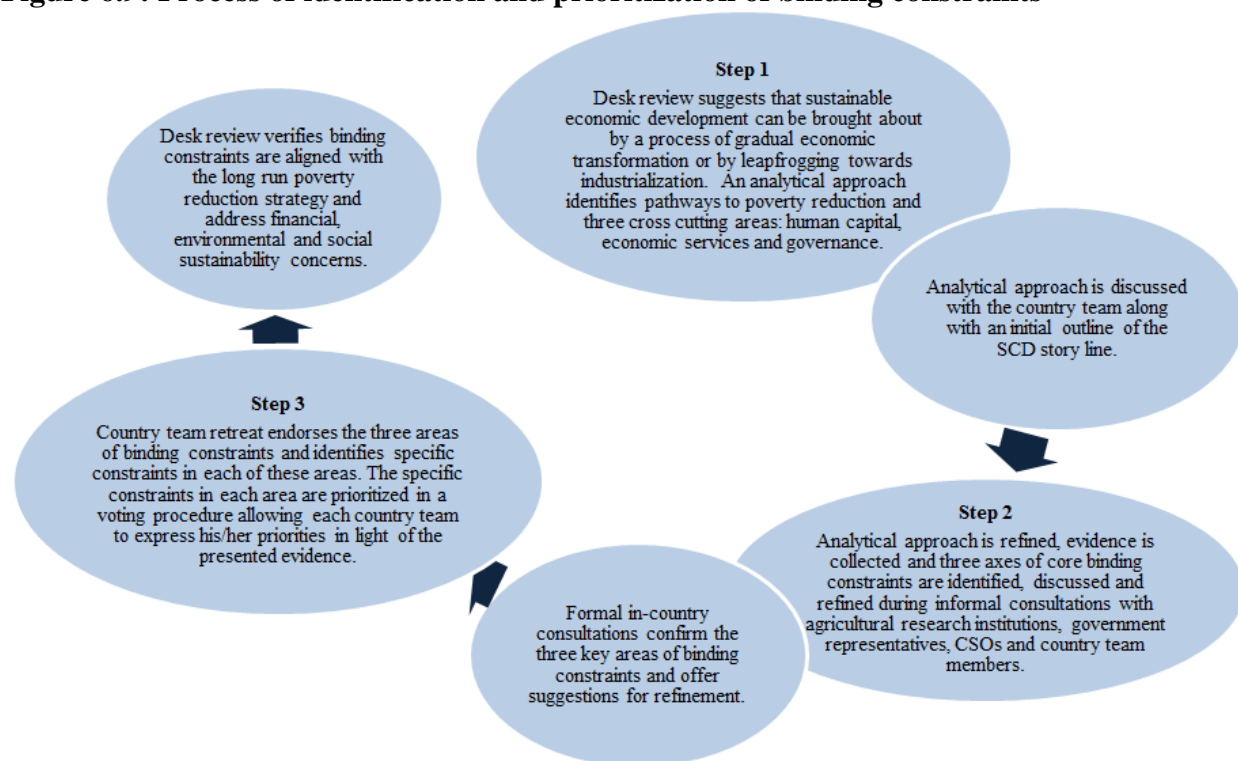
209. With guidance from the retreat additional supporting evidence was collected and reflected in chapters 1-5. This led to a refinement of the storyline. During formal, in-country consultations, held between November 16-21, 2015 in Yaoundé and Douala, the SCD storyline and the three areas of constraints were presented and discussed at length with different

stakeholders: CSOs, academics, authorities, private sector, parliamentarians, donors and youth representatives.

210. **The final step involved prioritizing the policy actions needed to mitigate the binding constraints.** During a two-day country team retreat, held on December 1st and 2nd 2015, the three core binding constraints were reconfirmed and mitigating policy actions identified and prioritized. To this end, a voting procedure was used, in which each country team member was invited to prioritize the binding constraints, within each cluster, along two criteria: contribution to poverty reduction and political feasibility.

211. **In the final set of constraints presented below the different pathways to poverty reduction, identified in the analytical model, are reflected.** The model suggested that to alleviate poverty, the household budget constraint should be loosened through either improvements in productivity of the self-employed, increased demand for wage labor or enhance redistribution. The first two pathways are addressed in the areas of constraints 1 and 2, which focus on improving the productivity of rural households and improving the business environment. The redistribution avenue to poverty reduction is captured in constraint 1.4 (safety nets) but also 3.1 (improve PFM systems) as a better functioning PFM system, is a prerequisite for a safety net.

Figure 6.9: Process of identification and prioritization of binding constraints



212. **The particularly precarious situation of people living in northern Cameroon is addressed throughout the three areas of constraints.** The first area of constraints focuses on northern Cameroon. Improving security (constraint 3) is of greatest relevance to northern

Cameroon. Spatially blind policies promoted in constraint areas 2 and 3 imply that northern Cameroon will benefit from measures assuring equal treatment with respect to e.g. budget allocations (3.1), improvements in public sector incentives (3.3) reducing transport costs (2.2), rural financial services (2.3), access to clean¹¹⁵ energy (2.4), city development (2.5) or access to telecommunication services (2.6).

213. To meet the demand for selectivity, alleviating the constraint to rural productivity focuses on value chains for crops and livestock that are relevant for poor households, while the measures under constraints two and three focus on reducing the cost of doing business and complementary governance measures.

214. Tropical forest preservation is not identified as priority for poverty reduction within Cameroon, but it is a priority from a perspective of (global) environmental sustainability. Low population density in Cameroon's tropical forest zone imply that forest preservation does not feature amongst the binding constraints for poverty reduction. However, the unique biodiversity of this area, its contribution to climate change mitigation and the unique habitat it offer for people dependent upon the forest makes forest preservation a global priority from a perspective of environmental and social sustainability.

215. The remainder of this chapter presents the binding constraints and prioritized policy actions.

Area of constraints 1: Low rural productivity, particularly in northern Cameroon

216. Low rural productivity is a major constraint, as evidenced by the high levels of poverty that persist in rural areas amongst people who are largely self-employed, both on and off the farm or as pastoralists. Poverty is concentrated and worsening in northern Cameroon. If this is unaddressed, it is likely to worsen with time. By 2030, the number of people living in northern Cameroon may increase between 50 and 80 percent, depending on the fertility and migration scenario. Increased population pressures will further intensify competition for resources. Environmental degradation and exposure to droughts and extreme events such as floods are likely to intensify as a result of climate change.

