

INTERNATIONAL MONETARY FUND



Staff Country Reports

Cameroon: Joint Staff Assessment of the Poverty Reduction Strategy Paper

The attached Joint Staff Assessment (JSA) of the Poverty Reduction Strategy Paper Progress Report for Cameroon, prepared by the staffs of both the World Bank and IMF, was submitted with the member country's Poverty Reduction Strategy Paper (PRSP) or Interim PRSP (IPRSP) to the Executive Boards of the two institutions. A JSA evaluates the strengths and weaknesses of a country's poverty reduction objectives and strategies, and considers whether the PRSP or IPRSP provides a sound basis for concessional assistance from the Bank and Fund, as well as for debt relief under the Enhanced Heavily Indebted Poor Countries (HIPC) Debt Initiative. The Boards then decide whether the poverty reduction strategy merits such support.

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org • Internet: <http://www.imf.org>

**International Monetary Fund
Washington, D.C.**

This page intentionally left blank

INTERNATIONAL DEVELOPMENT ASSOCIATION
AND
INTERNATIONAL MONETARY FUND

CAMEROON

**Poverty Reduction Strategy Paper
Joint Staff Assessment**

Prepared by the Staffs of the International Development Association (IDA) and the
International Monetary Fund (IMF)

Approved by Callisto Madavo and Gobind Nankani (IDA)
Amor Tahari and Anthony Boote (IMF)

July 8, 2003

I. OVERVIEW

1. **The Poverty Reduction Strategy Paper (PRSP) prepared by the Government of Cameroon builds on the strategy laid out in the Interim Poverty Reduction Strategy Paper (I-PRSP) presented to the Boards of the International Development Agency (IDA) and the International Monetary Fund (IMF) in October 2000.**¹ The PRSP was prepared via intensive consultations with broad representation of stakeholders, including the poor, civil society, the private sector, and development partners. The PRSP describes this participatory process, profiles the nature of poverty in Cameroon, and presents the government's strategic vision, objectives, and priority actions for fighting poverty in line with the Millennium Development Goals (MDGs) set for 2015.

2. **In the staffs' view, Cameroon's PRSP provides a comprehensive and coherent framework for guiding the implementation of a poverty reduction strategy.** The strategic framework of the PRSP rests on seven pillars: (i) promoting a stable and growth-enhancing macroeconomic environment; (ii) strengthening growth through economic diversification; (iii) empowering the private sector as the main engine of growth and a partner in social services delivery; (iv) developing basic infrastructure and natural resources in an environmentally sustainable manner; (v) accelerating regional integration within the CEMAC framework; (vi) strengthening human resource development and bolstering social services;

¹ The report was distributed to the World Bank and IMF staffs on April 9, 2003.

and (vii) improving governance, including in public administration and the legal and judicial system.

3. **The PRSP is based on several features that the staffs consider to be good practice, including (i) the scope of the consultative and participatory process; (ii) the breadth and depth of poverty analysis, which is based on monetary and nonmonetary indicators and combines quantitative analyses based on household surveys with a qualitative and participatory approach based on how the population and the poor perceive poverty; (iii) clearly quantified targets that use the MDGs as benchmarks, with explicit timetables for achievement; (iv) a comprehensive development framework for sustainable growth and poverty reduction; (v) a careful identification of the main priorities of the regional integration agenda; and (vi) an approach for projecting the macroeconomic framework and costing the sectoral strategies, combining the “requirement approach” (the cost of reaching the sectoral/MDG targets) and the “availability approach.”**

4. **The PRSP adequately assesses the main exogenous and endogenous risks affecting the implementation of the strategy, including terms of trade shocks and absorptive capacity weaknesses, especially in the execution of public expenditure programs.** The staffs concur with the analysis of the main risks that could hinder growth and poverty reduction, but underscore the need to strengthen the institutional capacity to mitigate and manage the risks related to structural and managerial factors.

