Statement by Bassary Touré  
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**Cameroon: Country Assistance Strategy - Progress Report and Enhanced HIPC Preliminary Document**

In response to a severe economic crisis, Cameroon implemented, starting in 1988, a series of economic and structural reforms aimed at stabilizing the economy, restoring internal and external viability, fostering economic growth, and improving social conditions. In particular, structural reform efforts concentrated on the liberalization of the coffee and cocoa sectors, the revision of the forestry code, and liberalization of prices and the labor code. This attempt to stabilize the economy and restore internal and external balances through internal adjustment alone, including a major cut in civil service wages in 1993, did not produce the expected results, leaving the country with an unmanageable debt, large external and internal arrears, a demoralized civil service, and a financial sector in crisis. It also led to a deterioration in relations between the government and its domestic and external partners, with a breakdown of trust with creditors and civil society.

The situation began to improve following the CFA franc devaluation in January 1994, and the growth rate turned positive, attaining 5 percent in 1995-96. Yet, economic and financial management still remained unsatisfactory; two more IMF stand-by arrangements went off track, and disbursements under the IDA-financed Second Structural Adjustment Credit were suspended.

It is against that backdrop that the Head of State decided, in late 1996, to install a new economic management team in key policy positions with a specific mandate to bring the situation under control and restore relations with external creditors and the Bretton Woods Institutions, in particular. The new government was confronted by serious imbalances in the country’s macroeconomic situation and in almost all areas of the public sector. Recognizing that it would be impossible to tackle all these issues at once, a sequential approach to reform was adopted with the support of the Bretton Woods Institutions. It is important to note that this sequential approach involved a “first generation” of reforms that concentrated on
macroeconomic stability, public finance, relations with external creditors, restructuring of the banking system, privatization, economic liberalization, transportation, and forestry. Equally important is the clear recognition by the Staffs that since late 1996, the government has demonstrated its commitment to this program of reform and that encouraging progress has been made in every single area that was put under the selective focus of that program. Box 1 in page 11 of the HIPC paper captures quite well that progress.

Among others, special mention can be made of the significant steps taken in the areas of civil service reform that led to the lay-off of 25,000 employees and a huge salary cut with a devastating impact on civil service morale, absenteeism, and the quality of services provided as well as in the areas of public expenditure management and fight against corruption (paragraphs 11, 12 and 14 respectively of the HIPC paper). On the latter, it is worth noting that the government established, last year, a high-level ad hoc committee for the fight against corruption, chaired by the Prime Minister with a view to addressing corruption at all levels of the society. In addition, efforts have been made to improve tax administration: audits of the national oil company were carried out to ensure that all oil sector revenues are transferred to the budget in a timely and transparent manner; also, forestry harvesting rights are now allocated through a competitive bidding process, in the presence of an independent observer. This approach will also be followed in the reform of public procurement. Some high-ranking public officials who were accused of fraud, corrupt practices, and embezzlement of public funds have been replaced and some of them arrested.

It is worth noting that this ambitious program which put a special emphasis on the normalization of Cameroon’s relations with its external creditors, has been undertaken with merely no external assistance. As a result, net transfers of resources to the country remained negative throughout the whole period of the reform, including vis-à-vis the Bank/IDA. Last but not least, the quality of Bank’s portfolio has also improved significantly.

While my Cameroonian authorities take pride in the key achievements mentioned above, and understand the dynamic behind the gradual approach followed in the ongoing first generation program to tackle their economic problems, their sense of frustration remains high in view of the limited impact of the improved macroeconomic situation on social sectors. It is their view that while the achievements in the macroeconomic area have been important in preventing any further degradation of average living standards and creating the momentum for bolder social policies, the impact of growth on the poor is yet to be seen. More than half of the population remained below the poverty line in 1996, and about one quarter of the population were below the extreme poverty line. Key social sectors such as education and health are facing stringent difficulties partly due to the perverse effects of some of the measures (lay-off, salary cut, etc) undertaken within the stabilization program. As a result, progress that had already been building up from Government’s previous effort has slowed down in areas such as infant, child, and maternal mortality rates, in spite of ongoing corrective actions.

For the coming three years, the Government’s main objectives are to (i) complete the implementation of ongoing macroeconomic and structural reforms and enhance their impact and sustainability; and (ii) introduce a second generation of reforms aimed at bringing the poor more fully into the growth process and building a basis for long-term social development. The Government is aware that building a tight link between the prospective reduction in debt
payments and poverty outcomes, will require a greater focus on the efficiency and targeting of public expenditures as well as a shift of resources in favor of development activities, notably health, education, rural development, and infrastructure. Efforts are underway to address that issue through the coming PRSP. They are also seeking to strengthen the consultation process through an active involvement of beneficiaries and stakeholders in the PRSP process.