217. Human capital remains one of the main assets of the poor, a portable asset no less which facilitates successful rural to urban migration. Levels of education are particularly deficient in northern Cameroon and especially amongst women: the median number of years of education for women was found to be zero. Other human capital indicators such as vaccinations, malnutrition, access to safe water and sanitation were also found to be very bad. To improve people's ability to be productive, but also to reap the demographic dividend an overall increase in spending on social sectors is necessary, as will be discussed in the last area of constraints. At the same time, the disadvantaged position of women, and the strong association of female education with higher levels of household consumption, lower fertility, lower child mortality and lower levels of intergenerational poverty, justifies a particular focus on girls' education.

¹¹⁵ Cameroon experiences more than 11,000 premature mortalities each year associated with household air pollution (or more than 600,000 disability-adjusted life years, including household air pollution related illness and death), making it the 4th leading cause of death.

218. **To alleviate poverty, productive safety nets should accompany efforts to increase agricultural productivity.** Not only have safety nets proven to contribute substantially to poverty reduction, they are also a good instrument to address poverty in the most disenfranchised zones which are affected by multiple poverty traps. Well-designed safety nets have demonstrated to have a positive effect on income growth amongst the poorest. As such they make the process of growth more inclusive. Through conditionality they can also address other factors that hold back development, such as low levels of girl education, low levels of vaccination or poor nutritional practices.

219. **To increase rural productivity, the focus should be on agricultural and livestock productivity as these are the main sources of livelihood for the poorest households.** Increases in agricultural and livestock production also translate into increased off farm activities. Where multiple poverty traps simultaneously affect households, increasing productivity necessitates an integrated approach that addresses multiple obstacles at the same time. Nonetheless, the focus should not exclusively be on northern Cameroon, as productivity increases are also needed elsewhere such as in the Western Highlands where a large number of poor people live.

220. **Policy interventions need to take into account differences among the agro-ecological zones.** Adamawa, in the High Guinea Savanah, varies greatly from the North and Far North regions, where a Sudano-Sahelian climate prevails. In the North and Far North, the livelihood system is focused on livestock rearing (23 percent of households in Adamawa keep livestock as opposed to 64 percent in the Far North) and the main crops grown are maize and manioc as opposed to millet, maize and cotton in the Far North. Keeping these differences in mind is critical when considering policy interventions.

221. **A core constraint is the short length of the cropping season in the northern region and soil degradation.** This is aggravated by exposure to weather variability and climate risks. Thus, improved water resource management is a priority, as it would lengthen the growing season and reduce dependence on the weather alone. This requires climate smart investments. It also requires more attention to extension services, which need to accompany productivity-enhancing investments, so as to close the gap between the knowledge that exists at research level, and what is applied by farmers. Doing so would help regenerate degraded soils and allow closing the yield gap. It would also allow farmers to adapt more easily to climate change.

222. **Developing value chains and improving market access to southern Cameroon and to regional markets is critical.** The economic isolation and backwardness of northern Cameroon poses a great developmental challenge. As increased production will need to find an outlet, developing value chains and improving market access is a sine-qua-non for poverty reduction. The selection of value chains needs to take into account that poor households tend to grow and consume certain crops such as coarse grains like maize, millet, and sorghum and beans. Many also grow cotton. Being selective by focusing on these crops, which also have great market potential, would benefit poor households in three ways: (i) it would raise incomes; (ii) it would increase demand for wage labor, since manual labor is the means through which many of the poorest households make ends meet; and (iii) to the degree that there is a focus on food grains, it would reduce food prices. The productivity of pastoralists also needs to increase. Like food grains, livestock products

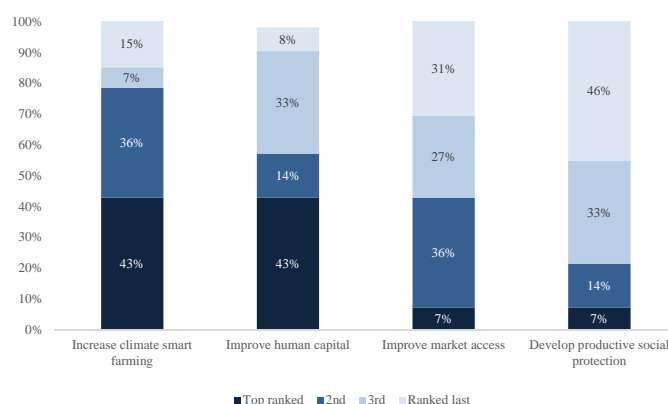
have great market potential, particularly in a rapidly urbanizing country. So developing the value chain for livestock products is another priority.

223. Stronger farmer organizations strengthen value chains, facilitate extension and offer a way to address local elite capture. Stronger producer organizations at village level facilitate access to inputs, credit, storage, quality control and marketing. As such, they are a critical part of any value chain, as is highlighted by the example of the cotton sector, which has actively developed local producer organizations. These groups can also be instrumental to making extension service more effective, for instance by organizing farmer field schools. By organizing farmers, producer organizations empower farmers and can help prevent capture by local elites.

Table 6.1: Ranking of actions to address constraints to increased rural productivity

		Poverty rank	Feasibility rank
1.1	Increase climate smart farming technologies and livestock management systems through extension, access to improved seed and fertilizer, and improved water resources and soil management. Stimulate the formation of farmer groups for trading and peer learning. Develop selected value chains.	1	1
1.2	Improve human capital (health; nutrition; water and sanitation; basic education; skills development), particularly for women.	2	1
1.3	Improve market access, including through improved rural roads and the formation of farmer groups, a better connectivity between north and south Cameroon and integration with regional markets (particularly Nigeria).	3	3
1.4	Develop productive safety nets.	4	4

Prioritization of actions by contribution to poverty reduction



224. Value chain development creates opportunities for local product transformation and off-farm employment. The farming season in northern Cameroon is short and the demand for labor seasonal. Off-farm employment opportunities are important to lengthen the time during which the rural labor force is gainfully employed. Such opportunities can come from labor migration or through off-farm employment opportunities in transformation activities. Access to

electricity, to finance and to markets, along with skills development are instrumental to realizing such opportunities. These are all discussed under the next area of constraints.