5. **Nevertheless, the staffs note a number of shortcomings of the PRSP and welcome ongoing efforts by the government to address these deficiencies.** First, although the PRSP provides a detailed description of future actions, discussions of the growth and distributional impacts of past policies are limited. Second, the document could have provided more details on the institutional framework for monitoring the poverty reduction strategies. Third, the document could have stated how PRSP priorities and the related Medium Term Expenditure Framework (MTEF) form the basis for budgetary allocations in the future. Fourth, some key concerns identified in the poverty analysis such as gender inequality, high unemployment, and inclusion of vulnerable groups have not received adequate attention in the PRSP.

II. THE PARTICIPATORY PROCESS

6. **Cameroon’s PRSP is the result of an intensive and broad-based participatory process that has included direct consultation with a large cross-section of the population, including the poor.** In January 2000, a national workshop was convened to launch the PRSP consultative process and design its institutional framework. The consultations, held over the period 2000–02, involved 203 target groups (about 10,000 people, two-fifths of whom were women) representing a broad cross-section of the population and covering the main geographical regions of the country. Donor representatives also attended the consultations as observers.

7. **The analytical building blocks of the PRSP were developed by teams in a highly participatory process.** This included the preparation of strategies for priority sectors (education, health and rural sectors), studies on the sources of growth, macroeconomic and sectoral simulation modeling, and poverty and social impact analyses.

8. **The drafting of the PRSP was carried out through an iterative and consultative process in which comments from stakeholders were solicited at various stages and used to improve the document.** Retreats were convened in July and December 2002, where civil society, the private sector and the government discussed preliminary ideas and drafted the document. A draft of the PRSP, incorporating the comments from the participants of earlier workshops, was then presented in workshops with the civil society in December 2002 and with the donor community in March 2003. The document was then finalized and formally adopted by the government in early April 2003. Elected lawmakers were invited to the main PRSP presentation workshops.

III. POVERTY DIAGNOSIS

9. **The poverty diagnosis presented in the PRSP provides a candid and comprehensive description of the levels, spatial distribution and dynamics of poverty in Cameroon, effectively integrating both quantitative and qualitative data.** The staffs support the multidimensional definition of poverty presented in the PRSP and are encouraged to see the inclusion of nontraditional dimensions, such as civil rights, security, and exclusion.

10. **The analysis used data from a variety of surveys, including two nationwide surveys of household living conditions (ECAM I, 1996 and ECAM II, 2001) and a multiple indicator cluster survey (MICS, 2000).** The poverty assessment effectively disaggregates the data by key socioeconomic characteristics of poverty, namely by age, gender, level of education, and profession. The quantitative analysis is reinforced by qualitative information derived from the consultative process and a series of region-specific socioeconomic studies, which provide the basis for the food and nonfood poverty lines. The poverty profile indicates that in 2001, 40 percent of the population lived below the poverty threshold of CFAF 232,547 of annual expenditures. This is roughly the equivalent of the international core poverty benchmark of one dollar per person per day. It also reveals large differences in income poverty and social indicators across regions, including access to basic education, health, and infrastructure services.

11. **The PRSP provides an analysis of the determinants of poverty and highlights the implications for the strategy's formulation.** The relationships between poverty and geography, family composition, gender, education, occupation and other key factors reflecting access to basic infrastructure and services are clearly indicated. The PRSP presents a brief vulnerability analysis, illustrated by the impact of fluctuations in the prices of essential consumer goods. However, the staffs suggest that this analysis, which is performed at the aggregate level, be further refined by focusing on households and include, for example, the rising HIV/AIDS incidence.

