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CAMEROON
 Country Economic Memorandum
*Markets, Government,
 and Growth*

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CAMEROON

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ABBREVIATIONS

CAMTEL	Cameroon Telecommunications
CBF	Cameroon Business Forum
CEMAC	Central African Economic and Monetary Community
CET	common external tariff
CTPL	Commission Technique de Privatisation et de Liquidation
CTR	Technical Commission for Rehabilitation
DSF	tax return data (déclaration statistiques fiscales)
ENEO	Cameroon Electricity Company
EU	European Union
FDI	foreign direct investment
GDP	gross domestic product
GESP	Growth and Employment Strategic Paper, 2010–2020
ICT	information and communication technologies
IMF	International Monetary Fund
INS	National Institute of Statistics (Institut National de la Statistique)
ISSEA	Sub-Regional Institute of Statistics and Applied Economics
MINEPIA	Ministry of Livestock, Fishing, and Animal Industry
MINFI	Ministry of Finance
OECD	Organisation for Economic Co-operation and Development
PPP	public-private partnership
PSI	pre-shipment inspection agency
RGE	General Census of Firms (Recensement General des Entreprises)
SME	small and medium enterprises
SOE	state-owned enterprise
TFP	total factor productivity
WBES	World Bank Enterprise Survey
WEF	World Economic Forum
WTO	World Trade Organization

Contents

ABBREVIATIONS	iii
ACKNOWLEDGMENTS	vii
EXECUTIVE SUMMARY	ix
Chapter 1: Constraints to Growth in Cameroon	1
1.1 The Determinants of Productivity in Cameroon	1
1.2 The Saving-Investment Nexus	4
1.3 Allocative Inefficiencies	6
Chapter 2: Constraints to Competitiveness in Cameroon	9
2.1 Limited Local Competition	9
2.2 Limited Regional Competition	10
2.3 Limited Global Competition	15
Chapter 3: The Role of the State in Constraints to Growth and Competitiveness	18
3.1 Poorly Playing Its Role of Economic Regulator	18
3.2 Poorly Playing Its Role of Economic Promoter	19
3.3 Too Heavily Involved as Economic Actor	22
Chapter 4: Policy Recommendations	27
4.1 Promoting Growth	27
4.2 Fostering Competitiveness	28
4.3 Revamping the Role of the State	29
BIBLIOGRAPHY	31
ANNEX: Selected Manufacturing Products Using the Product-Space Analysis	33



LIST OF FIGURES

Figure 1: Reaching Upper-Middle-Income Status in 20 Years Is Daunting 2

Figure 2: Unit Labor Cost 2008–2009 or Latest Available..... 3

Figure 3: Average Wage 2008–2009 or Latest Available (2013 US\$ per Worker) 3

Figure 4: Labor Productivity 2008–2009 or Latest Available (2013 US\$ per Worker) 4

Figure 5: Resource Misallocation in Cameroon vis-à-vis Other Countries 6

Figure 6: Taxing the Good and Coddling the Bad..... 7

Figure 7: The Baseline Estimates Appear to Be a Lower Bound 7

Figure 8: The Potential Productivity Gains Differ across Sectors..... 8

Figure 9: Competition Intensity and the Extent of Market Dominance (2014–2015) 10

Figure 10: Number of Firms in Each Sector or Subsector 11

Figure 11: Manufacturing Firms by Market Structure 11

Figure 12: Market Concentration in Selected Sectors 12

Figure 13: Sugar, White (1 kg) (Supermarket). 13

Figure 14: Average Retail Rice Prices in Cameroon, Chad, and Nigeria 14

Figure 15: Intensive vs. Extensive Export Growth 16

Figure 16: Survival Rates of Export Relationships (1990–2015)..... 17

Figure 17: Quality of Electricity Supply and Cost of Electricity..... 19

Figure 18: Mobile Phone and Internet Access in Cameroon (2013)..... 20

Figure 19: Costs of Fixed Telephony across Selected Countries (2014) 21

Figure 20: Restrictions on Foreign Ownership of Equity in New Investment Projects (Greenfield FDI) and on the Acquisition of Shares in Existing Companies (Merger and Acquisition). 22

Figure 21: SOE Turnover and Net Profit/Loss..... 23

Figure 22: Estimated Tariff and Nontariff Rates..... 26

LIST OF TABLES

Table 1: Public Savings in Cameroon and Benchmarks (Average 2010–15, % of GDP) 5

Table 2: Checkpoints and Costs on Cameroon Road Corridors to Nigeria..... 14

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Executive Summary

To become an upper-middle income country by 2035, as targeted in its Vision 2035 document, Cameroon will have to increase productivity and unleash the potential of its private sector. Specifically, Cameroon's real GDP must grow by around 8 percent and 5.7 percent in per capita terms over 2015–2035, which in turn will require the investment share of GDP to increase from around 20 percent of GDP in 2015 to 30 percent of GDP in 2035 and productivity growth to reach 2 percent over the same period, from its average rate of zero growth over the past decade. These are daunting yet doable challenges.

To make it happen the public sector would need to reinvent itself and change its nature: reduce distortion, promote innovation and increase allocative efficiency; and more competitive markets would be needed to promote productivity gains. Based on the rigorous analysis of the Cameroonian economy using five main sources of data,¹ the report will address the following topics: Chapter 1 analyzes constraints to growth, Chapter 2 explores constraints to enhance competitiveness, Chapter 3 examines the role played by the Cameroonian state on these constraints, and Chapter 4 derives from these analyses a set of actionable policy recommendations.

The abstract contains the following structure:

1. Underpinnings of Cameroonian economy affecting growth potential
2. Recommendations on nine major areas of collaboration between the government and the private sector. The recommendations are divided into three areas and include

¹Data for this report comes from two macroeconomic sources (the government macro-fiscal data, and the World Bank World Development Indicators), and three microeconomic sources (the World Bank Enterprise Survey data, the Cameroonian 2009 firms Census data (RGE), and the Cameroonian Tax Return data (DSF)).

- a. Recommendations to address growth constraints along the accumulation-reallocation-innovation continuum:
 - i. Increasing Productivity
 - ii. Harnessing Savings
 - iii. Reducing Allocative Inefficiencies
- b. Recommendations to increase local, regional and global competitiveness:
 - iv. Promoting Domestic Competition
 - v. Supporting Regional Trade and Transport Facilitation
 - vi. Pursuing a Comprehensive Diversification Strategy
- c. Recommendations to refocus a heavy-handed state to its core functions:
 - vii. Reinforcing Backbone Services Regulation
 - viii. Reinvigorating Economic Promotion
 - ix. Restructuring SOEs' Governance and Withdrawing Progressively from Production

Underpinnings of the Cameroonian Economy Affecting Growth Potential

More competitive markets would promote productivity gains. Various factors hold back competition in Cameroon. High market concentration, state ownership of many of the largest firms, and government regulations tend to limit competition. Widespread state participation in commercial activities that compete with the private sector deters investment. While government involvement in the economy is underpinned by the desire to promote social objectives (creating jobs, reducing commodity price volatility, etc.), in the process of doing so, externalities to state ownership arise that affect economic efficiency, productivity growth, and fiscal sustainability using value-for-money principles.



Cameroon's limited competitive environment leads to considerable resource misallocation, where more productive firms are 10 times more productive than less productive firms on average.

Widespread state involvement in the productive sector tends to limit domestic competition. Cameroon ranks 109 out of 144 countries in terms of local competitive intensity, 65 in terms of the extent of market dominance, and 78 in terms of the effectiveness of competition policy. Only a few large firms operate in most sectors and subsectors of the economy: 31 percent of manufacturing firms operate in oligopoly, duopoly, or monopoly markets, whereas in Kenya and Ghana, only 25 percent and 22 percent, respectively, operate in such markets. In subsectors that are key inputs for other activities—telecommunications, transport, and electricity—only one firm is in operation. Government participation in multiple companies tends to increase market concentration limiting rivalry among firms. This is the case for electricity generation, palm oil, and bananas. Even when the government does not have shareholder control, it often has special rights that increases its influence on business decisions. High market concentration and state ownership are among factors limiting domestic competition.

An inefficient logistics service sector and poor trade transport facilitation limit regional competition. Transport costs are very high in Cameroon and Central Africa: In 2008, they were 11 U.S. cents per ton-kilometer on the Douala-Bangui-N'Djamena corridor compared with 8 in Eastern Africa, 6 in Southern Africa, 5 in France and China, 4 in the United States, and 3.5 in Brazil. In addition, the overall quality of road infrastructure along regional corridors is poor, and poor road maintenance and weak enforcement of axle weight regulation in Cameroon also contribute to high transport costs. For example, large segments of the nine road corridors that connect Cameroon to its land-border crossings with Nigeria are dirt and gravel roads that are difficult to cross in the dry months, but impossible to pass in the rainy season. Poor transport facilitation and limited multi-modal transport services also constrain regional trade. Rail service is limited. Checkpoints and roadblocks on roads and highways, averaging as much as one checkpoint every 20 kilometers, exacerbate high inland road transport costs and long travel times. Finally, the trucking cartel operating in the Central African Economic and Monetary Community (CEMAC) adds to inefficiencies. Indeed, as a result of the freight allocation scheme, a few large freight forwarders at Douala collaborate with a few large trucking companies to fix prices with excessive markups along regional corridors and to allocate available transit cargo among truckers. These regulatory constraints (formal and informal) are the root cause of limited regional competition, poor service, and high transport prices.

Heavy reliance on traditional products and partners together with an inefficient port limit global competition.

Cameroon tends to disproportionately export to traditional markets and expands exports mainly by introducing existing products to new markets and diversifying its export mix to established markets. Yet, the product-space methodology indicates that Cameroon is capable of producing new high-potential products. To pursue these high-potential products, the import and export efficiency of the main entry point must be significantly improved. Currently, cargo takes longer to exit from Douala after ships arrive there, than the same cargo takes to travel across the ocean from the original port of departure, with an average dwell time for import cargo in Douala of 20 days for containers and 30 days for noncontainerized cargo. Furthermore, this average dwell time compares unfavorably with that of other African ports like Mombasa (11 days), Dar es Salam (12 days), and Durban (4 days). Minimizing the port of Douala's total dwell time is essential, requiring the support of both port operations and customs clearance. To foster development of new products further, Cameroon may also want to consider other approaches such as plug-and-play industrial parks and cluster development, anchoring it in the short term on the country's two leading cities (Douala and Yaounde) and in the long term in Kribi.

The Cameroonian economy's limited competitiveness at the domestic, regional, and global level points to the distortive role of a heavy-handed state. Ideally, a state establishes and enforces rules to achieve social and economic goals, while creating incentives for firms to expand and perform better, and creates mechanisms to maximize regulatory efficiency, transparency, and accountability. It monitors the private sector in different markets, punishes anticompetitive behavior, regulates sectors with natural monopolies, and contains other market failures. It also ensures that business procedures are simple, predictable, accessible, and universal to prevent unnecessary bureaucratic hurdles and level the playing field. Finally, it can intervene in specific markets to supply goods and services, through state-owned enterprises (SOEs) or as direct shareholders in firms if a clear economic rationale exists, or indirectly through price/import controls or public procurement. However, these legitimate roles can have a distortive effect on an economy's contestability if performed by a heavy-handed state poorly playing its role of regulator and economic promoter while at the same time heavily involved in production, which stifles competitiveness and constrains growth.

Policy Recommendations

To enhance competitiveness and growth, a coordinated set of policies is needed. Growth happens through three main drivers: factor accumulation; factor reallocation to its most productive use; and innovation. In a perfect market economy, the rational decision of consumers and producers can trigger such multipronged growth process. In Cameroon, markets are distorted by too much state involved in production. Distorted markets allocate production factors

inefficiently, hence constraining growth. For example, the full benefit of an increasing stock of infrastructure is not captured because of too little state where needed, in regulation. Poorly regulated backbone infrastructure services (power, transport and telecommunication) keep production factor costs high, hence constraining competitiveness. In Cameroon, red tape overwhelms the private sector. An unfriendly business environment discourages private investment, constraining growth. There is therefore a need to revamp the role of the state to enhance competitiveness and productivity. To this end, nine major areas of collaboration between the government and the private sector are recommended.

Three recommendations directly address growth constraints along the accumulation-reallocation-innovation continuum:

1) Increasing Productivity

Policies impacting the determinants of firm productivity should be urgently implemented. Involvement in activities such as training workers, certification, Internet utilization, and licensing of foreign technology are found to increase productivity in Cameroon. Some of these actions are straightforward (certification, Internet utilization and licensing of technology) and require the strengthening of institutions mandated to deal with them, and seeking of feedback from the private sector to adjust them as needed. The training of workers should however be a joint responsibility between the government and the private sector. The education and vocational training system of Cameroon need to be aligned with the skills demanded by sectors with growth potential such as agribusiness, wood products, textile and garments, leather products, and chemicals. A shift to more technical and engineering studies versus humanities is needed. A vocational training system allowing students to alternate between the training and work environment will also help, but this requires a full collaboration with the private sector speaking with one voice. This is all the more important given the upcoming tougher competition from European imports following the entry into force of the Economic Partnership Agreement between Cameroon and the EU in August 2016.

2) Harnessing Savings

Financial inclusion and financial deepening is needed to harness more domestic savings to finance the private sector. The Central Bank (BEAC) should help banks to better assess the creditworthiness of firms (through the establishment of credit bureaus and collateral registries for instance) to increase access to finance. The government can also support SMEs and rural nonfarm businesses by facilitating the development of financial products such as factoring, leasing, and warehouse receipts. The government could also adopt the regulations needed to make mobile financial services available to the general population, in order to increase financial inclusion and make mobilizing domestic savings easier. Mobile banking and agent banking will increase

financial inclusion and facilitate the collection of savings from households and firms in areas underserved with traditional banking.

An aggressive FDI attraction strategy is needed. The government must target and attract to Cameroon multinationals operating in sectors with the potential for high employment and export to anchor private sector growth on a bigger external demand. A fundamental step toward such a policy could be the clarification of the legal regulatory framework of foreign investment promotion. In certain sectors, restrictions on foreign ownership still apply, including mining (95 percent of foreign ownership is allowed), power transmission and distribution, railway freight, domestic air, international air, airport and port operation (49 percent of foreign ownership is allowed), and television broadcasting and newspapers (49 percent of foreign ownership is allowed). The Investment Code of 1990 establishes requirements for at least 35 percent Cameroonian equity ownership for enterprises under the SME regime. Combined with a weak legal system, this reduces the willingness of foreign firms to enter the market of Cameroon. The government should tackle these issues head on as part of an aggressive FDI attraction strategy.

3) Reducing Allocative Inefficiencies

The government needs to urgently take measures to discontinue price controls and production monopolies in contestable markets to help reduce allocative inefficiencies of production factors. The government direct intervention in markets through import controls and bans, and price control on a number of products, affects the entry of newcomers and prices to end consumers. A cross-country comparison shows that although prices in Cameroon are controlled, they are higher and increasing compared to international prices. The government should just trust the market and lift all price and import controls. The most effective way to protect the poor and vulnerable during price hike periods is to set an effective and well-targeted cash transfer system.