Special emphasis will be put on the issues of institutions, governance and anticorruption with a view to improving the quality of public services and fight corruption. Looking forward, efforts will focus specifically on (i) putting in place an overall governance strategy; (ii) decentralizing service delivery; (iii) undertaking supportive reforms at the central government level; (iv) initiating a serious effort to improve governance in the judicial sector; and (v) ensuring the establishment of an appropriate incentives-cum-regulatory framework and oversight institutions for private sector development.

Last but not least, the Government has made the HIV/AIDS issue a top priority in view of the relatively high rate of prevalence of this disease in Cameroon. My Cameroonian authorities believe that HIV/AIDS epidemic is no longer just a public health issue. If not contained, it will be the greatest single threat to the development of the country, as it decimates the labor force, shortens life expectancy, exhausts savings, fractures and impoverishes families, orphans millions, and shreds the fabric of society.

My Cameroonian authorities are grateful to the World Bank Group as well as to their other development partners for a valuable support that was instrumental in enabling the country to speed up its reform process. They will feel very much encouraged by further and bolder support from the international community at large, for they see such support as a fair recognition of the country’s renewed and sustained adjustment efforts. In that respect, they welcome the CAS progress report under consideration today. Although they would have rather liked to see a full CAS providing the Board with a much broader and updated view on their reform agenda, they can go along with the proposed Bank’s interim strategy in the timeframe (12 to 18 months) suggested in paragraph 45 of the CAS progress report with the two main objectives outlined in the same paragraph, i.e. : (i) to complete the implementation of the program set out in the 1996 CAS and the 1998 progress report; and (ii) to utilize the PRSP process and the enhanced HIPC initiative to support second generation reforms to address poverty reduction issues more rapidly and effectively with particular emphasis on governance, corruption, and the social sectors. They look forward to the preparation of a full CAS in the nearest future, and find the link made in paragraphs 53 and 54 of the progress report, between the preparation of such CAS and the completion point of their debt reduction program, inappropriate. Finally, they are confident that the ongoing improvement of their country’s performance will trigger more support from the World Bank Group (including IFC and MIGA) to their reform process and, particularly, a speeding up of the ongoing work in the areas of both financial and non-financial activities identified by the Staff in the CAS-Progress report.

As rightly pointed out by the staffs both in the CAS progress report and the HIPC preliminary document, Cameroon’s unsustainable debt burden, its high poverty level, and its satisfactory track record in implementing the ongoing macroeconomic and structural reforms make it a typical and deserving HIPC case. The enhanced HIPC initiative should provide the country with a unique and historic opportunity to reduce its debt service to sustainable levels and
free up the resources needed to consolidate the momentum created by the successful implementation of the first generation program as well as to tackle the remaining challenges set forth.

My Cameroonian authorities welcome the link between the assistance under the Initiative and poverty reduction, which has become the centerpiece of their reform agenda. They are ready to take all necessary actions in order to ensure that the debt relief is effectively used and monitored in a manner acceptable to creditors. In this context, they are determined to successfully complete the current economic and financial program supported by the PRGF in order to establish a solid economic basis for undertaking wide-reaching social policies in the sectors of health, education and basic infrastructure. As stated above, poverty reduction will be at the heart of their second generation reform agenda. Given the narrow headroom available for the implementation of that agenda, they are of the view that failure to granting their country, in as timely a manner as possible, the appropriate levels of HIPC resources and additional fresh resources, would have a devastating effect on their reform efforts and on the level of poverty in the country. Finally, my Cameroonian authorities would like to draw the attention of the international community to the heavy burden of domestic debt, which, at about 25 percent of GDP, is another major impediment to the full economic recovery of their country.

In conclusion, it is worth noting that Cameroon’s overall performance over the period covered by the ongoing Bank Group’s strategy has been quite impressive. As documented by both Bank and IMF staffs, namely through their positive assessments of the ongoing three-year-PRGF program (1997-2000) and SAC III that are both being implemented satisfactorily, the country has made encouraging progress in several key areas. The impressive list of achievements spelt out throughout both the CAS progress report and the HIPC preliminary documents is strong evidence that the country’s commitment to revamping the economy and to setting the stage for sustained growth and poverty reduction has, indeed, remained strong over these past three years. It is also a clear indication that a reform culture has taken root in the country, that creates a basis for further strengthening the government’s effort in such key areas as governance and promotion of social sectors through the second generation reform program to be launched very soon, upon completion of the current PRGF.

Based on the satisfactory developments that are occurring in Cameroon and in view of the need to help the Government consolidate the consensus around its reform agenda. I believe that the country deserves first and foremost, an unambiguous recognition of the tremendous progress it has made under extremely difficult circumstances as well as an encouragement to further strengthen the reform effort. My Cameroonian authorities would also appreciate a clear, positive and bold support from this Board to the second generation program that will be launched soon and welcome any decision from this Board that would ensure early qualification of their country to the Enhanced HIPC Initiative. They are in agreement with the DSA provided through the Interim HIPC document and concur with the recommendations made by Management in that document, namely as regards the level of assistance required and the decision point around September 2000 with the use of June 1999 data. I look forward to your support to this CAS progress report as well as to the relating preliminary HIPC case before us.