12. **The PRSP also discusses the dynamics of poverty, including linkages between poverty, growth, and income distribution.** The analysis indicates that income poverty in Cameroon declined by as much as 13 percentage points over the 1996-2001 period. Most of this gain is attributed to income growth (11 percentage points) rather than improved income distribution (2 percentage points). Statistical tests were appropriately done to confirm the robustness of the decrease in the poverty rate. As for the decomposition, the analysis also suggested that both growth and inequality evolved favorably over the past five years. Deeper analysis would be needed to confirm the sustainability of this trend (roughly 2 percentage points reduction in poverty incidence per year for a 2 points per capita income growth per year). Should this trend continue and the above results be validated, Cameroon will likely meet the key income poverty MDG target of halving the poverty rate by 2015 under the base case scenario assumptions on growth and demographic changes.

13. **The staffs welcome the extensive analysis in the PRSP to assess the potential distributional and poverty impacts of various shocks and policies.**² However, the PRSP includes limited analysis on the growth and distributional impacts of past policies, which could have provided a sounder basis to the evaluation of the proposed poverty reduction policies. The staffs encourage the government to continue work on poverty and social impact analyses, as part of the implementation and monitoring, in key policy areas that were highlighted in the consultative process, such as in the liberalization of the coffee and cocoa sector.

IV. TARGETS, INDICATORS, AND MONITORING

14. **The PRSP presents a set of targets and indicators that are linked to a national monitoring and evaluation system.** The targets are presented in a detailed policy matrix that summarizes priority actions in key sectors for 2003–06. The PRSP also presents a comprehensive list of social and demographic surveys that are planned for the same period in an effort to monitor the progress in meeting these targets. However, the PRSP outlines only broad targets beyond 2004. The staffs would encourage the government to set specific annual targets and indicators to facilitate implementation and monitoring. The PRSP provides quantified targets related to the MDGs, especially in the health and education sector, and indicates the resource gap that will need to be filled in education and health for the country to remain on target with the MDGs. In the staffs' view, reaching the MDGs, beyond the resource requirement, would demand the implementation of efficient policies, including an improvement in the absorption rate, and the strengthening of institutions. Furthermore, the

² The analysis is based on the 123PRSP model, which is a simple computable general equilibrium model designed to capture the salient links between macroeconomic policies and shocks and poverty in line with the structural characteristics of the country. (Cf. A Source Book for Poverty Reduction Strategies, The World Bank, 2002, for more details on the 123PRSP model).

staffs would suggest that the government formulate a strategy for effective partnership with the donor community in line with the MDG 8 (“developing a global partnership for development”) and specify targets accordingly in the first PRSP Progress Report. Also, while the poverty assessment in the PRSP rightly recognizes the significant differences in poverty between rural and urban areas and across different regions (poverty rate, infrastructure, education and health status), the selected monitoring indicators do not adequately reflect the rural/urban and regional dimensions. To address this issue, the government has planned to initiate a poverty mapping exercise to provide social indicators and poverty data by geographic regions. This will require close collaboration with local governments in the identification and monitoring of indicators. Furthermore, the staffs would encourage the government to identify the indicators and the appropriate institutional framework for monitoring progress on gender equality and the participation of women in the development process.

15. Cameroon’s statistical apparatus is expected to be gradually upgraded in order to effectively monitor the PRSP. The surveys planned for 2003–06 are part of a minimum statistical program, which is financed by HIPC debt relief resources and by technical assistance from multilateral and bilateral partners. The PRSP identifies a series of poverty reduction strategy (PRS) monitoring activities and outlines how the relevant institutions will be strengthened to produce results of adequate quality on a timely basis. A major challenge will be to address the links between central data collection and analysis and the need to monitor inputs, outputs, and outcomes at the local level. The staffs encourage the government to improve the coordination of statistical activities among government institutions and to expedite the launching of the National Institute of Statistics and the strengthening of the General Data Dissemination System (GDSS), which the authorities intend to use as the principal information dissemination and communication channel.