Three recommendations aim to increase local, regional and global competitiveness:

4) Promoting Domestic Competition

The various factors coinciding to create a poor domestic competitive environment should be systematically tackled by the government. To level the playing field, state ownership should be withdrawn from all companies operating in an unregulated sector where the private sector is already successfully operating. This is the case for agribusiness and textile sectors. For network sectors such as utilities (energy and water), transport and telecommunication where state ownership is not uncommon, the regulatory agencies need to be strengthened to protect the rights of consumer on quality of service and price, and the standard of management of these SOEs would need to be lifted. For example, in the case of

railways, infrastructure services and transport services are not separated, and an access policy that could allow other companies to use their own rolling stock to provide transportation services is lacking. In goods markets (such as sugar, palm oil, and cement), price controls and import restrictions exacerbate the effects of a concentrated market and should both be abolished to take advantage of cheaper imports. Finally the playing field on paying tax should be leveled between formal and informal firms by systematizing and intensifying the tax administration's current efforts to encourage informal firms to register by providing incentives such as a discount on the minimum tax (1.1 percent instead of 2.2 percent for informal firms that register in a tax center) and providing good public services to newcomers to maintain momentum.

5) Supporting Regional Trade and Transport Facilitation

Without deregulating the trucking industry, it will be hard to reduce delays and costs of transporting goods or improve the quality of trucking services. Historically, logistics prices have been very high on the two corridors Douala-N'Djamena and Douala-Bangui due to significant supply constraints (poor infrastructure, noncompetitive behaviors in the transport industry, and operational limitations in the railway sector). The situation has however changed significantly over the past years with a drop of the transit demand for Chad and the slowdown of the Chadian economy, the improvement of road conditions along the corridor and the entrance of new actors with transport capabilities (e.g., in the cement industry). This has increased competition between rail and road transport services and produced a decrease of logistics prices. These positive developments confirm the importance of competition for effective and efficient trucking services. In parallel with scaling up road investments, the government should continue the deregulation of the trucking industry to increase further competition and thereby reduce further transport prices for shippers and enhance the quality of services. One way to generate reform momentum for breaking the regulatory status quo could be to build in financial support for affected parties during the transition period and announce it as part of the deregulation reform program. Government measures to create an enabling environment for transporters to access finance to renew their fleet are also needed to unleash the sector's potential.

Chronic road maintenance underfunding and weak implementation capacity are negatively impacting the quality and sustainability of the road network. Funding for the rehabilitation of roads remains insufficient. To improve road asset management, the second generation Road Fund created in 1998 and abolished in 2007 needs to be reinstated. Furthermore, roads maintenance activities need to be better planned to optimize the life cycle of road assets. Simulations conducted by CARPA show that the use of PPP could allow to fund and implement a routine maintenance of a stretch tarred with a fixed toll of 500 CFA Francs for several years. Long-term performance-based road maintenance is also

showing positive results in many developing countries. The government should explore these innovative ways to sustain road maintenance.

Road checkpoints should be limited to the strict minimum to reduce informal payments. Removing road checkpoints to accompany better roads and a more competitive trucking industry is key. If complete removal is not possible, the number should be drastically reduced and regularly monitored, and clear terms of reference should explain the purpose of such roadblocks. But for this measure to be sustainable, the root cause of the problem of informal payment should be addressed: a fragmented transport sector dominated by informal and small players relying on obsolete and old trucks and vehicles. Greater efficiency of transport services will imply new measures and mechanisms to improve transparency of transport prices. In this regard, the government should consider establishing a robust and transparent market information system to manage transport flows and services.

6) Pursuing a Comprehensive Diversification Strategy

To develop new products, Cameroon may want to follow the experience of East Asia in the development of clusters. In it, the government's role is to nurture and support existing clusters rather than trying to create clusters from scratch. Entrepreneurs, rather than governments, create clusters. Once clusters expand, the public sector can develop general infrastructure (roads, utilities, land) and target facilities to meet the specific requirements of emerging clusters (market structures, financial institutions, training programs, quality control mechanisms, and so on). This needs to be done in sync with the FDI attraction strategy already mentioned to make sure sectors with growth potential are stimulated through the technology transfer that generally accompanies a well-managed FDI operation.

In parallel, the management of the Port of Douala (and later, the Port of Kribi) should be strengthened, using data-based performance monitoring. The current poor management of the Port of Douala contributes directly to a quarter of the average dwell time and indirectly to more through its cargo storage rules. The Port Authority should adopt measures identified as part of the trade and transport facilitation policy dialogue supported by the CEMAC Transport and Trade Facilitation Project to improve the current situation. The government should also subject the Port Authority to performance monitoring, using detailed data as was done in customs. Detailed data should be compiled, with the cooperation of shipping lines on times of ship arrival, entry to quays, and cargo discharge for all 1,200 ships that discharge cargo at Douala during the year. These data should be used to monitor changes in the Port Authority's performance, and the Port Authority should do the same with the private contractor managing the container terminal. This performance-based approach should be applied to the Port of Kribi when it starts operating. Furthermore, because

many importers prefer cheap storage in port, a straightforward way to improve efficiency is to amend the rules for free time and storage fees. This will induce these firms either to find alternative arrangements or alter their business model such that they can benefit from shorter dwell times.

Three recommendations aim to refocus a heavy-handed state to its core functions:

7) Reinforcing Backbone Services Regulation

In ports and railways, three situations need close monitoring and regulatory action to prevent restrictions on competition. Common ownership of the companies that operate the port and the railway infrastructure requires attention to avoid hampering competition. A private monopoly, Cam-rail, operates the railway infrastructure and the rolling stock under a 20-year contract signed in 1999. Companies from the same economic group operate the Port of Douala (and soon the Port of Kribi) and provide ancillary services (towing and berthing; managing the container terminal, the vehicle yard, and transit operations; and handling and storage). The group also includes logistics companies that forward cargo through the port and railways. In this situation, monitoring competitive neutrality regarding the treatment of cargo that is not handled by the group's logistics company is important. A fully integrated logistics chain improves the efficiency of cargo management, but it can limit competition and put other firms at a disadvantage. Under such conditions, the government will need to regulate fares and freights to ensure that firms do not exert their market power when setting tariffs.

A more predictable, consistent way of granting spectrum rights would benefit the ICT sector and the country. Radio spectrum represents a scarce resource for a government, and spectrum rights are typically highly valued by telecom operators but also by the broadcasting industry.² Spectrum management strategies are thus needed to coordinate the various uses of spectrum, maximize the benefits for citizens (arbitrage of spectrum allocation between spectrum users), ensure fair competition in the telecoms and broadcasting markets (fair allocation of spectrum) and generate revenues for the state (e.g., sale of spectrum rights through auctions and spectrum fees). For instance, the planned analogue television switch-off will free up important amounts of spectrum, which will need to be efficiently reallocated. The government needs to adopt a comprehensive, efficient and transparent approach to spectrum management to generate significant benefits to citizen and fiscal revenues.

8) Reinvigorating Economic Promotion

Measures to improve the weakest points of the Cameroon business environment should be taken to promote

²Spectrum is also used by defense, public safety and emergency services, by commercial services, etc.

the development of the private sector. The 2016 and 2017 Doing Business data indicate that the three weakest areas are trading across borders, paying taxes and registering property. The government needs to urgently adopt a reform agenda focusing on these three areas to demonstrate to the business community its commitment to reduce allocative inefficiencies. This will go a long way to stimulate the industrialization of the country before more targeted interventions such as Special Economic Zones (SEZ) like the Kribi growth pole. Moreover as long as first order issues such as ICT, electricity and transport costs are not addressed, it is hard to see how a SEZ will help attract FDI.

9) Restructuring SOE Governance and Withdrawing Progressively from Production

SOE portfolio management should be enhanced to incentivize SOE performance, while mitigating the impact on competition. Cameroon's SOE oversight model seems complex, with overlapping mandates and lack of clarity. The presence of many principle-agent relationships tends to weaken accountability and therefore the state's ability to hold SOEs accountable. First, the government should conduct a thorough assessment of all the existing SOEs to determine their fiscal position as well as their economic contribution. Second, the government will need to develop and adopt a legal and institutional frameworks that outline the objectives for state ownership, clearly outlining the government's objectives for state ownership and each SOE's main task, expectations for reporting, performance monitoring and transparency of SOEs, board nomination processes, and remuneration principles. Third, the monitoring of SOEs should be improved with proper expertise, capacity, and resources. At minimum quarterly and annual audited financial statements from SOEs focusing on liabilities and risk should be produced.

The government should ensure proper regulation of dominant SOEs, neutral treatment of competitors, and competitive selection of partners in PPPs. This will facilitate private investment and guarantee open markets. This is particularly important for network sectors (electricity, ICT, postal services, transport, and water services). Open access to essential facilities such as transmission infrastructure for electricity producers is critical for a well-functioning generation market to guarantee dispatch of electricity to the grid. Open, transparent and nondiscriminatory rules to access CAMTEL's national high-speed network and international gateway, if properly enforced, could boost competition in telecommunication services (at the wholesale level), reduce retail prices of ICT services, decrease companies' ICT cost, and increase their competitiveness.

Finally, the government should withdraw from production in those sectors where the private sector is already successfully operating. The government should adopt a specific timetable to withdraw from them, and hence considerably reduce the number of SOEs.

CHAPTER

1

Constraints to Growth in Cameroon

Vision 2035 aims for Cameroon to become an upper-middle-income country by 2035. Upper-middle-income countries have a gross national income (GNI) per capita (Atlas US\$) above \$4,036. As Cameroon's GNI (measured in the same terms) was \$1,330 in 2015, Vision 2035 requires growth of around 5.7 percent in per capita terms over 2015–35. As population growth is expected to average about 2.3 percent per year over this period, real GDP must grow about 8 percent per year for 20 years—an ambitious target. This rate of per capita GDP growth is close to the long-run growth of East Asian countries like China, South Korea, and Vietnam; Botswana is the only Sub-Saharan African country to have grown this fast over such a long period. Although Cameroon reached such annual growth rates in the past (Figure 1), they were never sustained over a long period and were driven by commodity booms.

Growth happens through accumulation of production factors, innovation, and reallocation of production factors to their most effective use. Accumulation is made possible through savings, domestic and foreign, private and public, that are transformed into investment. Growth is also driven by the increase in total factor productivity, through innovation (genuine or imitated). Finally, the reallocation of production factors from less effective to more effective use also drives growth. Cameroon can accelerate its growth to the 8 percent needed to reach upper-middle-income status only with bold measures to support accumulation, innovation and reallocation.

For Cameroon to fulfill its Vision 2035, productivity will have to sharply increase. Simulations derived from the Long-Term Growth Model based on Solow (1956), Swan (1956), Hevia and Loayza (2012) and Pennings (2016) show total factor productivity (TFP) growth rates to be the most

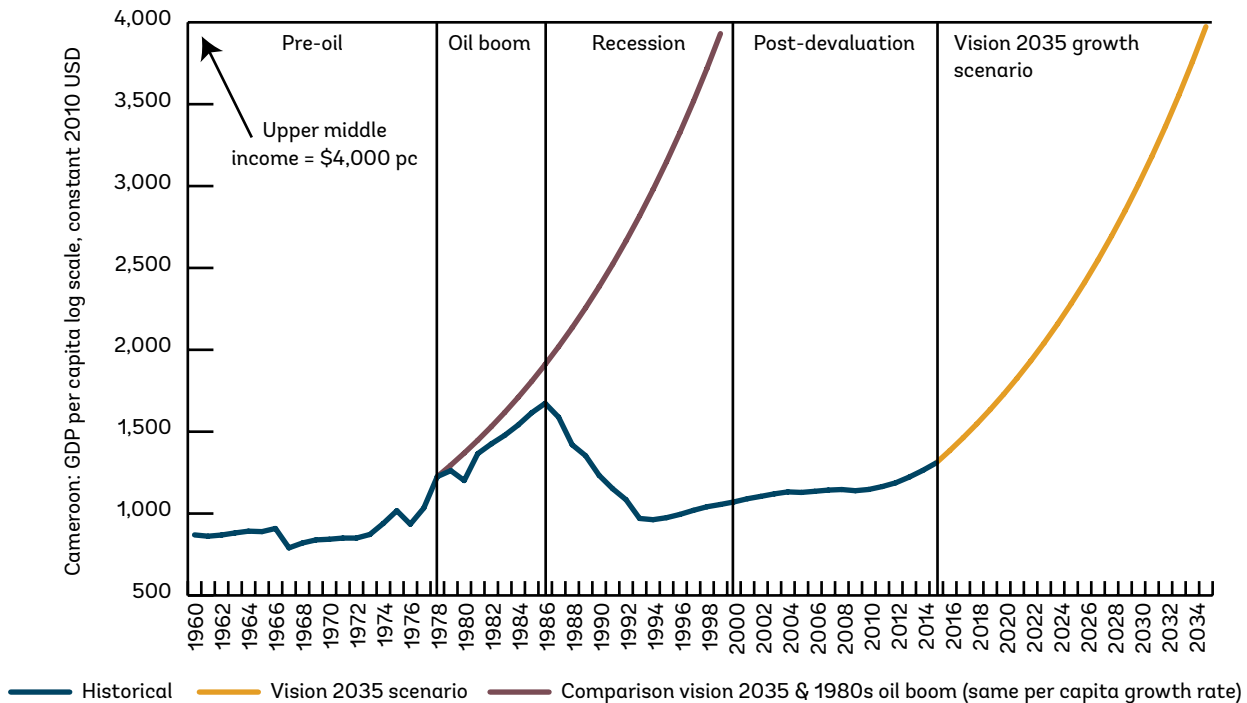
important macroeconomic determinant of Cameroon's long-term growth: fast (around 2 percent) productivity growth, around the 90–95th percentile for TFP performance among all countries in 1985–2010, is required to achieve the Vision 2035 goal on time.³

1.1 The Determinants of Productivity in Cameroon

Econometric estimations point to technological capabilities, access to finance, and foreign ownership as the main determinants of firm productivity in Cameroon. Ordinary least squares regressions of firm-level TFP on some firm characteristics and investment climate indicators show that the most compelling determinants of firm-level productivity include technological capabilities (TCI),⁴ access to finance and foreign ownership. Engagement in one additional TCI activity (training workers, using e-mail

³In the Long-Term Growth Model, Total Factor Productivity (TFP) growth, an increase in capital intensity or faster accumulation of human capital (among other factors) can generate per capita GDP growth. These figures are calculated using a labor income share of 0.5 (taken from the Penn World Tables (PWT)); with a lower labor income share of 0.38 (using alternative data) Cameroon can achieve the Vision 2035 goal with TFP growth of 1.5%. Human capital is assumed to grow at 0.8%, its 2001–10 average from PWT; an acceleration in human capital growth could lower required TFP growth or investment rates.