225. Specific actions to alleviate binding constraints and their ranking by importance of poverty reduction and feasibility are presented below. Climate smart farming technologies and livestock management systems; improved human capital, particularly for women; improved market access and productive safety net systems are the top priorities in terms of contribution to poverty reduction and political feasibility.

Area of constraints 2: Non-conducive business environment for the formal and informal private sector

226. Cameroon has ample opportunities for growth if it were to capitalize on its many competitive advantages associated to its natural resources, climate, location, relatively educated work force and capable bureaucracy. The non-rural formal and informal private sector need to expand to accompany agricultural and livestock productivity growth and to absorb an increasing number of rural-to-urban migrants. Moreover, for poverty to be reduced, a pattern of growth is needed that is more pro-poor. Where possible labor intensive production and the informal sector need to be supported.

227. To unlock Cameroon's growth potential, the cost of doing business needs to be reduced and the quality of and access to basic economic services improved. Transport costs are very high because of cartels, poor maintenance, corruption, and weak management. Telecom services are expensive and of poor quality. The internet is hardly accessible. Piped water is unavailable to most urbanites most of the time and electricity is unreliable and costly. Addressing shortcomings in these basic economic services requires major investments. New infrastructure has to be constructed; the port of Kribi developed; the telecom sector coverage expanded; electricity generation increased and the distribution network upgraded; the functioning of cities has to be improved. Much of these investments should come from the private sector. Yet private investors will only be attracted if a favorable rate of return can be expected. To achieve this policy reform is a prerequisite. The electricity sector presents a model to be emulated as the reform agenda that has been set in motion has already attracted private investors ready to finance important investments. Even when investments are publicly funded, they will need to be accompanied by policy reforms to ensure an acceptable return to scarce public funds.

228. To better facilitate private sector led growth, both the financial sector and the education sector need to be reformed. The financial sector is ill-developed and insufficiently dynamic to facilitate private sector led growth. In the education sector greater attention needs to be given to skills development. Students need to be prepared for careers in the private sector. This requires a change in mindset amongst students and a much greater focus on the skills and competencies sought by firms.

229. The state-led development model has demonstrated its limits. The business environment is crippled by inefficient state-owned enterprises, many of which are loss making. The country's debt burden increases rapidly and unsustainably. Public investments should be limited strictly to economically viable investments and should be used to crowd-in private investments and to support areas with evident market failures. Instead of using public investments

to replace private investments, which are not forthcoming because of policy failures, policy reform should be used to attract private investors.

230. **Addressing constraints in this area requires an opportunity-driven approach.** Cameroon's centralized and slow decision-making as well as a fragmented bureaucracy limit the scope for reform. Technical assessments showing the desirability of a given reform alone are not sufficient. Flexibility, adaptability and, above all, opportunism are needed to identify and pursue reforms for which a coalition for change exists and for which high-level authorization has been obtained.

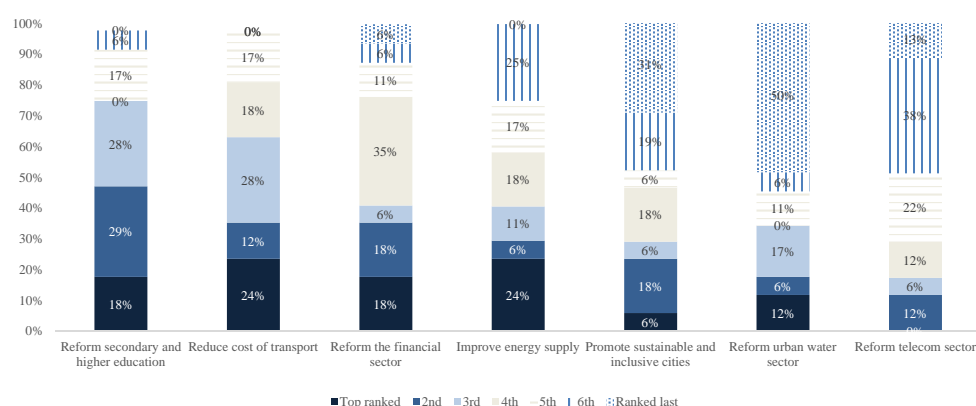
231. **Increased private sector growth will not automatically be pro-poor.** Given the pattern of growth in the past and the structure of the economy, it is likely that a more attractive business environment will largely benefit the center and coastal areas of the country. A specific focus on integration of the north and the south of the country is critical, as was already highlighted in the previous constraint. Where relevant, for instance in the selection of value chains, preference should be given to sectors with strong backward linkages to areas in which many poor households are active (agro-processing; livestock), to labor intensive sectors (construction; sustainable artisanal mining) and to non-agricultural sectors employing many poor people (the informal sector).

232. **Specific actions to alleviate binding constraints and their ranking by importance of poverty reduction and feasibility are presented below.** They are, in order of contribution to poverty reduction, (i) reforming higher education to give more attention to skills training; (ii) reducing the cost of transport; (iii) reforming the financial sector; and (iv) improving energy supply; followed by (v) investments in sustainable cities; (vi) the telecom sector; and (vii) the urban water sector. It is noteworthy that investments in the energy sector, ranked fourth in terms of contribution to poverty reduction, was considered most feasible, a reflection of the success of past reforms in this field. Reforming the financial sector, ranked 3rd in terms of contribution to poverty reduction, was ranked 5th in terms of political feasibility. The presence of a disconnect between political feasibility and contribution to poverty reduction combined with the fact that in many areas policy reforms need to precede investments, reinforces that an opportunistic approach will be critical.