16. The challenge for Cameroon will be to implement effectively a sustainable monitoring system that promotes public accountability and to ensure that monitored outcomes help update policies and budget decisions. At the interministerial level, the Interministerial Committee chaired by the Prime Minister, which is responsible for monitoring progress toward meeting the HIPC completion point, will also supervise the implementation of the PRSP. The Committee will be assisted by the Technical Committee for Monitoring Economic Programs (“*Comité Technique de Suivi des Programmes*” (CTS)), which has played the lead role in coordinating the preparation of the PRSP. The PRSP also states that the government will adopt a participatory monitoring process and indicates that the authorities intend to rely on a National Network on Poverty Reduction, which would comprise representatives of civil society organizations (e.g., nongovernment organizations (NGOs), religious associations, teachers, trade unions) and of the central and local governments. The objectives of the network will be to communicate the main actions implemented under the PRSP to civil society and engage it in monitoring the impact of the actions on the poor. The authorities have proposed to start the network on a pilot basis in selected regions. The staffs encourage the government to spell out in more details the proposed institutional arrangements for the participatory monitoring system, the respective

roles of civil society organizations, the central and local governments, as well as the required capacity to strengthen participatory monitoring and the evaluation of the PRSP. Also, in the staffs' view, the government needs to take a strong lead in mobilizing and coordinating donor support using the PRSP as the main policy framework.

V. STRUCTURAL AND SECTORAL POLICIES

17. **The staffs consider the selection of priority areas as appropriate and broadly in line with the previously described poverty diagnosis and the preliminary sources of growth analyses.** The selection is based on the seven strategic pillars of the PRSP listed in paragraph 2. It reflects the main objectives of the PRSP, including the consolidation of growth through economic diversification, the promotion of the private sector, the development of basic infrastructure and natural resources, the acceleration of regional integration, the strengthening of human resources and social sectors, and the improvement of governance.

18. **The PRSP acknowledges, first, that economic diversification and improving human capital will provide the impetus for increasing and sustaining growth.** It states that reliance on the primary sector as the source of growth would over time be reduced as private sector activity in favor of manufacturing and modern, high value-added services activities (e.g. tourism, transport, and telecommunications) increases. To this end, several sectoral studies on growth and competitiveness of the Cameroonian economy have been prepared with a view to identifying impediments to private sector development at the sectoral level. The PRSP indicates that a detailed analysis (supply-chain analysis and investment climate survey) in a number of sectors will be undertaken. In the staffs' view, the government would need to focus on improving key infrastructure and the regulatory and business environment through market-based, non-discriminatory policies. These steps should help remove distortions in the incentive system and thus contribute to greater private sector activity in new fields.

19. **The PRSP underscores the role of the private sector as the main engine of growth and a key partner in the supply and delivery of basic social services.** It identifies several obstacles faced by the private sector in Cameroon, including weaknesses in the judicial system, the deficiency and high cost of infrastructure services (transport, telecommunications, energy), and inadequate access to financial resources for the small and medium size enterprises. The PRSP affirms the commitment of the government to improving the overall business and investment climate and disengaging from commercial and productive activities in favor of a more effective regulatory role. This commitment underlies the ongoing reform programs, including privatization, the steady implementation of the governance agenda, and the expansion and better maintenance of basic infrastructure. The PRSP also stresses the importance of financial sector reform to support private sector-led growth, specifically emphasizing the role of microfinance for the poor. However, more attention needs to be given to (i) the obstacles that stand in the way to the provision of credit, including through market-based agricultural/rural finance and specialized financing institutions; and

(ii) the ongoing social security reform program. The reference to the regional initiative to issue government treasury bonds to deepen the financial markets in the CEMAC is welcome. The staffs believe, however, that as planned the issuance of government bonds should replace the central bank advances to government as an instrument of domestic financing.

20. **The PRSP rightly emphasizes the dual role of human resource development as a pillar of human capital formation and growth, and for broader social development.** The PRSP discusses the policies and programs in the education and health sectors in ample detail with considerably less detailed treatment of the other social issues relating to gender, social security, and urban development.