⁴The World Bank Enterprise Survey (WBES) database captures eight identifiable TCI activities: training workers, using e-mail to communicate with consumers or suppliers, having a website, having capacity utilization at 90 percent or higher, obtaining ISO certification, licensing foreign technology, filing a domestic patent, and filing a foreign patent.

Figure 1: Reaching Upper-Middle-Income Status in 20 Years Is Daunting

Source: World Development Indicators (NY.GDP.PCAP.KD).

Notes: 2016 WB Upper-Middle-Income level is \$4,036 pc (Atlas USD GNI) is expressed as \$3,973 GDP per capita (2010 USD) assuming that GDP and GNI grow at the same rate.

to communicate with consumers or suppliers, having a website, obtaining ISO certification, licensing foreign technology, filing a domestic patent, or filing a foreign patent) is estimated to induce a 12.2 percent increase in firm-level TFP. A one standard deviation improvement in TCI induces a 22 percent increase in TFP. Manufacturing establishments with an overdraft facility, line of credit or loan, or bank financing for working capital or investment have, on average, 24 percent higher TFP. Foreign-owned manufacturing establishments have, on average, 25 percent higher TFP than domestically owned firms.

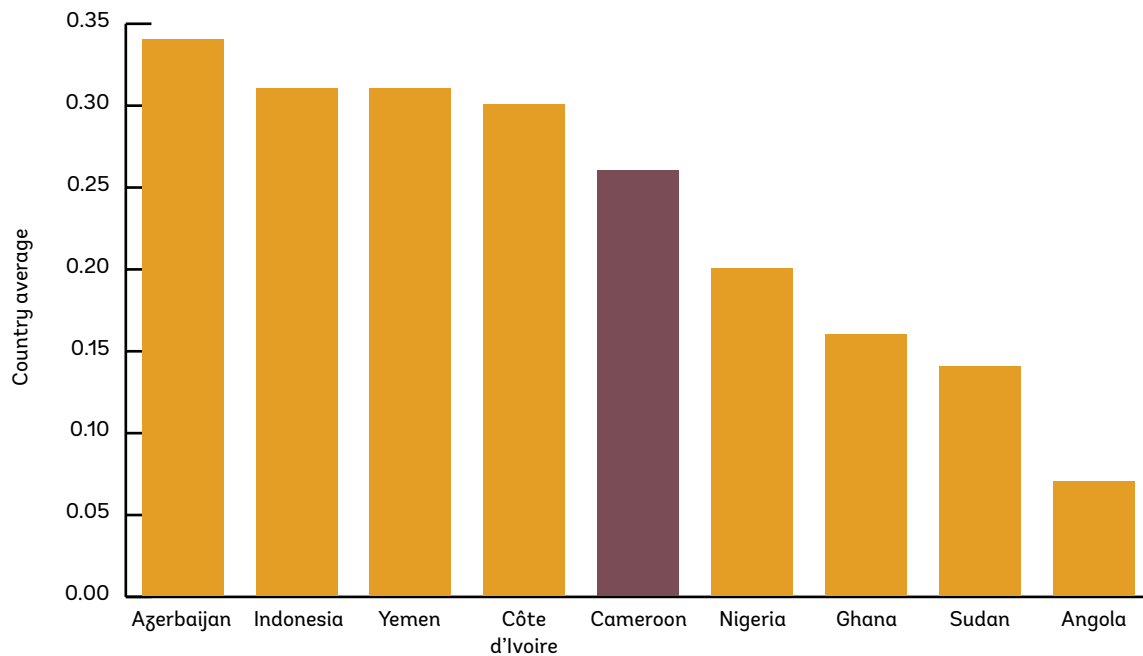
High unit labor cost also negatively affects Cameroonian firms' productivity. Unit labor cost measures the average cost of labor per unit of output as the ratio of average wage to labor productivity. Unit labor cost in Cameroon at 0.261 per worker is high relative to the other 11 Sub-Saharan African countries surveyed during the period 2008–2009,⁵ with unit labor costs ranging from 0.069 in Angola to 0.196 in Malawi. To better put the unit cost in perspective, we compare Cameroon to benchmarks systematically chosen: income peers

⁵The latest World Bank enterprise survey in Cameroon was conducted in 2009. We therefore initially compared Cameroon with all the countries that had a World Bank enterprise survey available for 2008–9. Then we focused on some benchmarks using the World Bank “Find Friends” tool and compared Cameroon with these countries for the latest available data.

today or 20 years ago (as per GDP and GDP per capita), resource rich and facing some conflict-related fragility.⁶ Among its income peers resource-rich countries that are facing some form of conflict-related fragility, today or 20 years ago, Cameroon appears to have a higher unit labor cost than Angola, Sudan, Ghana and Nigeria; it has a lower unit labor cost than Côte d'Ivoire, Yemen, Indonesia and Azerbaijan (Figure 2). This reflects relatively high average wages (Figure 3) in Cameroon (higher than in Nigeria, Indonesia, Yemen, Côte d'Ivoire and Ghana) for relatively low average labor productivity (Figure 4) (lower than Azerbaijan, Yemen, Nigeria and Ghana).

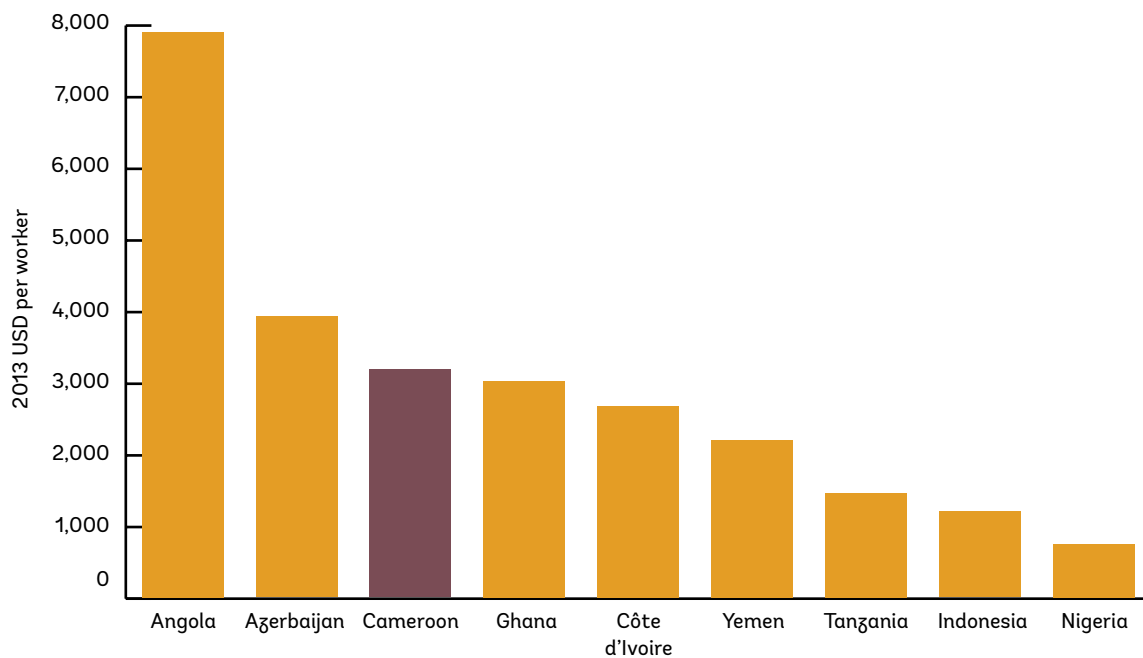
⁶This is done using the “Find Friends” tools of the World Bank. For today income peers, resource rich facing some form of conflict-related fragility, Cameroon's benchmarks are Côte d'Ivoire, Congo (Rep.), Nigeria, Papua New Guinea, Sudan and Yemen. Given the peculiarity of Papua New Guinea (Pacific Island), we replace it by Ghana which is also an income peer, resource rich and facing some fragility in its northern region. For income peers 10 years ago, resource-rich and that used to or are still facing some form of conflict related fragility, Cameroon's benchmarks are Angola, Azerbaijan, Indonesia, and Turkmenistan. Given Turkmenistan's peculiarity (the most closed former Soviet country), we replace it by Malaysia, a resource-rich country that used to face some regional fragility and which Cameroon looks up to.

Figure 2: Unit Labor Cost 2008–2009 or Latest Available

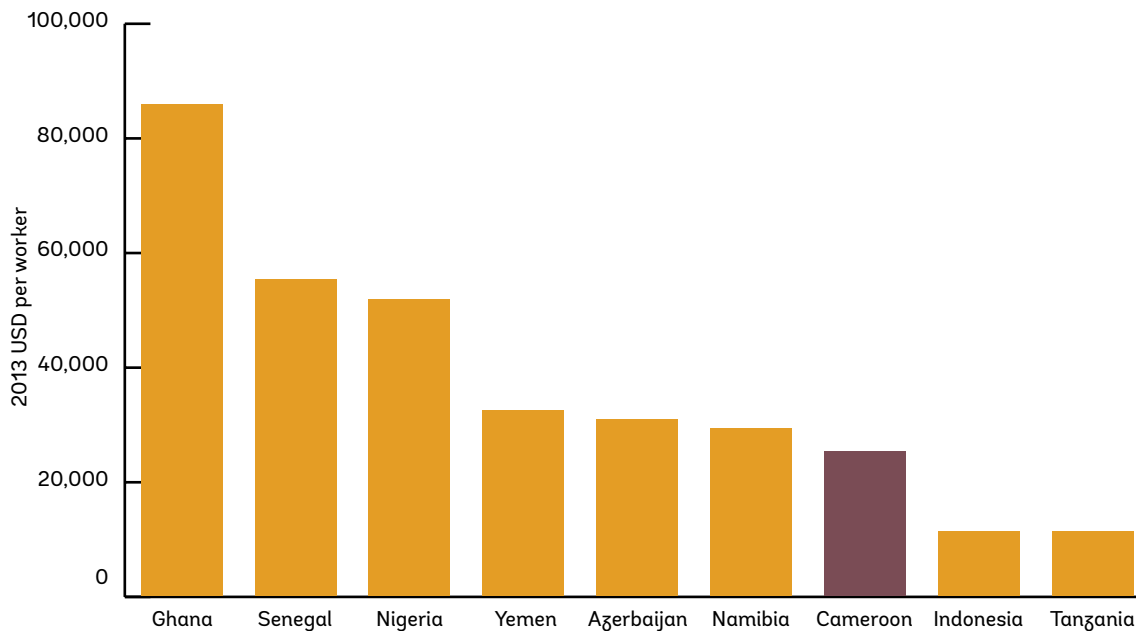


Source: World Bank Enterprise Survey (WBES) data.
 Note: Median sample weights are used to compute country averages.

Figure 3: Average Wage 2008–2009 or Latest Available (2013 US\$ per Worker)



Source: WBES data.
 Note: Median sample weights are used to compute country averages. Countries identified as outliers are excluded, specifically those with average wage greater (less) than three times the interquartile range plus (minus) the 75th (25th) percentile of each respective sector (i.e., manufacturing and services): Argentina. Additionally, countries with no coverage of the services sector in WBES are excluded: Antigua and Barbuda, Bahamas, Belize, Dominica, Grenada, Guyana, St. Kitts and Nevis, St. Lucia, St. Vincent and Grenadines, and Suriname. Since wage data is missing for Sudan, it is replaced by Tanzania in this graph.

Figure 4: Labor Productivity 2008–2009 or Latest Available (2013 US\$ per Worker)

Source: WBES data.

Note: Median sample weights are used to compute country averages. Countries identified as outliers are excluded, specifically those with mean labor productivity greater (less) than three times the interquartile range plus (minus) the 75th (25th) percentile of each respective sector (i.e., manufacturing and services): Samoa. Additionally, countries with no coverage of the services sector in WBES are excluded: Antigua and Barbuda, Bahamas, Belize, Dominica, Grenada, Guyana, St. Kitts and Nevis, St. Lucia, St. Vincent and Grenadines, and Suriname. Since labor productivity data is missing for Angola, Côte d'Ivoire, and Sudan, they are replaced respectively by Namibia, Senegal and Tanzania in this graph.

Boosting productivity requires addressing markets and government failures impacting these determinants. With regards to technological capabilities, the training of workers is constrained by a weak vocational training system; the use of e-mail and websites by firms is constrained by high Internet connectivity costs; obtaining an ISO certification is constrained by a weak agency for normalization; licensing foreign technology is constrained by the limited number of technology-prone multinationals operating in the country; filing a patent (domestic or foreign) is limited by the near zero spending on Research and Development by firms. A shallow financial sector dominated by risk-averse banks is limiting access to finance, particularly for SMEs. The limited access to financial services stems particularly from deficient infrastructure, geographical isolation, and financial illiteracy, all of which result in very high costs of providing banking services. “Branchless Banking” is almost nonexistent in Cameroon. As for foreign ownership, the legal environment relevant to foreign investment is characterized by a lack of clarity, which currently discourages entry. Yet, a sound FDI attraction policy can play a key role in introducing new imported technologies and upgrading or importing skills to operate, maintain, repair and adapt capital investments.

In Cameroon, these failures are intertwined with a heavy-handed state and lead to distortions directly affecting firm productivity. A study conducted by the Ministry of Finance in 2014 found that distortions include administrative

bottlenecks and red tape, smuggled goods, an unsuitable tax system, bank credit access restrictions, electric power rationing, and rationing in utilities (water and electricity), transport, and telecommunications that keep production factor costs high and reduce the attractiveness of the economy for investors, domestic and foreign alike. An earlier study by the Ministry of Finance in 2007 found that power rationing led to a 40–50 percent reduction in industrial production capacity utilization.

1.2 The Saving-Investment Nexus

Aside from productivity, the investment rate is the second most important macroeconomic determinant of growth in Cameroon. The Savings-Investment nexus has been identified since the Solow-Swan model as a major determinant of economic growth. After thoroughly examining the growth performance of the 13 countries that have experienced a growth rate of more than 7 percent per year over more than two decades, the Commission on Growth and Development (2008) identified one of the key ingredients for such growth performance to be high rates of saving and investment. The simulations from the Long Term Growth Model and government’s “Vision” investment plans show that investment rate must increase from around 21 percent of GDP in 2015 to 33 percent by 2020 for Cameroon to reach its 2035 goal. This means that an additional 12 percent of GDP is needed to

complement the efforts to increase productivity for Cameroon to reach upper-middle-income status by 2035. In 2015, public investment represented nearly 10 percent of Cameroon's GDP.⁷ To contain the debt burden, the additional investment needed will have to come from a combination of public savings to create fiscal space, domestic private savings (households and firms) and foreign savings.

Cameroon's rate of public savings can be increased to boost national savings. Over 2012–13 public savings fell by all measures to be slightly positive or slightly negative, depending on the measurement of certain public investment expenditures. Using consistent figures across countries and averaging over 2010–2015, the rate of 3.7 for Cameroon compares to 5.8 percent for Malaysia, –3.3 percent for Ghana and 0.6 percent for Côte d'Ivoire (Table 1). Although public savings are higher in Cameroon than its West Africa income peers (Côte d'Ivoire and Ghana), Malaysia's level of public savings show that Cameroon needs to further increase its public savings to change its income status within the next 20 years. However, delays in project implementation and variable project quality in Cameroon suggest a limited ability to substantially increase public savings via a large ramp-up of public investment.