Table 6.2: Ranking of actions to address constraints to a non-conductive business environment

		Poverty rank	Feasibility rank
2.1	Reform the secondary and higher education systems such that more attention goes to skills training and the capacity to innovate with a view to enhancing relevance for private sector development.	1	2
2.2	Reduce the cost of transport (road, rail, air, port) and logistics. Ensure selective investments and policy reforms leading to more efficient and functional ports (Doula, Kribi, Limbe). Focus on better maintenance increased competition and fewer road blocks.	2	3
2.3	Reform the financial sector. Create a conducive policy environment for PPPs, enhance the availability of financial products relevant for rural development such as crop insurance, asset leasing, warehouse receipt systems, and medium term agricultural financing. Deepen and improve the functioning of capital markets and non-bank finance providers. Enhance access to products suitable for mobile phones such as money transfers, e-banking, and mobile savings.	3	5
2.4	Increase the supply of reliable energy, reduce its cost, ensure that tariffs cover costs and expand access. Continue to reform the sector to attract private investors; where the network cannot reach economically, explore off-grid, renewable solutions.	4	1
2.5	Promote sustainable and inclusive cities through efficient city and land use planning, local economic development, and urban connectivity.	5	4
2.6	Reform the telecom sector by making the sector more open and competitive and able to attract private investments.	6	7
2.7	Reform the urban water sector by making the sector more open and competitive and able to attract private investments.	7	6

Prioritization of actions by contribution to poverty reduction



Area of constraints 3: Fragility and poor governance of the public and private sector

233. **Throughout this document, governance emerges as a critical constraint.** Cameroon continues to adhere to a centralized, state-led approach to economic development. It is unable to deliver public services in a manner that would be expected of a lower middle income country. Core public services such as health, education, water and sanitation are underfunded, of poor quality and are delivered in an inefficient and inequitable manner. Regulatory burdens are high, oversight is weak, the tax system is cumbersome, the public financial management system lacks transparency and the budget lacks credibility. Basic economic security services (land tenure; justice) are weak or offered in a non-transparent manner. As a consequence, conflicts between pastoralists and sedentary farmers increase, Cameroon's unique tropical forests are exploited in an unsustainable manner, artisanal miners operate in a legal vacuum and banks and private investors are deterred from making long-term investments. As the state is unable to meet the expectations of its citizens, and as citizens are unable to freely express themselves, the social contract between citizens and state is fragile.

234. **Governance was frequently mentioned during the consultations and emerged as one of the core obstacles to development and poverty reduction in the 2013 World Bank Client Survey.** A total of 388 people from NGOs (25 percent), ministries (21 percent), project management units (6 percent) and media (5 percent) responded to the survey. Asked to identify which is the most important development priority in Cameroon, improving governance emerged as top priority. Similarly, when asked "which of a listed number of development areas contributes most to reducing poverty in Cameroon", governance reform and anti-corruption featured amongst the highest priorities.

235. **The state has considerable capacity but the political settlement has led to fragmentation and bureaucratic inertia.** Regularly the state has demonstrated its effectiveness, particularly when regime survival is at stake or when clear orders are given by the Presidency. Bureaucratic decisiveness when regime survival is at stake and inertia in other circumstances are two sides of the same coin, however. The administration is organized such that accountability is mostly upward. Improving service delivery and unlocking private sector led growth will require greater decentralization of decision making powers (including through civil service reform) and strengthening downward accountability. Where this has occurred, impressive results have been achieved, as was the case with Results Based Financing for the health services for instance.

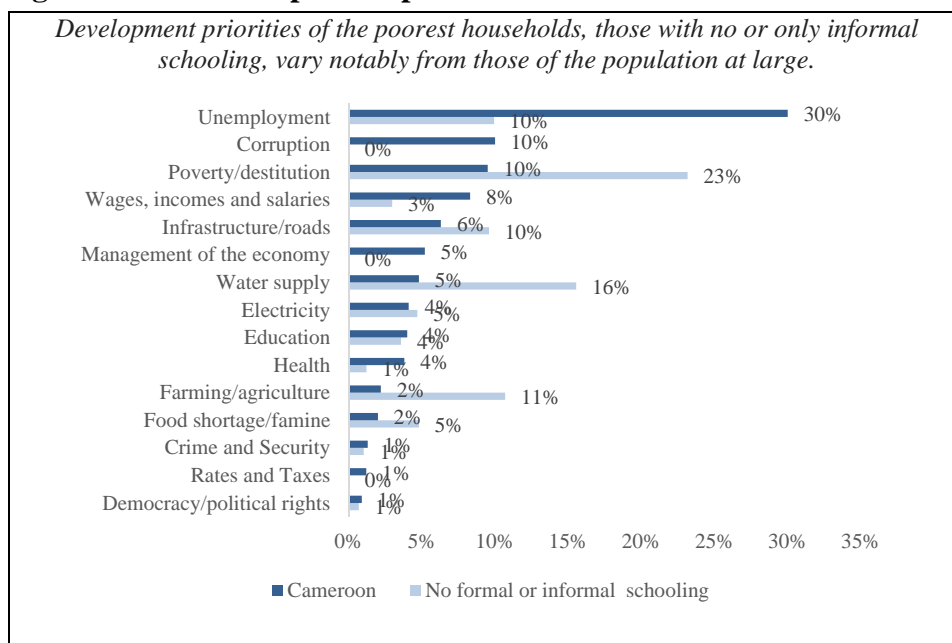
236. **Public financial management reform, economic management reform and civil service reform are needed.** There are many interlinkages between these areas of reform. For instance, to facilitate peace and stability more resources may have to be channeled to the military. Notwithstanding, a military strategy alone is not sufficient. Higher spending on education, health, and safety nets, have for instance, been associated with a lower risk of small scale conflict.¹¹⁶

¹¹⁶ An empirical analysis (148 countries over 1960–2009) shows that higher levels of military and social spending are associated with lower risk of conflict onset in countries rich in oil and gas. Higher spending in education, health, and social protection is associated with lower risk of small scale conflict. While unable to prevent full-scale wars, higher spending on public services for which citizens care could be enough to reduce grievance, foster a government's legitimacy, and reduce the risk of small-scale conflict. Finally, higher levels of general public spending are not robustly associated with lower risk of conflict. Singh, R., C. Bodea and M. Higashijima 2014. Oil and Civil Conflict: Can Public Spending Have a Mitigation Effect? World Bank. Policy Research Working Paper No. 7100.

237. **While the rationale for all these reforms is clear, the feasibility for wholesale reforms is less evident, justifying more opportunistic, partial approaches.** Entrenched interest are huge and going against them may not be the most effective approach to reform. A more opportunistic going with the grain approach, where reforms are pursued when the opportunity arises, seems more appropriate. Maybe the entire health system cannot be reformed, but incentive-compatible approaches to improve service delivery by front line providers can be introduced. Identifying where such possibilities exist, or helping create such opportunities will be important, which is why it is critical to invest more in analytical work that engages the authorities on the opportunity cost of not-reforming, in enhancing transparency and in strengthening accountability mechanisms.