21. **The staffs fully endorse the education sector strategy that includes the policies and programs that have been discussed over the last couple of years.** In particular, the PRSP (i) provides a well defined set of indicators with baseline trends and quantified targets consistent with the MDGs, including a timetable for achieving universal primary education; (ii) indicates key policy choices, priorities, actions and programs, appropriately costed; and (iii) presents a detailed sectoral MTEF, which clearly relates activities to targets and discusses realistic financing options. The soon-to-be completed education status report would further help refine the education policy choices and cost estimates. The PRSP rightly stresses the governance issues in education, including the decentralization process and public-private partnership in carrying out the sectoral agenda. However, the staffs note two key areas that need strengthening. First, the policy of targeting predetermined priority regions (the “Priority Education Zones” (ZEP)), which figured prominently in previous strategic documents, did not receive similar emphasis in the PRSP. The government should review the status of the ZEP, indicate how it fits in the new strategy, and what is required for its implementation. Second, it would be useful to present a more complete description of the essentials of this technical education sector strategy in the first PRSP Progress Report, based on the strategy for the technical and vocational education sector to be launched shortly.

22. **The health strategy evolves around 13 programs for primary health care, combating the major epidemics, such as malaria and HIV/AIDS, strengthening the private-public and local-central partnerships, making medicines more accessible and affordable, improving the network of basic health facilities, developing human resources, and improving governance and management.** The proposed actions and policies will be further refined with the results of the upcoming demographic and health survey. The staffs welcome the renewed public attention to the HIV/AIDS epidemic, which focuses on both prevention and treatment programs. The strategy is based on a multisectoral, decentralized approach with enhanced partnership with civil society. The staffs note, however, that (i) the strategy could be complemented with more specific measures focusing on the families of HIV/AIDS victims, especially orphans; and (ii) the PRSP does not adequately address health poverty issues in the most deprived areas.

23. The strategy for the rural sector and forestry draws from the government's comprehensive rural development strategy. It takes account of the rural dimensions of poverty and proposes practical approaches. However, two issues deserve more attention. First, the government needs to develop institutional approaches for the implementation and monitoring of the proposed rural development policy programs and, in this context, clarify the mandate of the Technical Secretariat for coordinating the activities of the various ministries and nongovernmental agencies involved in rural development. Second, the respective roles of the government and of the private sector, as well as the measures to foster public-private partnerships in promoting rural development and agricultural growth, need to be clearly articulated.

24. The PRSP rightly stresses the importance of urban development for reducing poverty. Cameroon's well developed urban network constitutes an important asset for growth and poverty reduction. The staffs welcome the preparation of an urban sector strategy and propose that the details be presented in the first PRSP Progress Report. A specific focus on rural-urban and subregional migration would be beneficial. In particular, the development of secondary towns and market centers should be encouraged as a core element of a growth strategy incorporating rural/urban linkages.

25. The PRSP indicates that other social sector strategies are in preparation, especially for promoting gender equality, creating employment, and facilitating the inclusion of the youth and vulnerable groups in mainstream development activities. However, a timetable for the completion of the strategy documents and the time frame for implementation would have been useful. While the staffs welcome the government's plans to produce a sectoral strategy for promoting women by December 2003, a gender focus is needed in sectoral strategies, to recognize the cross-cutting nature of gender issues. Such specifics could be detailed in the first PRSP Progress Report.

26. The PRSP presents a sound framework for transport infrastructure development, which constitutes a good starting point for future improvements in the sector dialogue. Further discussion could focus on the overhaul of the road fund, the balancing of investment and maintenance activities, and the introduction of an autonomous contracting agency as an enabling link between public administration and the private sector. The PRSP rightly emphasizes the importance of adequate supply of water, energy, and telecommunications services to enhance households' standards of living, as well as their productive capacities. However, the staffs would urge the government to develop its strategies for expanding supply and improving access; clarifying the roles of the public and private sectors, including their respective roles in setting up and implementing the regulatory framework; identifying and costing needed investments; and establishing monitoring indicators.