With regards to domestic private savings, bank deposits suggest that an equivalent of 13 percent of Cameroon GDP is saved by Cameroonian households and firms. Bank deposits from households represent 38 percent of total deposits, while private enterprises account for about 29 percent. With total deposits representing 20 percent of GDP (2015), households and firm savings sum up to about

12.6 percent of GDP. Total bank deposits in Cameroon are higher than in Angola (9.9 percent of GDP), Congo (13.8 percent of GDP) and Ghana (13.7 percent of GDP), at par with Côte d'Ivoire (20 percent of GDP), and lower than in Nigeria (32.7 percent of GDP) and Malaysia (32.7 percent of GDP). Increasing financial inclusion is essential to harness household savings. Though mobile banking or agent banking offer an opportunity to serve the “unbanked” in developing countries, they both remain in their infancy in Cameroon. Furthermore, Internet banking remains limited, due to low Internet penetration (11 percent in 2015 according to Internet Worldstats⁸ 2016) that limits access to online platforms. Scope exists for increased mobile banking services penetration to boost financial inclusion, but this will require establishing robust yet business-friendly mobile banking regulations.

With all these constraints to mobilize more domestic savings, Cameroon needs to find ways to tap foreign savings through inward FDI. UNCTAD data indicate that net FDI inflows to Cameroon declined from 2.5 percent of GDP in 2012 to 2.1 percent in 2015. This compares unfavorably to Cameroon's higher income benchmarks: in 2015 Angola attracted 6.4 percent, Azerbaijan attracted 6.7 percent and Malaysia attracted 3.8 percent of GDP. More FDI is desirable because its flows are less likely to reverse during a crisis, and foreign partners take an equity stake in projects, thus sharing some of the macroeconomic and idiosyncratic risks. In addition to closing the financing gap, FDI can also play a key role in introducing new imported technologies and upgrading or importing skills to operate, maintain, repair and adapt capital investments.

⁷This is from the government's expenditure figures, not from the national accounts figures, which are much lower, as presented below.

⁸www.internetworldstats.com/stats1.htm, accessed on April 8, 2016.

Table 1: Public Savings in Cameroon and Benchmarks (Average 2010–15, % of GDP)

	Budget Balance	Public Investment (2013)	Public Savings
Angola	0.8	14.1	14.9
Azerbaijan	4.6	8.3	12.9
Cameroon	–3.1	6.8	3.7
Côte d'Ivoire	–4.0	4.6	0.6
Ghana	–10.0	6.7	–3.3
Indonesia	–1.8	2.4	0.6
Malaysia	–7.0	12.8	5.8
Nigeria	–1.9	2.9	1.0
Yemen	–7.0	4.9	–2.1

Source: IMF, National Accounts and Author's calculation.

Note: Public savings are calculated as budget balance (excluding grants) plus public investment.

1.3 Allocative Inefficiencies

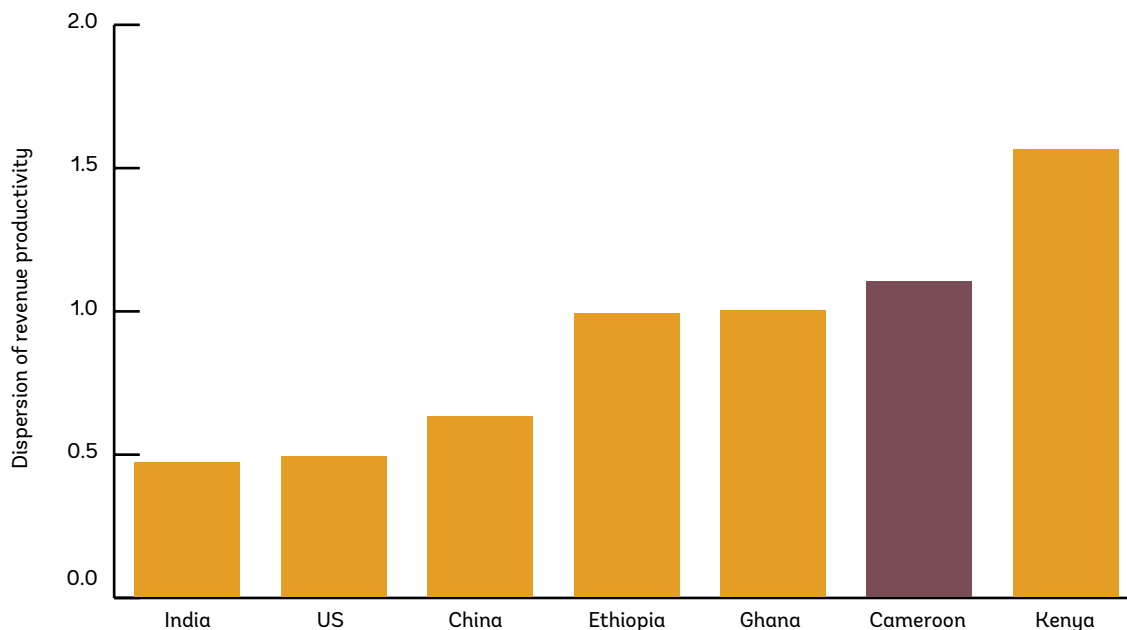
On average in Cameroon, more productive firms have a total factor productivity ten times higher than less productive firms. The misallocation of capital and labor at the firm level because of a poor business environment or a heavy-handed state can be very costly in terms of forgone productivity and hence limited domestic and external competitiveness. In principle, prices should equalize productivity within sectors if competition is pure and perfect. Dispersion in estimated firm-level productivity within a sector therefore indicates the extent of misallocation of production factors. Such dispersion can be due to government policies or regulations that allow some inefficient firms to stay in the market. In a carefully crafted paper using these principles, Hsieh and Klenow (2009) find that credit and product market distortions tend to allocate scarce resources to relatively unproductive firms. Firm tax returns data (DSF) confirm the same allocative inefficiencies for Cameroon (Figure 5). While the extent of misallocation in Cameroon seems comparable to regional peers such as Ethiopia and Ghana, it is much larger than in other developing countries such as India and China. On average, more productive firms in Cameroon have an estimated TFP 10 times higher than less productive firms. This means that reallocating labor and capital from inefficient to efficient firms would have a large positive impact on Cameroon's aggregate productivity.

More productive firms tend to face a higher tax burden while unproductive ones receive an implicit subsidy,

which translates the productivity gap into allocative inefficiencies. In a non-distorted economy, tax payments are independent of the level of productivity of firms. In Cameroon, plotting tax returns against the level of productivity of firms indicates that less productive firms tend to receive an implicit subsidy while more productive firms tend to face a heavier tax burden (Figure 6). Therefore, the wide productivity gap among Cameroonian firms translates into an allocative inefficiency. Inefficient firms command more resources than their productivity level warrants, which undermines aggregate productivity and growth. This is typically the case for loss-making SOEs that continue to be subsidized. Furthermore, this can also discourage firms to undertake productivity-enhancing investments, reinforcing the allocative inefficiencies. Improving manufacturing productivity therefore requires policies that encourage the flow of resources toward more productive firms: leveling the playing field in terms of tax liabilities by phasing out of the various subsidies and exemptions.

Removing the frictions in output and factor markets could increase manufacturing productivity by at least 68 percent. Improving manufacturing productivity requires reducing or removing underlying frictions that prevent efficient allocation of resources toward more productive producers. Simulations under alternative assumptions show that removing misallocation potentially increases productivity between 68 and 101 percent (Figure 7). Manufacturing census data confirm the considerable potential gains from reallocation. Based on the 2009 manufacturing census data, the potential reallocation gain from eliminating distortions

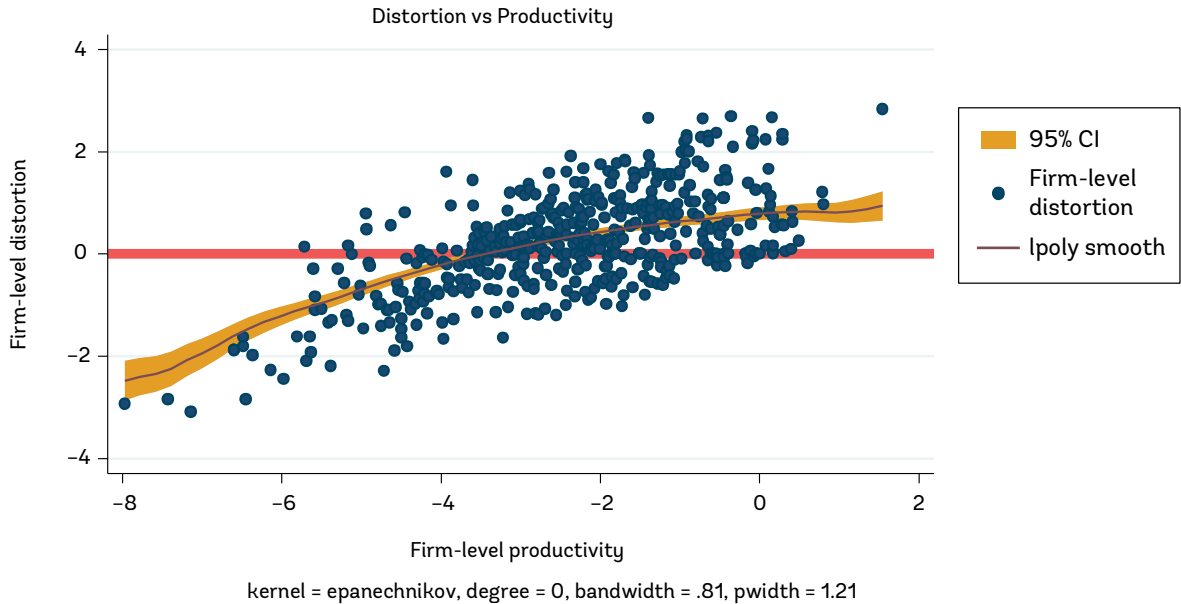
Figure 5: Resource Misallocation in Cameroon vis-à-vis Other Countries



Source: Tax return (DSF) over 2011–2013, World Bank staff calculations.

Note: Misallocation is measured as the differences (ratio 90th to 10th percentile) in the TFP of firms within four-digit industries.

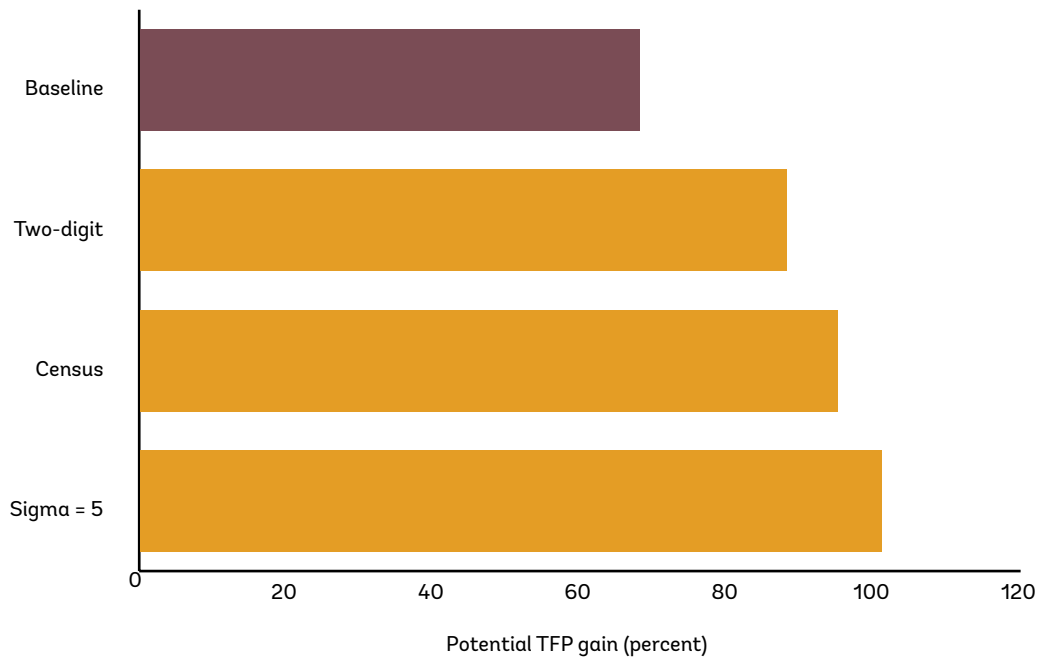
Figure 6: Taxing the Good and Coddling the Bad



Source: Tax return (DSF) for 2013, World Bank staff calculations.

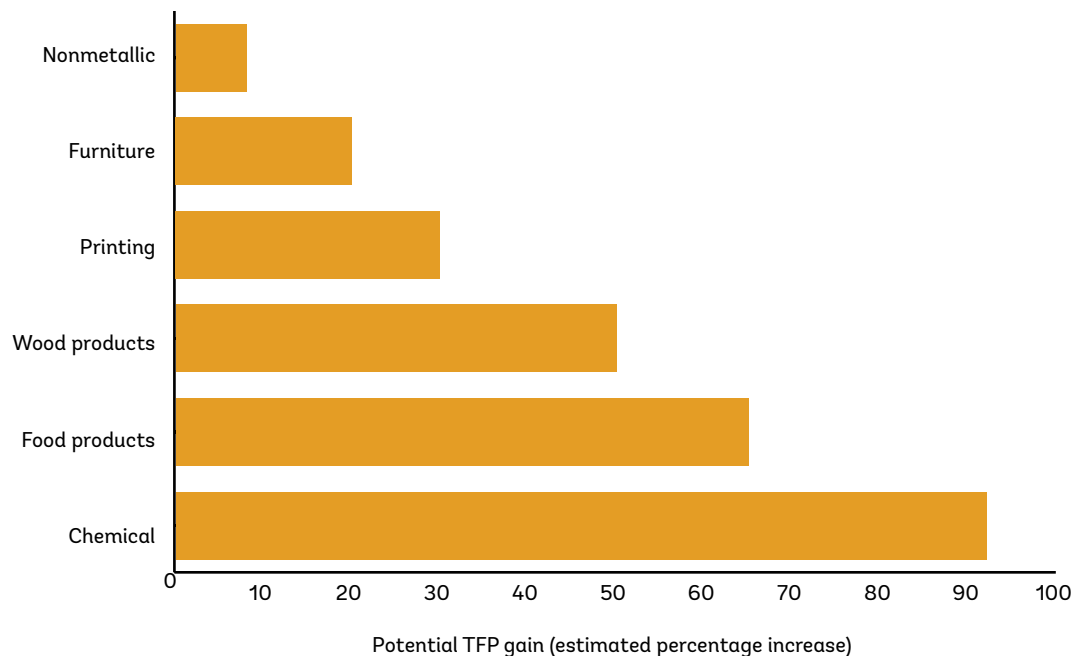
Note: The lines are fitted using a nonparametric local polynomial smooth. The red horizontal line represents equilibrium in the absence of distortions. Firm-level distortion is measured as the differences (ratio 90th to 10th percentile) in the TFP revenue of firms within four-digit industries. CI stands for “Confidence Interval.”