238. **Peace and stability are a precondition for development.** The current situation is precarious in large parts of the country: the north and the east are clearly fragile and restive youth in urban areas may also pose a risk. Avoiding future instability and restoring security in areas already affected by instability is critical for any successful development effort. Once security is assured in areas that are presently not safe, the focus can switch to stabilization and developmental activities. A critical first step is to find ways to engineer a rapid economic revival that can increase employment and economic opportunities. It requires improved collaboration between security, humanitarian and development actors and a greater focus on decentralized approaches. By involving local communities more actively and more directly, such approaches can play a key role by supporting poverty-reducing investments, avoiding elite capture (Figure 6.10) and strengthening resilience.

Figure 6.10: Most important problem that the Government should address



Source: Afrobarometer 2014/15.

239. **Certain aspects may have to be addressed as matter of urgency, such as the approaches to enhance local resilience.** Presently, the financial situation of the cotton industry is precarious. A collapse of the company would have serious economic and social repercussions

in an already impoverished area, which forms a ‘vault’ against the extension of Boko Haram southwards. The country cannot afford the loss of a source of livelihood that is critical to stability. More generally, approaches that increase resilience and which empower local communities need to be embraced. Strengthening these local systems, either in the form of municipalities, producer organizations, or community-based organizations for social accountability will strengthen risk-coping mechanisms. It can also act as barrier to elite capture.

240. Investments in statistics and beneficiary feedback will facilitate transparency, accountability and the analytical agenda. Very little direct beneficiary feedback information is being collected, even though such information is of critical importance to the design and successful implementation of development activities. While the quality of statistics that are produced is generally of good¹¹⁷ there are important data gaps that need to be addressed. Household surveys and censuses tend to be carried out irregularly. Data will also need to be made publicly available and, more data relevant to policy makers will need to be collected. No information, for instance, is available to assess whether people living in urban slums are in transitory or chronic poverty. Such information is critical for the question as to whether urban slums are areas of opportunity for newly arriving migrants, or poverty traps that need to be addressed. Employment statistics are not collected on a regular basis nor is information to assess productivity in agriculture. The last agricultural census was carried out in 1992 and annual production surveys are not carried out.

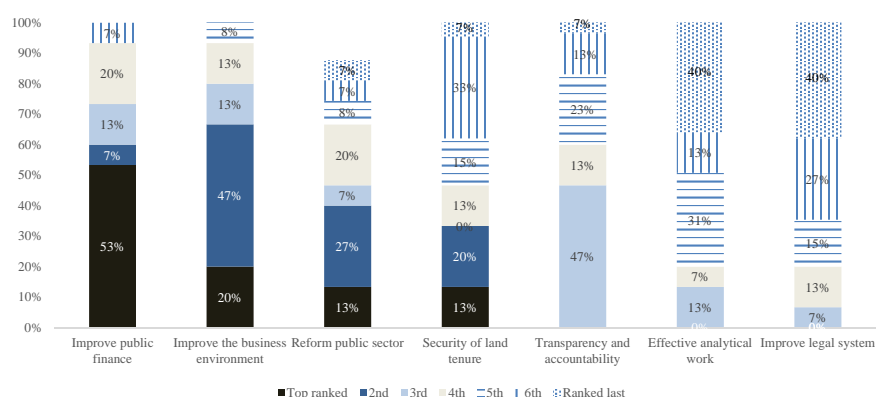
241. Specific actions to alleviate binding constraints and their ranking by importance of poverty reduction and feasibility are presented below. Main areas for poverty reduction are (i) improving public financial management; (ii) strengthening the business environment; (iii) reforming public sector incentives; and (iv) improving the security of land tenure; followed by (v) improving transparency and accountability; (vi) greater analytical capacity to identify and argue for reforms; and (vii) improving the legal system. Even more than in the previous cluster there is a disconnect between political feasibility and contribution to poverty reduction, so selectivity will need to happen by opportunistically identifying reforms that have the greatest likelihood of success. At times reforms may have to be partial: for instance, reforming incentives in the civil service as a whole was ranked 5th for feasibility, but results based financing was already successfully introduced in the health sector. There may be potential to build on this in other sectors. Primary education, ranked second in the first cluster of constraints, and secondary and higher education, ranked first in the second cluster of constraints, are candidates for this.

¹¹⁷ There are important exceptions though: the definitions used for urban areas differ between the INS and the Census Bureau making it very difficult to come up with consistent information about the speed of urbanization.

Table 6.3: Ranking of actions to address governance constraints

		Poverty rank	Feasibility rank
	<i>Reduce security risks and fragility. Rely more on decentralized, local, participatory approaches to strengthen resilience and empowerment, strengthen the compact between citizen and state and improve the coordination between development and humanitarian partners</i>	<i>Not ranked as this action is a precondition for development efforts to be successful</i>	
3.1	Improve public financial management (budget preparation, execution, procurement, debt management). Address allocative and technical inefficiencies in public spending (poorly targeted subsidies; tax exemptions; inefficient procurement; public investment management) and allocate a larger fraction of the total budget to the social sectors (health, education, water and sanitation) as well as to safety nets. Introduce equity based formulas for budget allocations.	1	2
3.2	Improve the business environment including by strengthening the independence and effectiveness of regulators (electricity, port, telecom), by improving state owned enterprise performance and by reducing the regulatory burden. Create an environment attractive for private sector investment (PPPs, EPZs), and promote service provision by private sector operators where feasible.	2	4
3.3	Reform public sector incentives: reduce fragmentation of Government, reduce number of committees and commissions, review salary scales and per diems, strictly implement civil service entry exams, introduce merit based job promotions and enforce regulations related to public sector enterprises. Where feasible introduce incentive compatible approaches to improve the quality of service delivery (such as results based financing).	3	7
3.4	Improve security of land tenure –particularly in urban areas and reduce conflicts over land and fishing grounds including for pastoralists, and artisanal miners. Promote (sustainable) forestry and socially responsible plantation agriculture.	4	5
3.5	Improve transparency and accountability including by investing in statistics and e-Government, by making more information publicly available and by strengthening the roles of oversight and accountability institutions, including at the local level.	5	3
3.6	Improve the analytical capacity to identify and argue for reforms, strengthen the capacity to monitor project implementation and reforms including through beneficiary feedback and implement regular public expenditure reviews.	6	1
3.7	Improve the functioning of the legal system.	7	6

Prioritization of actions by contribution to poverty reduction



6.3 Additional research suggested

242. The preparation of this document has allowed identifying some knowledge gaps to formulating and implementing an effective poverty reduction strategy. They are listed below:

243. **Public expenditure reviews are urgently needed.** Public expenditure reviews have not been carried out for some time and the most recent one dates to 2010.¹¹⁸ Important issues exist in the expenditure chain, from budget formulation, approval, execution, public procurement, and reporting, to issues with the allocative and technical efficiency of spending as well as issues with debt management. Increasing expenditures at a time of decreasing revenues leads to expenditure constraints, rapid indebtedness and a crush in social spending. A public expenditure review is a high priority to guide a dialogue aimed at reducing macro-economic risks and improving public finance management.