27. The staffs welcome the emphasis on improving governance, which is one of the seven pillars of the PRSP and a critical cross-cutting subject area with significant impact on PRSP implementation. The lack of good governance was identified in the

participatory consultations as a major obstacle to poverty reduction, equitable economic development, and social progress. The PRSP clearly relates key reforms and objectives to be accomplished under the National Governance Plan adopted in 2000. Progress has been made in some areas, including in public procurement and the implementation of the IFMS. Unless this progress is sustained, the effective delivery of public services may be compromised and the country's ability to mobilize the required investment and external financing support may thus be adversely affected.

28. **The PRSP is relatively weak on the key issues of justice and security.** The staffs would urge the authorities to include an action plan for improving the judicial system in the first PRSP Progress Report. The results from the consultative participations identified violence, corruption, and the lack of security as important elements of, and contributing factors to, poverty. The staffs note that in a country where insecurity has been deteriorating at an alarming pace, especially in the main cities of Douala and Yaoundé, a plan of action to improve the security of persons and goods would merit a place in the PRSP. Therefore, the staffs urge the government to address this issue in the first PRSP Progress Report, especially since it also has important ramifications for foreign investment, private sector development, and growth.

29. **The staffs welcome the PRSP's explicit designation of regional integration as one of the seven pillars of its economic diversification and accelerated growth strategy for sustainable poverty reduction.** The PRSP adequately identifies the main priorities of the regional integration agenda defined in the CEMAC Treaty and in the Secretariat's programs. In addition, the PRSP makes a compelling case on how Cameroon could bolster cooperation and integration in Central Africa, while also benefiting from regional opportunities and enhancing its capacity to fight domestic poverty. Specifically, the macroeconomic policy framework developed in the PRSP takes account of the regional "macroeconomic stability pact" within the fixed-exchange rate CEMAC zone. The PRSP also acknowledges the importance of expediting the implementation of infrastructure services market integration programs, including the CEMAC/NEPAD road transport infrastructure plan, the port reform program, the Yamoussoukro Decision (1999) liberalizing air transport, and the interconnections of telecommunications networks in the subregion. The PRSP also highlights areas of cooperation and cross-border activities that most directly affect the poor, including, in particular, the newly completed sub-regional framework for microfinance, the January 2003 decision by the Heads of States to promote a CEMAC passport for facilitating labor movement across the subregion, and the identification of main corridors for fighting the HIV/AIDS epidemic. However, the staffs would urge the government to commit to embark on a few priority actions that would most significantly affect the consolidation of the common market, as well as its poverty reduction strategy. Although the PRSP mentions that neighboring Nigeria offers opportunities for Cameroon, it does not provide any specific actions on how Cameroon could benefit from anchoring future development on the cooperation between Nigeria/ECOWAS and CEMAC.

VI. MACROECONOMIC FRAMEWORK

30. **The PRSP states that prudent macroeconomic policies are key to sustainable growth and poverty reduction, and it has identified macroeconomic stability as a key pillar of the strategy.** The staffs concur with the assessment in the PRSP that macroeconomic stability is necessary to promote an environment conducive to private investment and growth and to build a solid framework to absorb the additional resources for the priority social sectors and basic infrastructure. The PRSP reiterates Cameroon's commitment to budgetary discipline in line with the convergence criteria defined in the context of the CEMAC and lends its full support to the principles underlying the monetary policy of the Bank of Central African States (BEAC) that aims primarily at maintaining low inflation to sustain external competitiveness given that the CFA franc is pegged to the euro at a fixed exchange rate.