Figure 7: The Baseline Estimates Appear to Be a Lower Bound



Source: Tax returns (DSF) for 2013 and 2009 firm census (Recensement général des entreprises—RGE) datasets. World Bank staff calculations.

Note: Potential TFP gains are the estimated increases in productivity following removal of misallocation.

Figure 8: The Potential Productivity Gains Differ across Sectors

Source: Tax returns (DSF) for 2013, World Bank staff calculations.

Note: Potential TFP gains are the estimated increases in productivity following removal of misallocation.

within an industry is considerably higher than the baseline results (95 percent versus 69 percent). Although the size of the aggregate costs of misallocation differs depending on the assumptions, the potential productivity gains from reversing distortion are quite large.

Removing between-sector misallocation may have an even larger effect on aggregate TFP. The extent of misallocation differs greatly across sectors. Removing distortions is estimated to increase productivity by 8 percent in the non-metallic minerals sector, 10 percent in the furniture sector, 30 percent in the printing sector, 50 percent in the wood products sector, 65 percent in the food products sector, and 92 percent in the chemical sector (Figure 8). The analysis abstracts from aggregate productivity gains associated with reversing distortions between firms in different sectors, but the potential productivity gains from such reallocation is also potentially large.

Accumulation, reallocation, and innovation through trade will drive Cameroon's ascension to upper-middle-income status. To boost growth in Cameroon, this chapter suggests that policy makers should focus on increasing firm-level productivity, harnessing domestic savings while tapping foreign savings through FDI and increasing the allocative efficiency of production factors. Acting on these levers will strengthen Cameroon's supply capacity. However, to boost broad-based growth in Cameroon, a shift to tradable labor-intensive products and services is needed to tap a larger demand from regional and global markets. This requires a more competitive economy. Unfortunately, various factors relating to market as well as government failures hold back competition in Cameroon. The next chapter document these constraints.

CHAPTER 2

Constraints to Competitiveness in Cameroon

More competitive domestic markets will enhance productivity gains. However, various factors hold back competition in Cameroon. High market concentration combines with state ownership of many of the largest firms and government regulations to limit competition. Widespread state participation in commercial activities and competition with the private sector deters investment. The limited competitive environment leads to considerable resource misallocation as highlighted in the previous section. To be more competitive globally, Cameroon has to promote domestic competition to strengthen firm productivity, scale up its supply capacity by facilitating regional trade and transport services, and pursue a diversification strategy by improving the efficiency of its ports and attracting FDI in promising sectors. This is constrained by limited local competition, a weak regional trade and transport facilitation regime and a global competition limited by inefficient ports and a narrow production base.

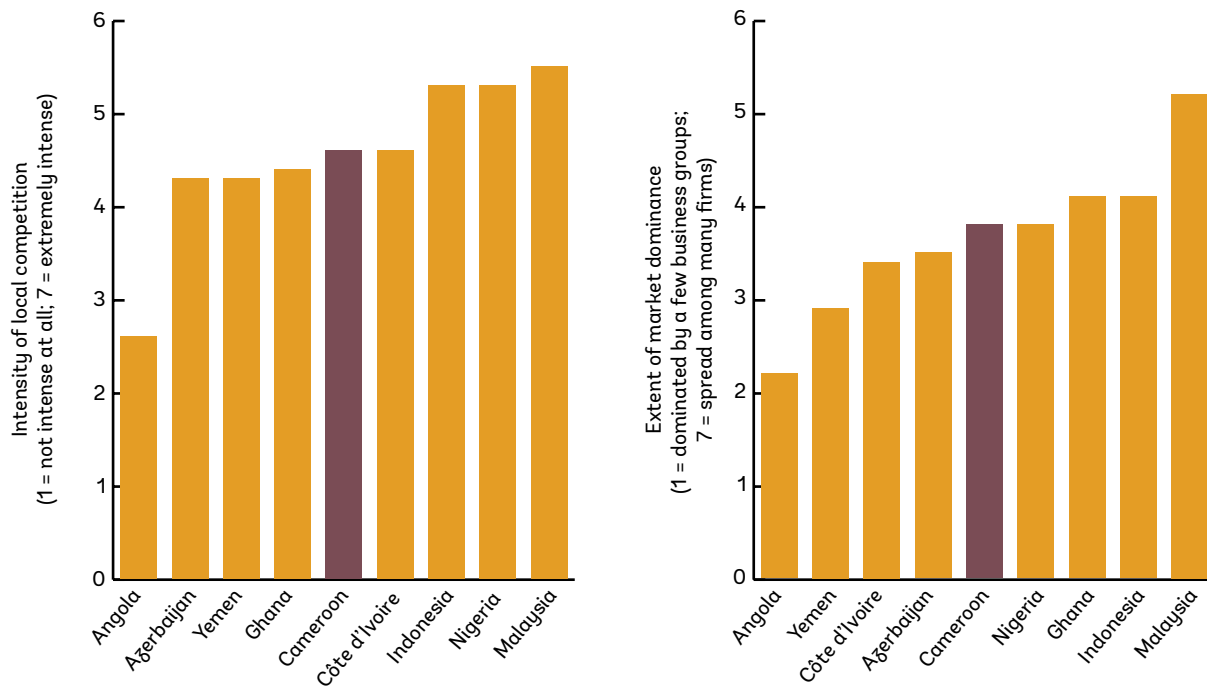
2.1 Limited Local Competition

Global competitiveness indicators rank Cameroon below income peers and the world average. The Global Competitiveness Report of 2014–2015 ranks Cameroon 109 out of 144 countries in terms of local competitive intensity, 65 in terms of extent of market dominance, and 78 in terms of effectiveness of competition policy (a high rank indicates poor performance). Furthermore, resource-dependent countries with similar GDP per capita rank better than Cameroon in terms of local competitive intensity. For example, Cameroon underperforms when comparing perceptions of the degree of local competition with Côte d'Ivoire, Indonesia, Nigeria and Malaysia (Figure 9). Lack of freedom to set prices, unfair competitive practices, and vested interests that

distort business decisions are perceived as contributors to business risks.

Monopolies in key network sectors and manufacturing markets are more prevalent in Cameroon compared with similar countries in the region. Although not the only determinant, market structure affects the degree of competition that a market can attain. In Cameroon, only a few large firms operate in most sectors and subsectors of the economy. Sectors that are key inputs for other activities—telecommunications, transport, and electricity—have only one firm in operation (Figure 10) for quite a few subsectors such as railway freight, port operation, power distribution, etc. In Cameroon 31 percent of manufacturing firms operate in oligopoly, duopoly, or monopoly markets, whereas in Kenya and Ghana only 25 percent and 22 percent, respectively, operate in markets with such characteristics (Figure 11).

Important markets are highly concentrated, and government participation in multiple firms in the same market increases concentration. Government participation in more than one company increases market concentration because government influence limits rivalry among firms. This is the case for electricity generation, palm oil, and bananas. In many cases, even if the government does not have a controlling share, it has special rights that impinge on business decisions. In the case of sugar, the government nominates the director general, and in the case of the Cameroon Electricity Company (ENEO), the government has special voting rights. Of the 12 markets analyzed (Figure 12), 11 are highly concentrated based on the Herfindahl-Hirschman concentration index (HHI). Rail transport services, port services, fixed telecom network services, and ginned cotton are outright monopolies.

Figure 9: Competition Intensity and the Extent of Market Dominance (2014–2015)

Source: WEF, Global Competitiveness Report 2014–2015.

Note: CEMAC is calculated averaging Cameroon, Gabon, and Chad.

Various factors coincide to create a poor competitive environment. High market concentration, state ownership of the largest firm in the market, and government regulations work to limit competition (data collected by ISSEA in 2014). In the case of network sectors, regulation is needed to facilitate competition. For example, in the case of railways, infrastructure services and transport services are not separated, and an access policy that could allow other companies to use their own rolling stock to provide transportation services is lacking. In goods markets (such as sugar, palm oil, and cement), price controls and import restrictions exacerbate the effects of a concentrated market. This is illustrated by the sugar price differential between Cameroon and some benchmark countries (Figure 13).

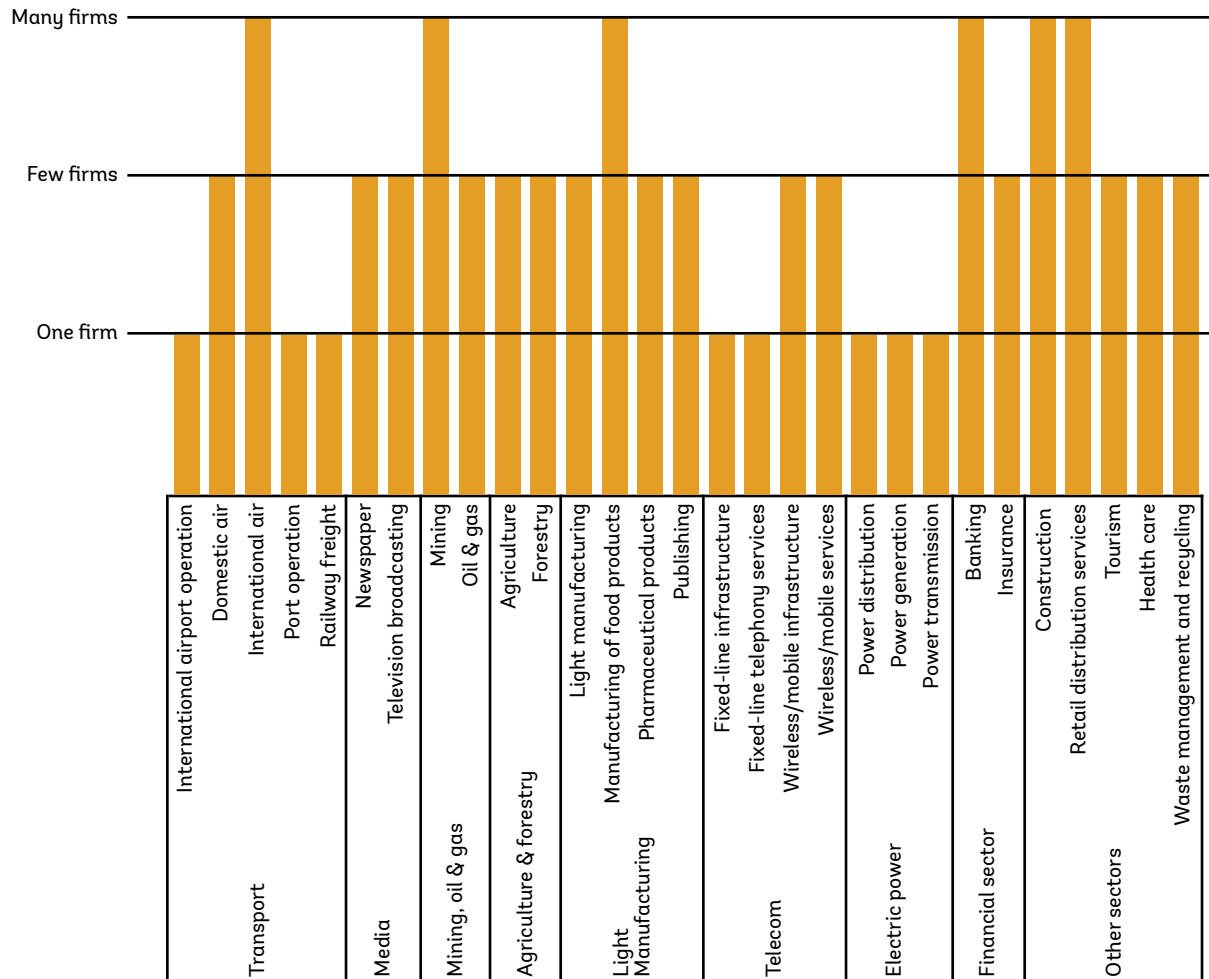
2.2 Limited Regional Competition

Informal cross-border trade is vibrant in Central Africa, especially in agricultural commodities, but poor trade and transport facilitation limit its potential. With the relative proximity of Garoua (north of Cameroon) and Kano (north of Nigeria), increased informal trade of rice might explain why prices in these two cities were closer (CFAF421/kg in Garoua vs CFAF443/kg in Kano), compared to the price difference between the other regions of Cameroon and Nigeria (Figure 14). More generally, the trade between

Cameroon and its CEMAC neighbors is a “one-way trade” dominated by Cameroonian exports of agricultural commodities (Nkendah 2013). As agricultural and horticultural products dominate this informal trade, seasonal patterns due to production cycles and the usability of road connections affect its magnitude. Indeed, this informal regional trade relies on poor roads and a poor trucking sector. These conditions raise inland road transport prices and reduce the quality of service. One ton-kilometer costs 11 U.S. cents on the Douala-Bangui-N’djamena corridor compared with 8 in Eastern Africa, 6 in Southern Africa, 5 in France and China, 4 in the United States, and 3.5 in Brazil (Terravaninthorn and Raballand 2008).