244. **Public expenditure reviews will need to go beyond narrow PFM issues alone.** Other issues deserve to be investigated including the functioning of state owned enterprises, value for money in public procurement, expenditure adequacy, efficiency and tracking in social sectors, and civil service reform. With respect to the latter there are many aspects to be clarified: the size of the civil service, the delineation of different public institutions, the adequacy of the grade system, the overall pay system – including benefits, allowances, other non-statutory revenue, and the functioning of the performance management system.

245. **It is important to investigate what is needed to arrive at a more efficient logistics system.** Low transport cost and access to all-weather roads seem critical for growth and poverty reduction yet a better understanding of the impact of improved logistics on poverty reduction, and the conditions under which reduced transport costs are most effective to reducing poverty is pertinent. To develop an efficient transport system the various costs and benefits need to be better understood so that informed trade-offs can be made between different transport modalities (air, rail, roads) and within modalities between types (trunk, feeder and rural roads). In addition more evidence is needed to identify where investments are justified, where transport costs can be reduced through policy reforms alone, or where a combination of both investment and policy reform is needed.

246. **The land question needs attention.** Land in Cameroon is still relatively abundant in many areas: at the same time land conflicts are many. During the consultations, security of tenure was frequently identified as a critical obstacle to growth and poverty reduction. Security of tenure is important for various reasons: to protect against land-grabbing and displacement; to ensure sustainable forest management; to increase foreign and local private investment; to avoid speculation; and to address conflicts between pastoralists and farmers. The land issue is multi-layered and varies by geographical location. A study to assess these aspects, and the adequacy of the legal framework and options to address any eventual shortcomings therein, is recommended.

247. **Selected aspects of poverty deserve to be explored.** Livestock and poverty is one such area. Many of the poorest in Cameroon are pastoralists or agro-pastoralists, yet relatively little is understood about pastoralism per se or the integration of livestock into agro-pastoralist livelihood

¹¹⁸ World Bank 2010. Cameroon: Fiscal Policy for Growth and Development.

systems. Similarly little is known about the economic and social impact of Boko Haram. Another area to investigate is urban poverty. Urban poverty rates are surprisingly low and little is known about the dynamics of poverty and migration of those living in slums. A third topic is understanding the contribution of rural to urban migration to poverty reduction. Those who migrate tend to be better educated, suggesting that less poor people tend to migrate while leaving rural areas deprived of better educated people.

248. **How to effectively and at scale transfer scientific knowledge to farmers is an areas that needs investigation.** The SCD has pointed out the disconnect between knowledge present in Cameroon's research stations and what farmers practice. How to close this knowledge gap in a context where extension services are understaffed and underqualified (skills), and where practices differ between agro-ecological zones and within agro-ecological zones between villages deserves to be investigated. Greater citizen engagement in combination with the use of new technologies may offer opportunities for effective innovation – as evidenced by successful extension work by e.g. digitalgreen which uses ICT and active community participation to spread information about new farming technologies and practices.¹¹⁹ The potential to adapt and adopt such innovative approaches to Cameroon's context deserves to be explored.

249. **Cotton sector.** An estimated 300,000 households in northern Cameroon depend directly on cotton production for their revenue. The sector also offers employment to numerous employees and subcontractors, transporters as well as traders of by-products and breeders who use oil cakes for cattle-feeding particularly important for the northern cities of Garoua, Maroua and Ngaoundéré. Presently the financial situation of SODECOTON is alarming and many farmers have not been paid for their last harvest. A collapse of the company would have serious economic and social repercussions in an already impoverished area. A dedicated study would assess the importance of an integrated cotton sector for poverty reduction, consider the causes of the precarious financial situation of SODECOTON, and, drawing from international experience, present options for a sustainable resolution.

250. **How do stronger local organizations contribute to poverty reduction?** It has been argued that stronger local organizations improve resilience to conflict and climate change and can be instrumental to overcoming market-access constraints. Local organizations can be vehicles for literacy programs, or social safety net interventions and could strengthen local accountability. How local organizations could do so, what type of organizations might be supported (NGOs; school committees; faith based organizations; farmer groups; savings groups) and how best to support these organizations in ways that avoid elite capture or accountability towards donors instead of members, needs to be investigated.

¹¹⁹ www.digitalgreen.com

ANNEXES

Annex 1: Background papers prepared for this SCD

Shohei Nakamura. 2015. Linking Urbanization to Poverty Reduction in Cameroon.

Prospere Backiny-Yetna. 2015. Update of Poverty Trends using ECAM4 2014 survey.

Kosmidou Gina and Daniel Kirkwood. 2015 Tradition and gender perception: an examination of the position of women in the societies of Cameroon.

Ruth Malleson. 2015. Cameroon Livelihoods Report. A Review of Recent Qualitative Literature for Different Agro-Ecological Zones.

Gina Kosmidou. 2015. Do poor Cameroonians have different preferences? Evidence from the 2014 Afrobarometer Survey.

Quynh T. Nguyen and Emanuela di Gropello. 2015. Human Capital Priorities for Ending Poverty in Cameroon.

World Bank and the Agence Française de Développement. 2015. Cameroon Fragility Assessment.

Annex 2: Key Messages from SCD Consultation

1. **Consultations to inform the preparation of the Cameroon SCD took place from 16-20 November, 2015, in Yaoundé and Douala.** Meetings were organized with different stakeholder groups, including: education sector; academics and intellectuals; agricultural sector; private sector; youth and NGOs; parliamentarians, mayors and senators, representatives of donor agencies, the Ministers of Finance and of Planning and Economy, as well as other representatives of the Government of Cameroon. The team participated in the review of the 2014 DSCE progress report, organized by the *Comité Technique de Suivi* (CTS) DSCE, and presented and exchanged with the Committee's members on the draft SCD results.