31. **Given the historical average since the devaluation of the CFA franc in 1994, the growth targets (2003–15) are, in the staffs' view, ambitious, but remain attainable.** While GDP growth averaged 4.8 percent per year during 1994/95–2001/02 (4.9 percent in the non-oil sector), the macroeconomic targets, based on an average annual real GDP growth rate of 5.2 percent (5.5 percent in the non-oil sector) for the period 2003–06, are achievable. However, the staffs believe that, to attain these targets, the government would need to accelerate the implementation of its public investment program and to complete its agenda of ongoing institutional and structural reforms. In particular, the government would need to intensify its efforts to strengthen administrative capacity, to improve the execution rate of public investment programs, and to enhance the overall efficiency of public spending and public services delivery, as stated in the PRSP. In the longer term, the PRSP projects an average annual growth rate of 6.8 percent (6.9 percent for the non-oil sector), reflecting the effects of sustained human resource development, infrastructure and private sector development policies, as well as economic diversification in the non-oil sector within the larger and open subregional context. The main engine to consolidate the acceleration of growth is assumed to be a sustainable flow of private sector investment. In the staffs' view, while such a goal is attainable in view of the country's determination detailed in the PRSP, it relies, however, on the full and timely implementation of a large range of reforms, including the building up of a particularly conducive business environment. To this end, the implementation pace of structural and institutional reforms would need to be accelerated in the coming years, a sufficiently solid improvement in corporate and public governance achieved, and the infrastructure capacity of the country substantially and effectively upgraded.

32. **The staffs also note that the macroeconomic framework takes into account the positive effects of debt relief, particularly in the first years of the strategy.** Resources freed by debt relief under the HIPC Initiative are estimated at around CFAF 59 billion (on an average annual basis) over 2003–06, i.e. roughly 0.8 percent of nominal GDP. Additional resources are expected from bilateral sources, especially France (CFAF 63 billion on an average annual basis) under a post cut-off debt cancellation after reaching the HIPC

completion point. Resources from debt relief will help finance increased social spending and public investment in the PRSP framework.

33. **With regard to fiscal policy, the staffs concur with the government's emphasis on raising non-oil revenue beyond 16 percent of non-oil GDP to compensate for the decline in oil revenue and to improve fiscal sustainability.** The PRSP programmed a gradual increase in revenue to be derived from the ongoing reforms of the tax system, including the expected introduction of new income and property tax systems, as well as a steady improvement in tax administration and a reduction in tax and customs duty exemptions. The staffs agree with the objectives of stabilizing the ratio of public expenditures relative to GDP and of ensuring the financing of additional priority expenditures through the savings made possible by the reduction of debt service in the context of the enhanced HIPC Initiative. The PRSP could have explicitly stated that current expenditures in nonpriority areas will remain strictly under control.

VII. PUBLIC EXPENDITURE PROGRAM AND FINANCING

34. **In the staffs' view, the medium-term expenditure framework laid out in the PRSP is consistent with the strategic priorities of the PRSP.** Implementation of the PRSP would benefit from the medium-term expenditure framework (MTEF), which helps ensure consistency between the sectoral objectives, financing needs and resources availability. The PRSP provides detailed costing and financing requirements in priority sectors (education, health, and road infrastructure) using sectoral MTEF projection instruments. The sectoral MTEF projection modules are developed along the same methodology and the key steps are clearly explained in the PRSP: (i) stating explicit policies and targets; (ii) detailing related programs and projects; and (iii) costing programs and aggregating costs to derive the overall sector budget requirement. Based on this MTEF and the assumptions made in the macroeconomic framework, sufficient financing assurances are provided to attain the medium-term objectives laid down in the PRSP.

35. **In the sectors of education, health, and road infrastructure, the PRSP describes two financing scenarios. The first corresponds to a full costing of an MDG-consistent path (i.e. where stated sectoral objectives correspond to the MDGs but a resource gap may appear relative to available financing). The second one ("PRSP-consistent") fits program costs to the resource envelope allocated to each sector within the overall MTEF.** The staffs support this very elaborate work and find the discussion of the two scenarios instructive for the current PRSP and for future analysis and debate. In particular, it reveals the social cost of adjustment in terms of less ambitious objectives and/or delays in meeting MDG objectives. The MTEF exercise discusses the issue of efficiency of public expenditures and the PRSP rightly notes that attaining MDGs objectives in education with the projected available financing would require efficiency-enhancing policy reforms. The staffs encourage the authorities to continue developing MTEF projection tools in other priority areas as strategies are being finalized (e.g. social affairs, telecommunications, water, energy, and urban sectors). The staffs also encourage the government to refine further

existing MTEF projections once future analytical work, such as public expenditure reviews, budget tracking, and poverty and social impact analysis, become available.