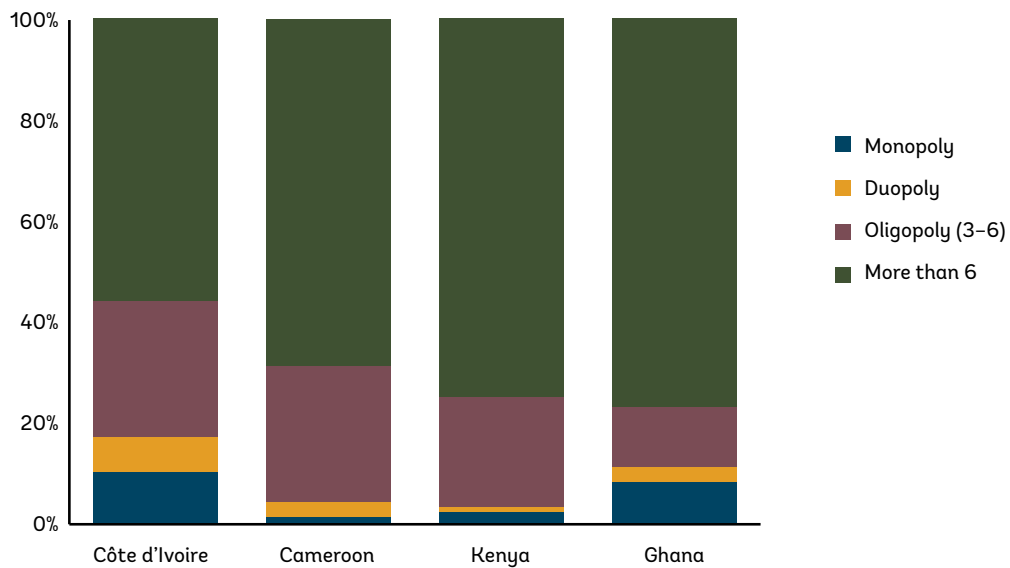
A World Bank study on cross-border trade between Cameroon and Nigeria (World Bank 2013) illustrates how the poor quality of road infrastructure along regional corridors contributes to high transport costs. According to this study, a truck takes as much as a week in the dry season to complete the 30-kilometer stretch between Limani and Mora, a key corridor to the Nigeria border in northern Cameroon. Despite slow driving to safeguard vehicles, trucks break down frequently. Large segments of the nine corridors that connect Cameroon to its land-border crossings with Nigeria are dirt and gravel roads that are difficult to cross in the dry months and impossible in the rainy

Figure 10: Number of Firms in Each Sector or Subsector



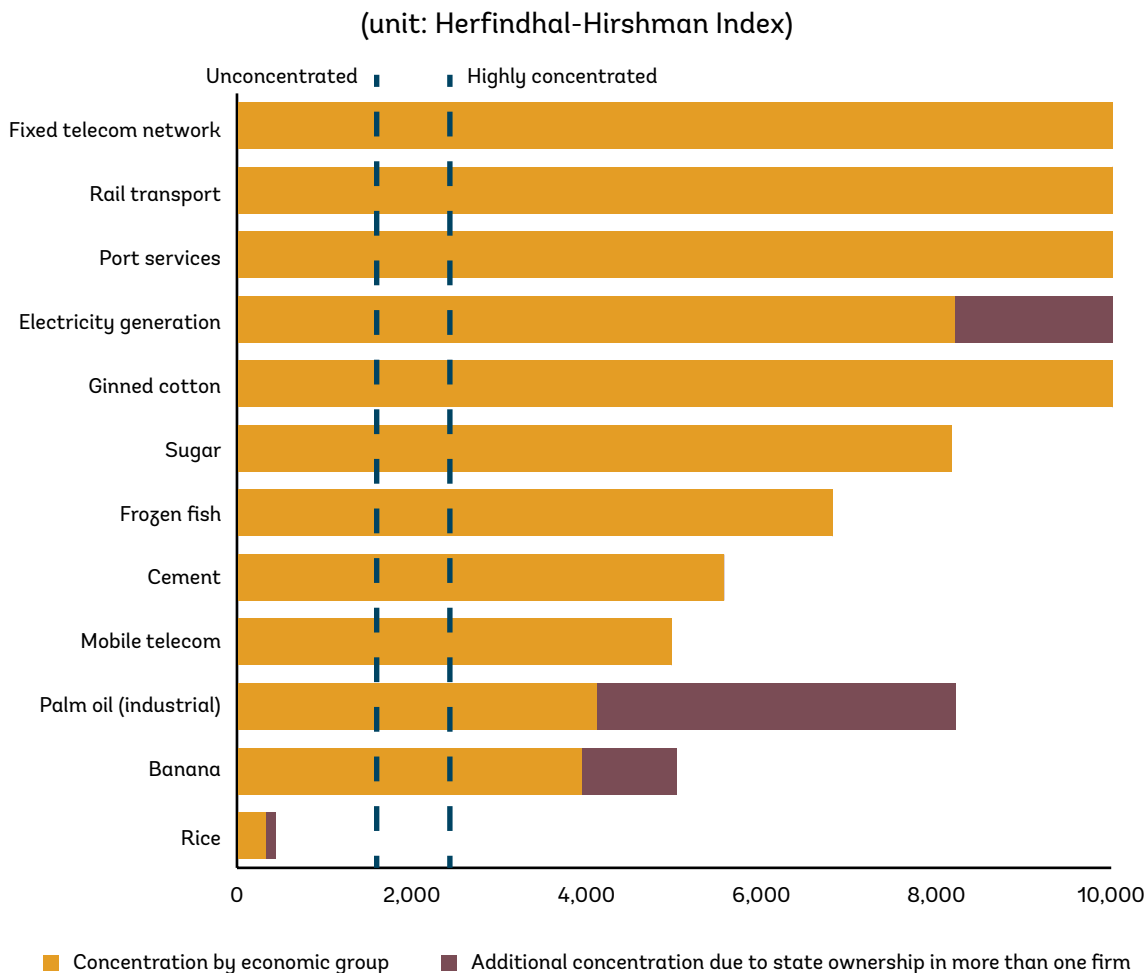
Source: World Bank, Investing Across Borders 2010.

Figure 11: Manufacturing Firms by Market Structure



Source: World Bank, Enterprise Surveys (latest available data for each country).

Figure 12: Market Concentration in Selected Sectors



Source: Data collected by ISSEA in 2014.

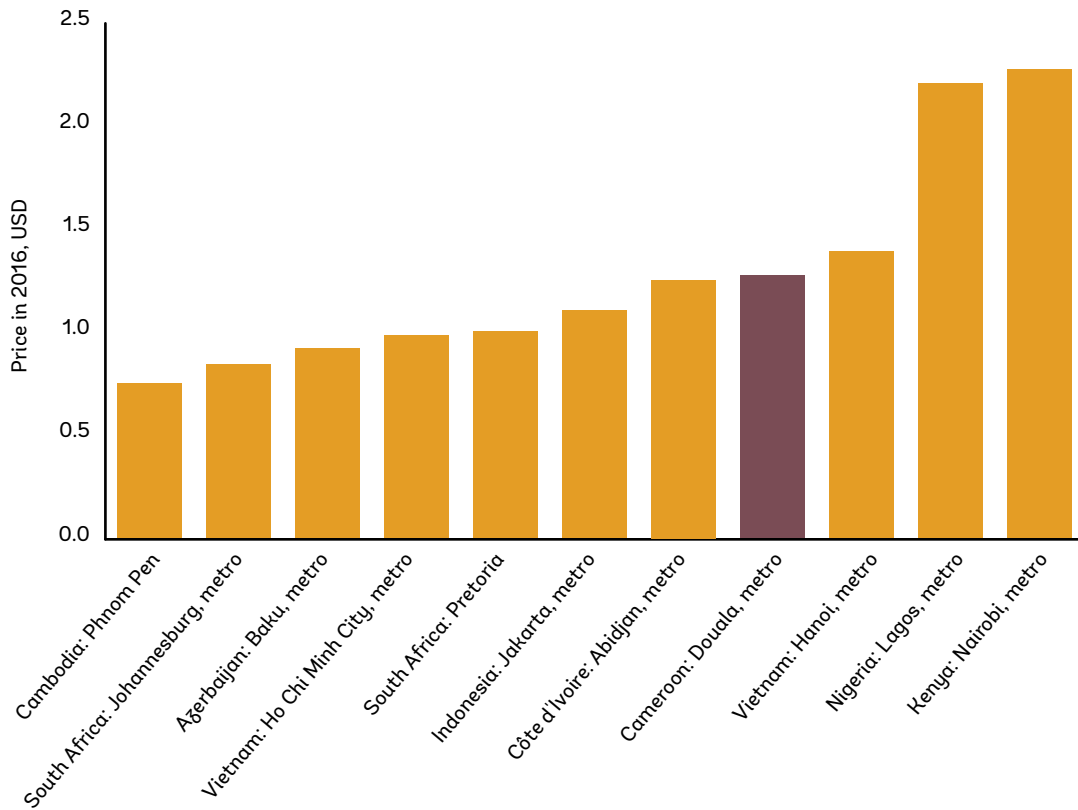
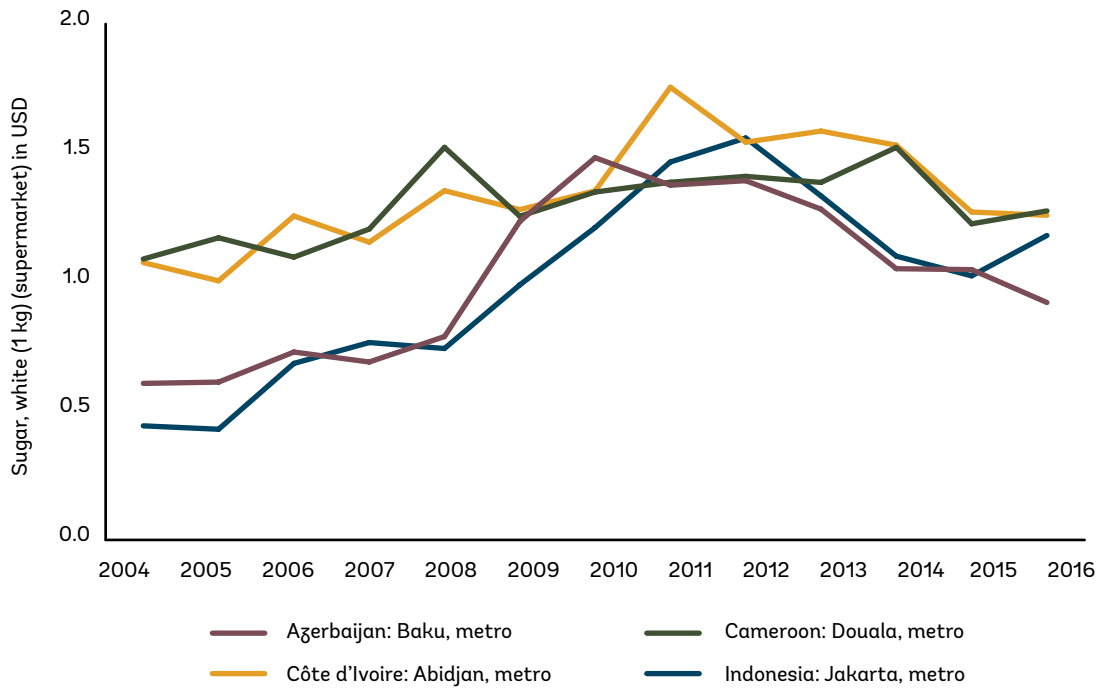
Note: Figures correspond to 2013 or 2014. The figure for rice considers imported and locally produced rice part of the same market. The figure for cement assumes partial utilization of Dangote's new capacity.

season.⁹ Transport costs are considerably higher on the Cameroonian side, ranging from US\$0.42 per ton-km for the Limani-Maroua corridor to US\$0.72 per ton-km for the Bokoula-Guider section. In contrast, costs on the Nigerian side vary from US\$0.11 and US\$0.16 per ton-km. In terms of travel time, crossing the 90 kilometers of the Limani-Maroua section takes 7–10 days and crossing the 190 kilometers of the Ekok-Bamenda segment takes as long as 14 days. By contrast, crossing the 710-kilometer stretch between Kano and Limani on the Nigerian side takes only 3–4 days.

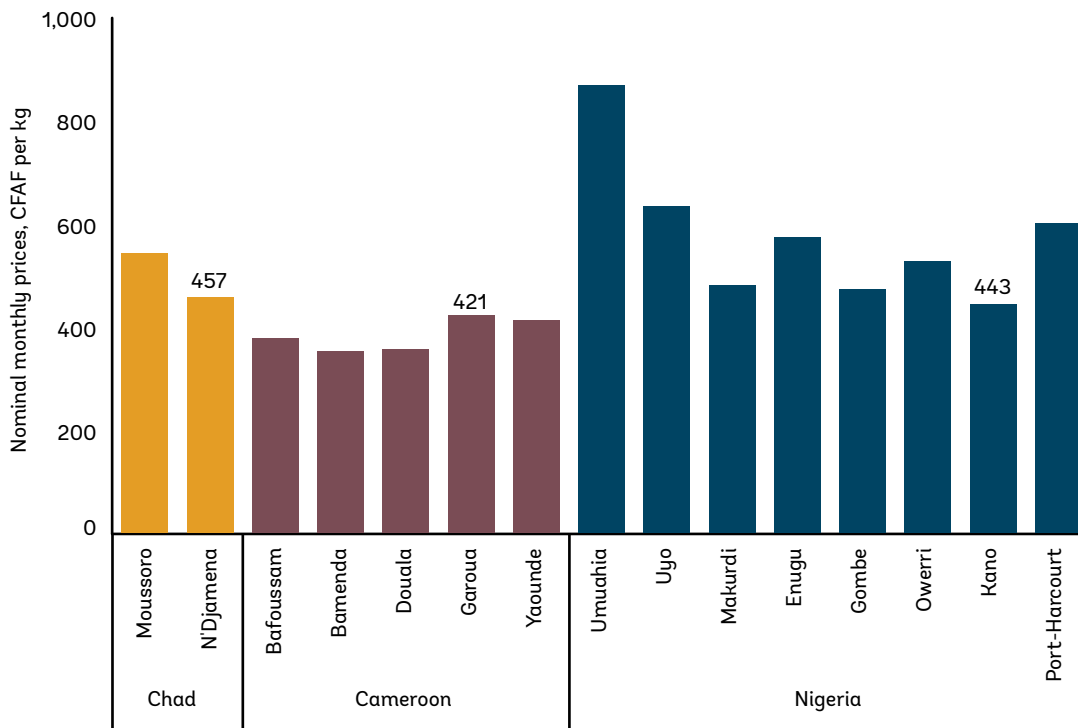
⁹The 9 corridors are (1) Maiduguri-Bama-Banki-Limani-Mora-Maroua; (2) Maiduguri-Bama-Banki-Limani-Bogo-Maga; (3) Maiduguri-Dikwas-Ngala-Fotokol-Maltam-Kousseri; (4) Maiduguri-Bama-Gwoza-Touron-Mokolo-Maroua; (5) Mubi-Boukoul-Guider; (6) Jimenta-Demsa-Garoua; (7) Yola-Bardanké-Garoua (via the Benoué River); (8) Onithsa-Enugu-Abakaliki-Abong-Abonshie-Ako-Nkambe-Ndu-Kumbo; and (9) Onithsa-Enugu-Abakaliki-Ikom-Mfum-Ekok-Mamfé-Bamenda-Kumbo.

Poor road maintenance in Cameroon contributes to high transport costs. Distinct collection channels of a road user levy established in 1998 at the creation of the Second Generation Road Fund have been abolished by the 2007 act, reverting to the pre-1998 situation when road maintenance resources were determined arbitrarily under a force account regime. As a result of the budget controls imposed by the Ministry of Finance, only about 43% of the maintenance needs for the 27,000 km classified road network are currently being met. This is despite the fact that fuel levies for road maintenance and rehabilitation have increased substantially over the last decade to about FCFA100 billion (about US\$213 million) per year of which only about 50% goes for road maintenance. Road maintenance activities are also poorly planned and fail to optimize the life cycle of road assets. A recent audit of maintenance contracts funded by the Road Fund revealed that only 45 percent of the civil works were judged satisfactory or acceptable from a technical quality. Chronic road

Figure 13: Sugar, White (1 kg) (Supermarket)



Source: The Economist Intelligence Unit.

Figure 14: Average Retail Rice Prices in Cameroon, Chad, and Nigeria

Source: Cameroonian and Chadian prices come from FAO website (data retrieved in 2015). Nigerian prices come from Nigeria agricultural market information service (NAMIS).

maintenance underfunding and weak implementation capacity are negatively impacting the quality and sustainability of the road network.