2. **The consultations confirmed the preliminary SCD analysis, which identified governance, agricultural productivity and high cost of doing business as core binding constraints.** During the course of the consultations, it became increasingly clear that this last binding constraint would be better formulated in terms of constraints to private sector development. Whereas this reflects largely constraints identified beforehand, related to infrastructure, it also covers the lack of skills and puts emphasis on the importance of moving towards a private sector led model of growth, as opposed to a state led model.

3. **Elite capture, land issues, the importance of women education and the fragility of the cotton sector were highlighted in several meetings.** Frustration about the lack of private sector development, bureaucratic inertia and fragmentation were regularly voiced, as exemplified by the stock exchange, which exists for over ten years now, but in which only three firms are listed. This despite the fact that many public enterprises could be listed and despite the widespread perception of difficulties to access finance for investments. Regularly it was pointed out that much of the bureaucratic inefficiency and corruption should be attributed to the precarious financial situation of civil servants who had their salaries slashed by 70 percent in the early 1990s, and whose salaries remain low.

4. **The consultations made clear that the Government's growth and development strategy (DSCE) and the priorities, as expressed in the draft SCD are well aligned, though some differences exist.** The DSCE is formulated in terms of attaining middle income status by 2035 and focuses on income growth – with poverty reduction a secondary objective. For the World Bank, poverty reduction is a primary objective and income growth an instrumental variable to attaining it. Consequently, the SCD analysis puts more emphasis on growth of smallholder productivity, redistribution and bridging the gaps in primary and technical education and rather less on large-infrastructure-investment-led growth.

5. Specific feedback from the various sessions is presented below:

6. **The education session put much emphasis on the need to fill education gaps by providing more budget; improve quality of education and focus more on skill development by boosting efficiency.** There was consensus amongst participants that there is a large disconnect between skills needed by the economy and what students learn at school. Multiple sources of inefficiency were pointed out, including schools being constructed without teachers or materials; the existence of school training programs not relevant for the geographic

area in which they are located; the existence of parallel training courses organized by the private sector; and diploma inflation because students fail to find jobs. Greater coordination and collaboration with the private sector was deemed desirable, as was creating a culture in which not all students vie for public sector jobs. The inability to coordinate and the absence of incentives to pursue reforms were identified as key reasons for the limited progress made to identify these issues to date. Stronger leadership, including from the World Bank was identified as highly desirable, as it could help solve coordination issues.

7. During a dinner with intellectuals and academics, the limited scope for policy reform was highlighted. Governance was identified as a key obstacle to policy reform, while private sector led growth was deemed to be both inevitable and desirable. It was recognized that in the current environment there are too many vested interests blocking reforms, including reforms that would mostly benefit poor households. “Everything in Cameroon is politics, even poverty”, summarized well the overall sentiment, by alluding to the fact that in certain instances politicians appear to have an interest in keeping people poor (for instance because it makes vote buying easier and cheaper).

8. The meeting with MPs, Senators and Mayors emphasized the need for greater empowerment and they shared the SCD’s emphasis on poverty reduction, as continued high levels of poverty were considered to undermine state legitimacy. The effectiveness of typical governance reforms was questioned, and greater empowerment was offered as alternative. This could come in the form of decentralization, strengthening the role of the Parliament, women’s education, improved information provision and more private sector led growth. A wide range of topics was discussed, including the importance of land issues; results based financing in health; tax reforms; the importance of big investment projects to attain middle income status; the need to invest in roads to strengthen Cameroon’s regional logistics function and reduce post-harvest losses; as well as the low capacity of civil servant working at the commune level and its implication for attracting investment projects from FECOM.

9. Specialists from the agricultural sector pointed out that vast knowledge exists on how to increase agricultural productivity, but that this knowledge does not reach farmers. This disconnect (which is less pressing in the cotton sector because of the integrated nature of its supply chain) will need to be addressed to increase productivity at scale. The need to define a package of technical and social interventions to increase production by smallholder farmers was broadly shared, but what such a package should consist of was not evident. Beyond the importance of irrigation, fertilizer and improved seed, many other aspects were brought forward, including the importance of communications, climate-smart-farming and the need to restore degraded soils. The importance of avoiding large scale deforestations was stressed, in view of the country’s expansion of cocoa and oil palm production. So was the importance of nutritionally improved varieties, city-gardens, the high cost of fertilizers, land issues and the advantages of an integrated cotton supply chain. There was consensus on the need for different interventions by agro-climatic zone.

10. Donor representatives subscribed to the three axes of constraints identified by the SCD. They confirmed the importance of private sector development and the difficulty to assessing political feasibility of reforms; lamented the unfinished decentralization agenda and

while in support of a much greater emphasis on northern Cameroon, they warned for absorption problems. The importance of women's education in the northern Cameroon, was stressed, along with the risks associated with the rapid increase in debt. Improved donor coordination to follow up on public finance issues and to coordinate activities in the northern Cameroon were highlighted by various donor representatives. In a separate meeting, the financial difficulties of the cotton company were brought to the attention of the team, along with the liquidity problems that the authorities are presently experiencing.

11. Civil society representatives suggested that there is scope for citizen engagement at the local level, while stressing that scaling up local initiatives is very difficult and actively prevented by the authorities. They highlighted that the convening power of the World Bank could act as catalyst to ensure a better dialogue between civil society, Government and the private sector. Even for local interventions, reaching the poorest remains difficult due to elite capture. Still, there exist ample successful examples from which useful lessons can be learned. As in the meeting with intellectuals, it was pointed out that poverty is politics and that some powerful people seem to have limited interest in reducing poverty. Without making the connection directly, questions were asked about why the many interventions in northern Cameroon are yielding so poor results. The directives of the CEMAC, for instance, with regards to the creation of a Supreme Audit Institution, were identified as a means to strengthen oversight and accountability. And so were more participatory approaches, strengthening university research and completing the decentralization agenda. Civil society indicated that they could play an active role in project supervision and generating beneficiary feedback.

12. It was acknowledged that youth is deeply frustrated by a lack of economic opportunities and representation. This gets reflected not so much in opinion polls (youth tends to be uninterested in politics) but in anti-social behavior (drugs; violence) and many youths trying to move abroad. Whether the youth' frustration will lead to widespread protest is not obvious. A culture of repression effectively suppresses protests. This does not mean violent protests cannot occur: it already happened, for instance in 2008. In fact, the absence of an outlet for their frustration may make the youth a tinderbox waiting to be ignited.