36. The introduction of a PRSP and priority sectors MTEF should strengthen the budgeting process and help ensure that resource allocation in the budget is in line with the PRSP priorities. The establishment of an integrated information and financial management system for government revenue and expenditure (IFMS) will enhance the tracking of poverty reduction expenditures. Nevertheless, the staffs note that the PRSP is relatively weak on the institutional aspects of public expenditure management (PEM). For example, the PRSP could have discussed in more details the decentralization process and local participatory planning as mechanisms for improving accountability and public services delivery to local communities. The staffs also consider that more emphasis could have been given to the links between the MTEF, the public investment program, and the budgetary cycle. The PRSP does not indicate the breakdown of expenditures by recurrent and investment spending for all sectors. In addition, the PRSP could have addressed, from an institutional standpoint, the need to improve the budgetary allocation process, including through the integration of the annual budget cycle into the medium-term expenditure framework, and a possible move toward a medium-term budget planning process, consistent with the timeframe of PRSP policies.

VIII. RISKS TO THE STRATEGY

37. The staffs concur with the assessment of the main risk factors underlying the macroeconomic scenario as described in the PRSP. The PRSP provides for extensive sensitivity analysis of the impact of the main exogenous risks, such as an adverse terms of trade shock, in particular a decline in the world market prices of crude oil and cocoa, and a lower than anticipated level of external financing. It also analyses the sensitivity of endogenous factors such as continued difficulties in absorbing available budgetary resources, especially for public investment, and persistent shortages in power supply. The staffs welcome this valuable work, which presents in a synthetic manner alternative scenarios in the risk analysis section. In particular, the PRSP assesses the impact of each of these risks on growth and the public expenditure path, and indicate the possible impacts on long term PRSP objectives, such as the implications for income distribution and overall poverty rate. The staffs suggest that the authorities provide in the first PRSP Progress Report more details, beyond the updated existing scenario, on sustainable alternative growth paths, including, for instance, a full description of a low-growth profile, and a more optimistic MDGs-consistent profile. This work could also be part of the simulation exercise in the study on the sources of growth.

IX. CONCLUSION

38. In the staffs' assessment, the PRSP represents a credible policy framework to reduce poverty within the context of a sound macroeconomic framework. The poverty diagnosis provides for a revealing profile that will help prioritize poverty reduction policies.

The medium term expenditure framework identifies the priorities and the needs of the country to meet the Millennium Development Goals. The objectives of the PRSP are ambitious, but attainable with the participation of all stakeholders and strong leadership provided by the government. In the short and medium term, the government will need to focus on the implementation of the policy measures (triggers) to meet the completion point under the enhanced HIPC Initiative, as well as the measures laid out in the policy matrix, which will need to be translated into concrete actions for the years beyond 2004. These measures contribute toward far-reaching structural changes, which improve the chances of success of social sector programs and promote an environment conducive to private sector investment and growth. The effective channeling of the resources freed from debt relief in favor of growth-enhancing and social development programs will constitute a critical challenge for the government in the coming years. How the government responds to this challenge will determine the success of the PRSP and prospects for sustainable poverty reduction in Cameroon for the years to come.

39. The staffs of the IMF and the World Bank consider this PRSP a credible poverty reduction strategy and action plan, which provides a sound basis for IDA and Fund's concessional financial assistance and debt relief under the enhanced HIPC Initiative. The staffs recommend that the respective Executive Directors of the IMF and the World Bank reach the same conclusion.