Some progress has been made in enforcing axle weight regulation but this needs to be sustained. The percentage of overloaded trucks has decreased steadily from 85 percent in 1998 to 9.5 percent in 2012 (13 percent in 2011). The network of weighing scales is still being extended (18 are currently operational, all managed and maintained by the private sector) and the number of trucks effectively controlled has increased remarkably from 606 in 2010 to 1,178

in 2011 and 1,544 in 2012. As high as 99 percent of the overloads are below 5 tons. Despite these advances the general view within the sector and among road users is that management of excess load control still requires improvements, notably to render it more efficient and sustainable.

Many checkpoints and roadblocks exacerbate high inland road transport costs and long travel times. Available data on the corridors connecting Cameroon to Nigeria indicate an average of as much as one checkpoint every 20 kilometers (Table 2). These excessive controls not only increase travel time but also financial costs as trucks can rarely pass

Table 2: Checkpoints and Costs on Cameroon Road Corridors to Nigeria

Corridors	Distance (km)	Number of Checkpoints	Average Cost per Truck (US\$)	Size (tons)
<i>Southwestern Corridors</i>				
Ekok–Mamfe–Bamenda	250	12	633	20
Abonshie–Kumbo–Bamenda	220	11	581	20
<i>Northwestern Corridors</i>				
Maga–Limani	150	13	521	40
Boukoula–Guider	80	7	290	40
Demsa–Garoua	45	4	676	40

Source: World Bank (2013).

them without negotiating informal payments.¹⁰ Agencies in charge of these checkpoints try to justify them on grounds of security and/or preventing illegal movement of unauthorized goods or persons, but checking all trucks so often on the same corridor inside the same country is certainly inefficient. These checkpoints are a clear disincentive to border trade.

High transport prices also result from higher vehicle operating costs. Poor road conditions, old trucks, and payments and stoppages at many road checkpoints imply higher vehicle operating costs and long and variable travel times. Road infrastructure quality is a key determinant of the variable component of a truck's operating cost.¹¹ The cost is proportional to how far and/or how often the vehicle travels and its age, and comprises mainly fuel, tires, regular maintenance and repairs, driver subsistence, and road user charges. Recent cross-country estimates confirm that Cameroon has the highest ratio of variable-to-fixed costs at 70:30, compared with 60:40 for countries in Eastern Africa and 45:55 in Western Europe (Teravaninthorn and Raballand 2008).

Ultimately, the most binding constraint in regional trade and transport facilitation is the existence of a trucking cartel. The trucking market in Cameroon (and CEMAC) is regulated as part of the transit cargo allocation system for Cameroon, Chad, and the Central African Republic.¹² As a result, a few large freight forwarders¹³ in Douala collaborate with a few large trucking companies to set prices on the Douala-Bangui-N'djamena corridor and allocate transit cargo among Cameroonian truckers. The prices include excessive markups on cost, and regulatory barriers to entry of new operators, and the de facto power of informal transport associations and freight bureaus restrict market access. The same price-setting system also applies to import cargo destined for different places inside Cameroon, though systematic data on trucking prices and truck cargo are not yet available, except for information on trucking in the border

¹⁰Studies find that formal payments at checkpoints in the border region between Cameroon and Nigeria are significantly higher than comparable charges in East Africa. Informal payments at control points, and those at the border can account for more than 50 percent of the total transfer costs along the Enugu (Nigeria)-Bamenda (Cameroon) corridor.

¹¹Operating cost per km = (fixed costs per month/monthly distance × load factor) + variable costs per km.

¹²The freight bureaus (government agencies) of the three countries were involved in this allocation, but with Chad and Central African Republic truckers failing to utilize their quotas, this allocation system is not really enforced. Due to the opacity of the quota-sharing mechanism, it is difficult to assess how Cameroonian trucks use these unused quota or what unofficial payments may be made to the Central African Republic or Chad transporting companies/associations.

¹³Four freight forwarders control more than half of all transit cargo traffic.

areas (World Bank 2014). Little direct contracting occurs where shippers negotiate contracts with truckers of an uncompetitive transport sector. These regulatory constraints (formal and informal) are the root cause of limited competition, poor service, and high transport prices.

2.3 Limited Global Competition

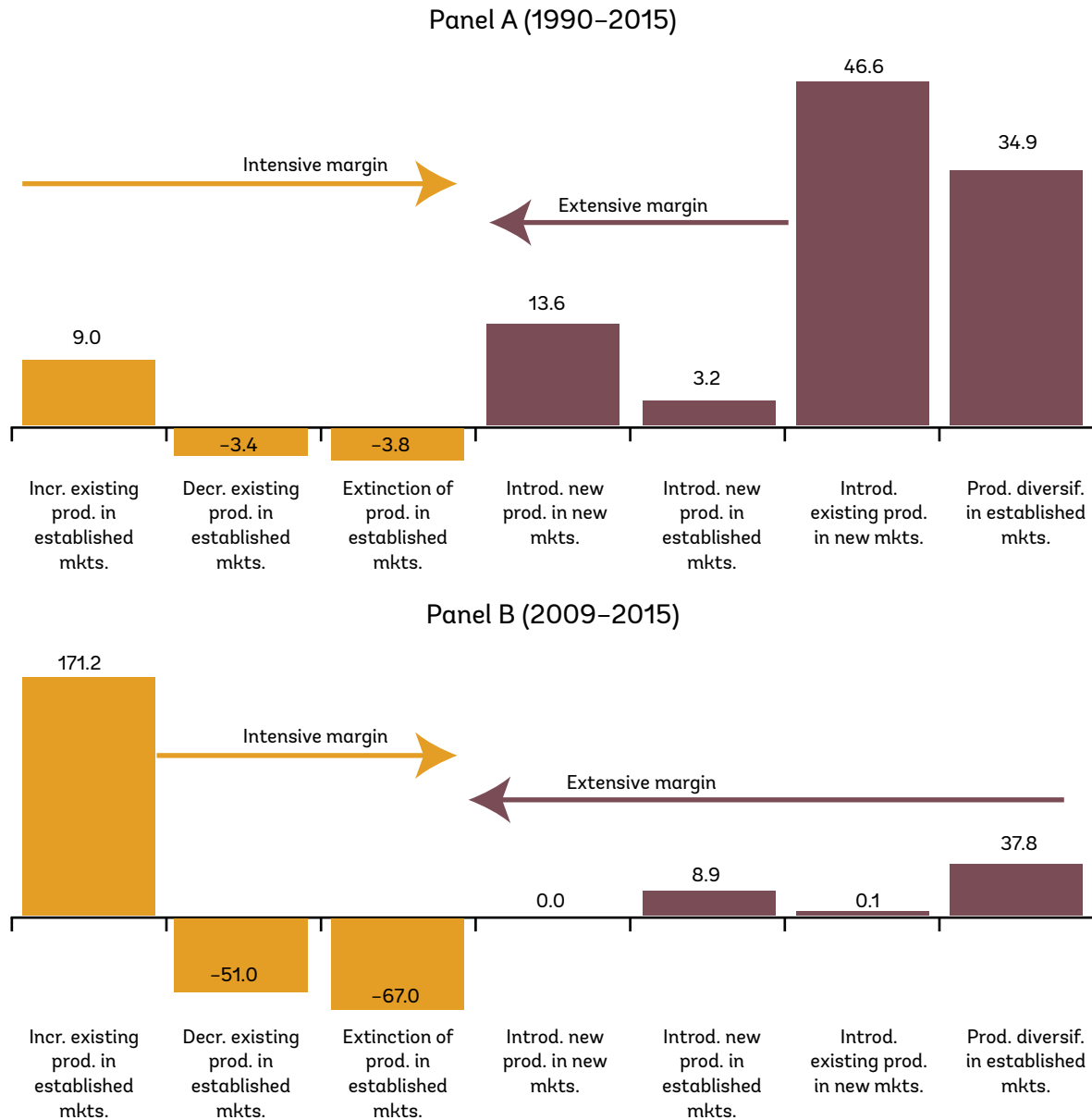
Cameroon exports disproportionately more commodities to traditional markets. Comparing Cameroon's actual exports in 2010–2015 to predicted exports for each destination based on various country characteristics (including contiguity, common language, common colonizer, geographical distance, etc.), Cameroon appears to export disproportionately more to its CEMAC neighbors and to global markets such as Japan, the European Union [EU], and the United States, particularly for commodity exports. Although Cameroon exploits demand in emerging markets such as Brazil, Russia, China and South Africa—the BRICs, market penetration is relatively higher for commodity exports and close to predicted levels for noncommodity or differentiated products.

Cameroon also expands exports mainly by introducing existing products to new markets and diversifying its export mix to established markets. The largest source of export growth since 1990 was through the introduction of existing products into new markets and diversification of the export mix within established markets (Figure 15, panel A). In 2009–2015, a shift to growth on the intensive margin occurred through increased volumes of existing export products to established markets (Figure 15, panel B).

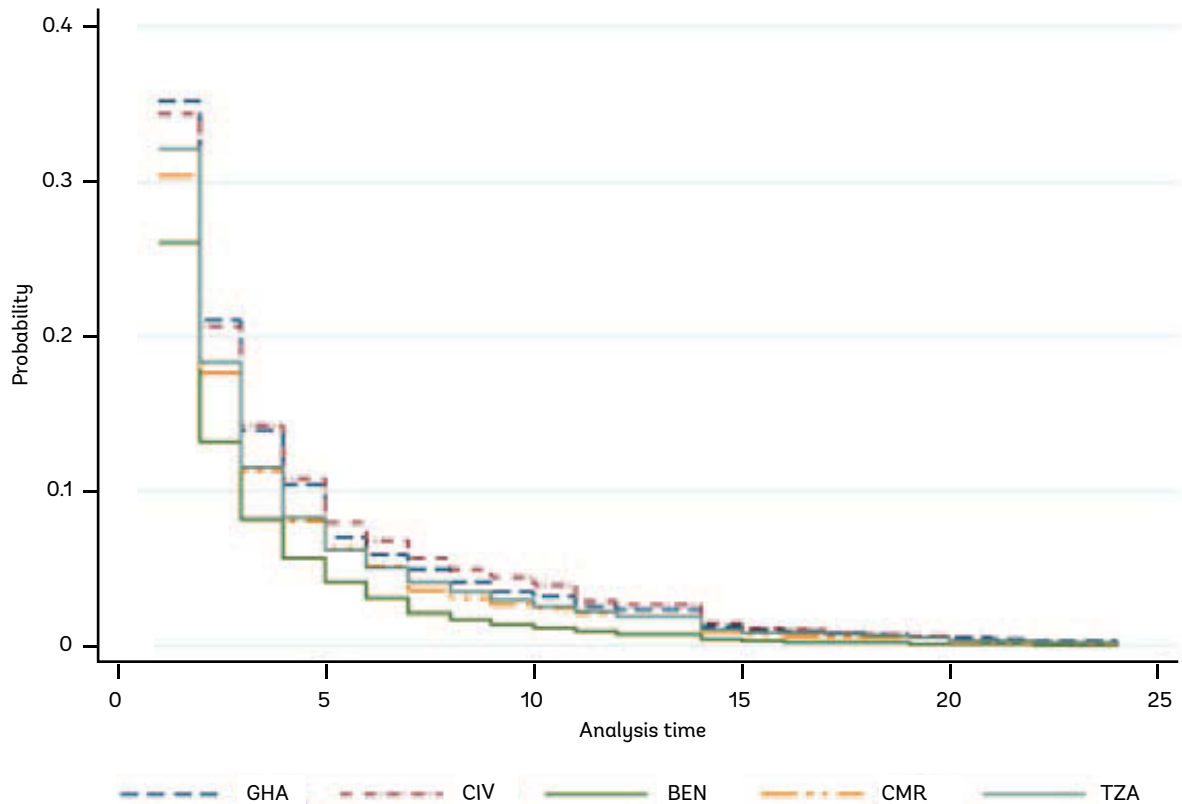
The survival rates of export relationships indicate the challenges facing Cameroonian producers seeking to export. Survival rates are how long a newly exporting firm continues to export, whether to the same or new markets, or whether the same or different products. Export survival rates shown in Figure 16 for Cameroon suggest that, on average, new exporters have a 30 percent probability of continuing to export the following year, and this probability falls to about 12 percent by the third year. For comparison, note that survival rates are slightly better in Ghana, Côte d'Ivoire, and Tanzania, and worse in Benin.

A feasible strategy for increasing Cameroon's global competitiveness includes moving to "nearby" products, classified as new high-potential products. Over time, Cameroon can accumulate the capacity to shift to highly sophisticated products. Given the underlying objective to raise and sustain GDP growth by increasing the sophistication of Cameroon's export basket, the product-space methodology identifies high-potential products that can use capabilities Cameroon already possesses. The selection criteria are sectors with a revealed comparative advantage ($RCA > 1$) and a sophistication level higher than Cameroon's current average sophistication but not

Figure 15: Intensive vs. Extensive Export Growth



Source: Trade outcomes module of World Integrated Trade System (WITS) and World Bank staff calculations.

Figure 16: Survival Rates of Export Relationships (1990–2015)

Source: World Bank staff computations using data from WITS.

Note: Country codes: GHA = Ghana; CIV = Côte d'Ivoire; BEN = Benin; CMR = Cameroon; TZA = Tanzania.

too far from existing products. This gives rise to many promising product categories because Cameroon can relatively easily diversify into these more sophisticated products (see Annex for list of products). Additional filters can be applied to narrow this large set of promising products, such as the availability of the necessary skills mix within Cameroon or at the CEMAC level.

For private sector firms to pursue any of these high-potential paths, the main entry/exit point for trade, namely the port of Douala, must be efficient. Minimizing the total dwell time at the Port of Douala is essential. It requires two key subsystems, port operations and customs clearance, whose efficiency determine the total dwell time. A study commissioned by the World Bank in 2014 (Diarra and Tchapa 2014) found that in 2013, the average dwell time for import cargo in Douala was 20 days for containers

and 30 days for noncontainerized cargo.¹⁴ Cargo took longer to exit from Douala after ships arrive there, than the same cargo took to travel across the ocean from the original port of departure, which was estimated at an average of 19 days (Diarra and Tchapa 2014). Douala's average dwell time for containers compares unfavorably with other African ports like Mombasa (11 days), Dar es Salam (12 days), and Durban (4 days) (Raballand et al. 2012). This situation reflects the current inability of the state to properly regulate the sector. More generally, the state plays a central role in all the constraints identified in Chapters 1 and 2. The next chapter documents how the Cameroonian state constrains growth and competitiveness.

¹⁴The longer average time for non-containerized cargo is due primarily to rice and maize whose average dwell time is 56 days. This is largely because rice has a free time of 90 days according to port rules.