13. A meeting with private sector representatives identified bureaucratic inertia, corruption, poor road infrastructure, land issues, difficulties with contract enforcement, due to an overextended judicial system and hostility towards the private sector as main constraints to doing business. The participants lamented the (re)-centralization of decision making in Yaoundé (moving customs away from the main port and center of economic activities) and the decline of many economic services (CAMAIRCO; road quality) because of a lack of attention, lack of funds, poor maintenance, mediocre leadership, etc. Participants also noted the distrust of the private sector towards the Government, since the private sector is apparently wary of a "Berlusconi syndrome". This has led to the Government only halfheartedly backing an indigenous private sector development. This distrust is further exemplified by the rather limited indigenous participation in the privatization process, as well as the limited appointment of private sector cadres to ministerial positions. A moment of soul-searching brought out that the business community itself is quite fragmented and that if they were to appear more unanimous in their interactions with the Government, the likelihood of being heard would probably improve. The meeting also identified low civil servant wages as a

reason behind much of the corruption and inertia. There was broad support for fewer but better paid civil servants. Ample business opportunities exist in Cameroon, as well as in the region: particularly the Nigerian market is attractive but unlocking this potential requires improved road connectivity.

14. The members of the CTS DSCE noted the close alignment between the DSCE and the three axes identified in the draft SCD. They questioned the team on the sustainability of a system of redistributive transfers, while offering suggestions on how the disincentives, caused by high per diem levels could be presented in a more politically palatable manner (low civil servant salaries; need to address inequalities in the bureaucracy; need to avoid a bureaucracy that operates at two speeds). CTS members pointed out that there should be no doubt about the political will for policy reform. “The country has been in reform mode since 2000.” However, they agreed that certain reforms were taking time to come to fruition. Finally, it was pointed out that spatially blind service delivery might not be sufficient and that compensatory measures might be necessary to address the needs of lagging regions.

Annex 3: Key Messages from SCD Retreat: December 1-2, 2015

1. **The Cameroon country team met during December 1 and 2, 2015 in Washington DC and Yaoundé to discuss the draft SCD. Key results of that discussion are summarized below.**

2. **The team supported the overall storyline of the SCD.** In particular, although growth in per capita GDP in Cameroon, has been broadly positive since 1994, it has been too slow to deliver a rapid reduction in poverty or the transformation expected under Vision 2035. In fact, during 2001-2014, poverty increased in rural areas, and especially in the North, both in absolute and relative terms. Human development indicators are poor. For example, maternal mortality rates are higher than the average for sub-Saharan Africa as a whole and median years of schooling for women in the North is zero. In addition, there is a risk that rising debt levels will soon become unsustainable.

3. **There was broad agreement within the country team on how to address these challenges:** it will be necessary for the country to: 1) accelerate its average rate of economic growth; 2) redistribute the dividends of this growth more equitably; and 3) strengthen the efficiency, effectiveness and accountability of governance systems in order to enable these changes. Reflecting these challenges, the country team agreed that key constraints facing Cameroon could be grouped in the following three clusters:

- Reducing vulnerability and increasing rural incomes by addressing multiple poverty traps, particularly in northern Cameroon.
- Facilitating private sector-led growth by both the formal and informal sector.
- Reducing fragility and improving governance of the public and private sectors.

4. The team also agreed on the following: first, although governance cuts across both of the first two clusters of constraints, it is of sufficient importance to merit consideration as a separate organizing theme. Second, it was right to highlight the particular needs of the North and Far North under the first cluster of constraints, while noting that some issues, such as insecurity and climate change also affected other parts of the country. Third, it was important that the SCD avoid ‘picking winners’ by specifying particular sectors to be supported, although sectors that were relatively labor-intensive could contribute disproportionately to the goal of redistributing income.

5. The country team emphasized the following points with respect to the first cluster of constraints:

- In order to adapt to the effects of climate change, it was important to encourage climate-smart irrigation and other farming technologies, as well as to take into account the water footprint of cotton in the context of diminishing water supplies.
- Pastoralism and livestock management are important sources of livelihood for people in the North. These require support services that are distinct from agriculture. Tensions between pastoralists and other inhabitants in the region are a source of insecurity.

- There is clearly scope to increase social protection in Cameroon. For example, an efficient cash transfer scheme could reduce the share of the population in poverty to 3 percent, at a cost of 2.7 percent of GDP. A well-designed social protection scheme can also be a means of promoting productive livelihoods, improved social indicators etc. Developing an effective social protection system in Cameroon, however, will need to recognize that, currently, social protection barely exists in the country.
- Improved sanitation is an important additional aspect of rural development. It has an impact on school achievement, health and safety particularly for women and girls, and overall productivity. This should, therefore, be considered as part of the package of measures to increase human capital.
- Vocational skills training at secondary school level is an important aspect of strengthening human capital among rural communities.

6. The following issues were discussed by the team under the broad heading of private sector led growth in the formal and informal sectors:

- Housing is a key priority for the Government. There is an overall deficit of about 1 million homes. As highlighted in the World Bank's recent report on housing, however, tackling this deficit should be done incrementally. In addition, improved housing would be best treated in the SCD as an outcome of reforms in relevant markets, notably land and finance.
- Agri-business was also acknowledged as an important priority for the Government and a potential means of linking rural and urban areas. The team agreed that agri-business, and potentially other linkages between rural sector outputs and manufacturers in urban areas, were best captured under the concept of value chains (located under the first cluster of constraints, but linking to the second cluster).
- Urban development was acknowledged as the source of significant current and potentially further economic growth. The team agreed, therefore, that sustainable and inclusive city development should be included as a means of contributing to economic growth.
- Desired financial sector reform includes capital market development and non-bank finance, as well as reforms in the banking sector. Examples of non-bank financial products would include products suitable for use via mobile phones.
- The team also agreed that further focus on improving the efficiency of border controls and encouraging openness and competitiveness in key sectors, such as telecoms and urban water, were also important.

7. Under the third cluster of constraints the country team emphasized the importance of:

- Security measures, particularly though not exclusively, in the North, as well as structural measures to enhance local empowerment and state accountability to citizens.
- Increasing the share of public spending allocated to the social sectors and improving the technical efficiency of expenditures including capital expenditures.
- Enforcing regulations that apply to state-owned enterprises.
- Strengthening the functioning of the legal system.
- Improving land tenure security.