CHAPTER 3

The Role of the State in Constraints to Growth and Competitiveness

Private-sector perceptions in Cameroon identify public policies and service delivery quality as a major business constraint. In the 2014 World Economic Forum report (WEF, 2014), firms identify the four most problematic factors (out of six) for doing business in Cameroon as corruption, inadequate infrastructure, tax regulations, and inefficient government bureaucracy. The World Bank Cameroon Enterprise Survey undertaken in 2006 and 2009 and the Business Climate Survey 2011 confirm similar constraints: fiscal pressures and harassment (e.g., high tax rates, multiplicity of taxes), lack of finance (e.g., high interest rates, difficult access to credit), red tape and bureaucracy (e.g., slow administrative procedures, harassment by state agents, lack of transparency), and unfair competition (smuggling, fraud, and counterfeiting). Assessing how the state enhances or impedes well-functioning markets, and thus affects growth, is therefore important. This chapter examines how the Cameroonian government is performing its regulator, promoter, and economic actor roles within the Cameroonian economy and how this constrains growth and competitiveness.

3.1 Poorly Playing Its Role of Economic Regulator

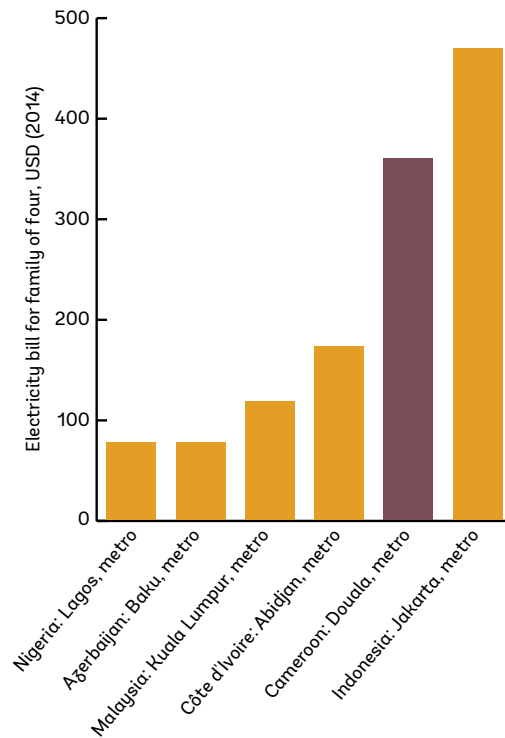
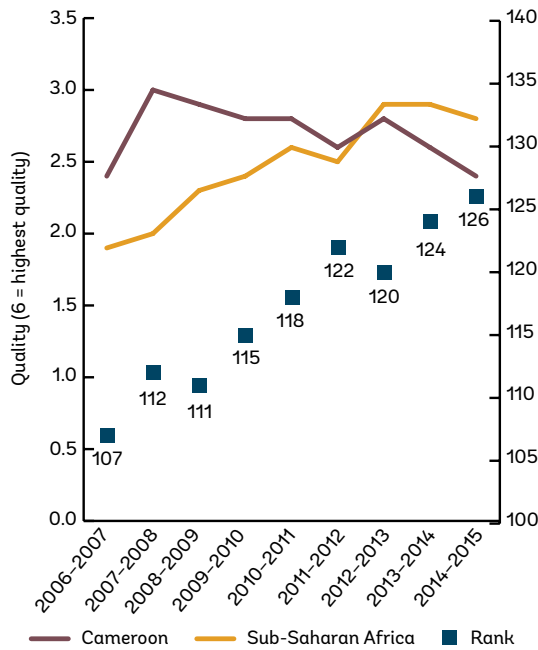
Given their economic characteristics, network sectors are regulated to mimic the outcomes of a competitive environment in markets where competition is not feasible. Markets with characteristics of natural monopoly are generally regulated. Regulations are designed to enable competition in other markets of the vertical chain. It is possible, however, for an industry that is initially a natural monopoly to change as a result of changes in technology or demand. This requires reassessing the regulation to turn it more pro-competition. In Cameroon, rail transportation services could cease to be

a natural monopoly and permit competition. In the case of ports, inter-port competition can create competitive pressure and help regulate the current monopoly of the Autonomous Port of Doula. In the electricity sector, competition is generally feasible in the generation segment. In Cameroon, investments are under way to allow for competition in the future. However, given the vertical integration in the sector, strong regulation is needed to ensure competitive neutrality between independent power providers and the state-owned providers, all related to the transmission and distribution network.

The quality of service and cost of electricity in Cameroon causes concerns, although the latest Doing Business data show significant improvement. Perceptions about the quality of electricity services, as measured by the Global Competitiveness Report, have worsened over 2006–2015. Cameroon's ranking on the quality of electricity service deteriorated from 107 in 2006–2007 to 126 in 2014–2015. In 2014, electricity prices for residential use appeared to be higher than in Nigeria, Azerbaijan, Malaysia and Côte d'Ivoire (Figure 17). However, the 2017 DB data suggest that the situation has significantly improved, with rank of the ease to getting electricity decreasing from 114 in DB2016 to 89 in DB2017. According to these data, getting electricity requires 4 procedures, takes 64 days, and costs 1,597.4 percent of per capita income all which compare favorably to the Sub-Saharan Africa average of 5.1, 115.4 and 3,711.1% respectively. Globally, Cameroon ranks 114 out of 189 economies on the ease of getting electricity in DB2016.

In the telecom sector, penetration is lower in Cameroon than in peer countries and the cost of the service (particularly fixed telephony) is relatively high. According to the 2011 Business Survey, only 24 percent of companies used to have a telephone connection, and 42 percent had an Internet

Figure 17: Quality of Electricity Supply and Cost of Electricity



Source: WEF, Global Competitiveness Report (GCR)

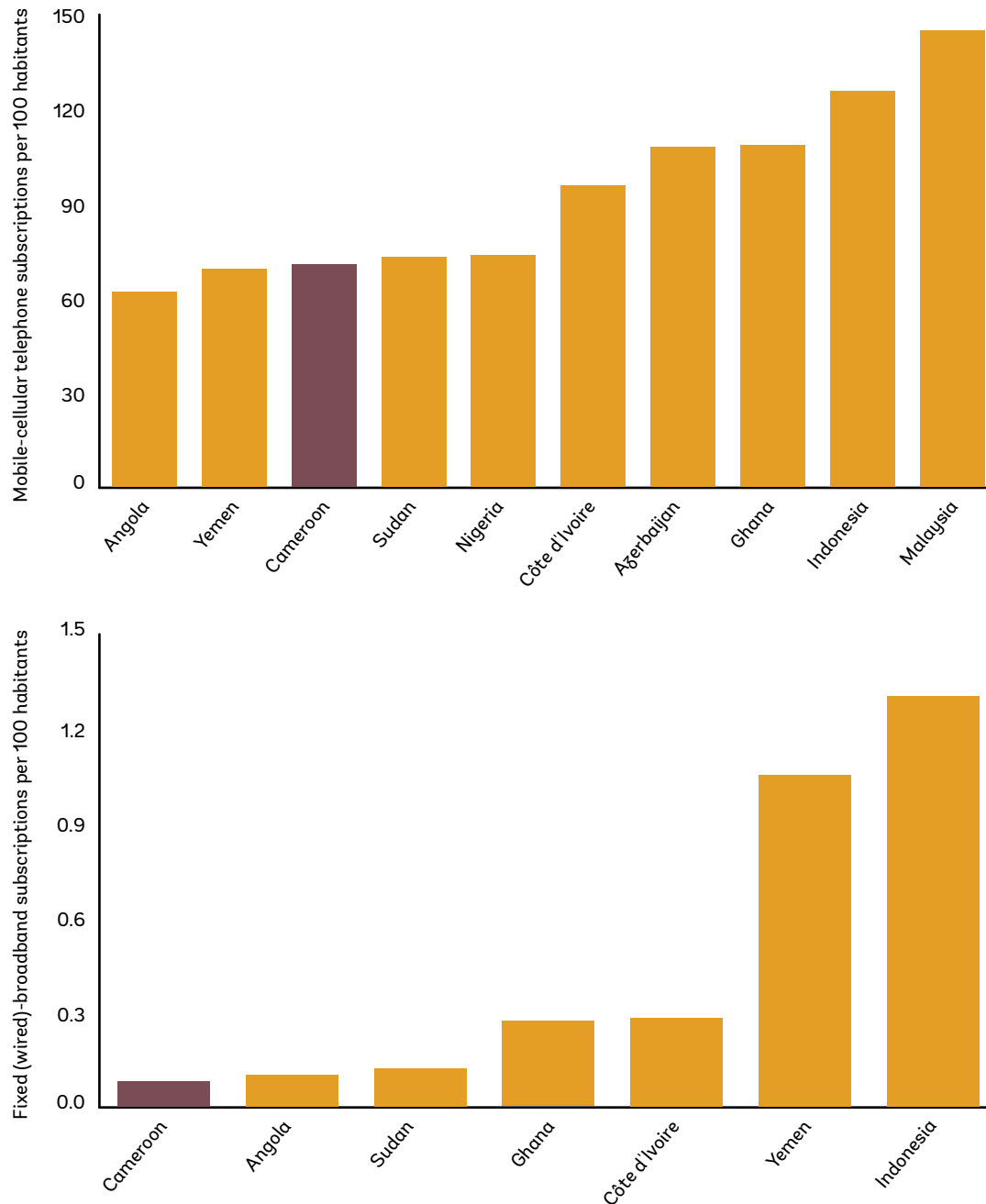
Source: Economic Intelligence Unit (EIU)

connection. More recent (2016) data from Telegeography indicate a higher population penetration rate for wireless (84.4 percent) but still limited household penetration for broadband (0.6 percent). Mobile phone and broadband access is low in Cameroon compared with other resource-dependent countries with similar GDP per capita (Figure 18). The monthly rental and call charges for fixed telephony are higher than in Indonesia, Malaysia, Côte d'Ivoire and Nigeria (Figure 19). Poor performance in these indicators could be associated with weak regulations on fixed telephony and broadband infrastructure that neither mimic competitive pressures nor enable competition. In the case of mobile services, the entry of Viettel (Nexttel) to provide 3G services has improved market dynamics by lowering prices to attract customers, but the playing field in ICT services in general is still not level.

3.2 Poorly Playing Its Role of Economic Promoter

Cameroon has implemented various reforms to improve the investment climate since 2010, but more efforts are needed promote the economy. Reforms such as the

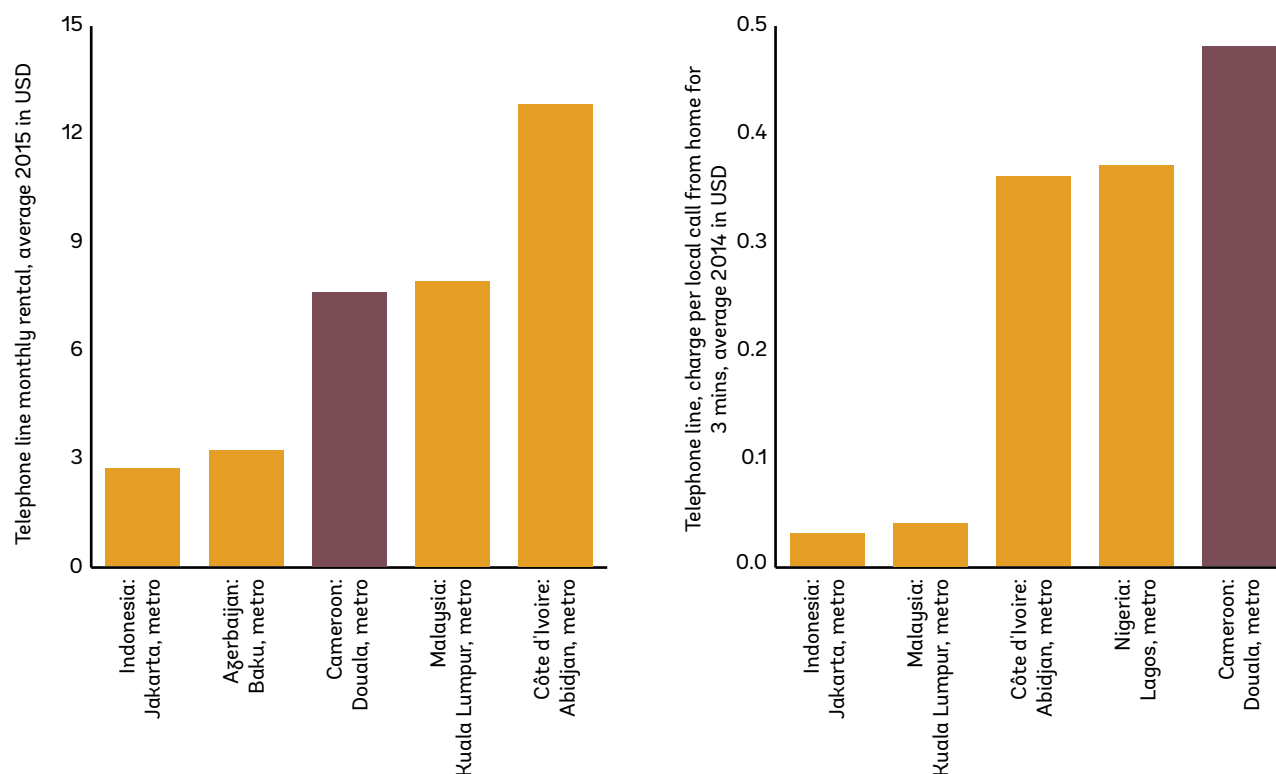
reduction of corporate income tax (from 35 to 30 percent) and the adoption of a new regulation to reduce burdensome and uncoordinated inspections are examples of positive reforms initiated through the Cameroon Business Forum (CBF) that were implemented by government. With regards to taxation, we can also mention the following recent reforms: (a) diversification of the methods of payment of tax returns (tele-declaration, mobile payment, bank transfer); and (b) improvement in tax regulations in the Finance Law 2017 and a joint circular by Customs and the Tax Administration, which aims to reduce the frequency of controls within enterprises. Since its launch in 2010, 132 out of the 192 recommendations of the CBF have been achieved (60 percent), including reforms in six areas covered by *Doing Business: Starting Business* (by establishing a new one-stop shop and abolishing the requirement for verifying business premises and its corresponding fees in DB2011; and by replacing the requirement for a copy of the founders' criminal records with one for a sworn declaration at the time of the company's registration, and by reducing publication fees in DB2012; **Getting Credit** (through amendments to the OHADA Uniform Act on Secured Transactions that broaden the range of assets that can be used as collateral (including future assets), extend the security interest to the proceeds of the original asset

Figure 18: Mobile Phone and Internet Access in Cameroon (2013)

Source: International Telecommunication Union (ITU).

and introduce the possibility of out-of-court enforcement in DB2012; and by passing regulations that provide for the establishment and operation of a credit registry database in DB2015); **Dealing with Construction Permit** (by reducing the time it takes to obtain the building permit and strengthen the Building Quality Control Index by increasing transparency in DB2017); **Protecting Minority Investors** (by introducing greater requirements for disclosure of related-party transactions to the board of directors and by making it

possible for shareholders to inspect the documents pertaining to related-party transactions and to appoint auditors to conduct an inspection of such transactions in DB2015); **Enforcing Contracts** (by creating specialized commercial divisions within its courts of first instance in DB2013); and **Resolving Insolvency** (by introducing a new conciliation procedure for companies in financial difficulties and a simplified preventive settlement procedure for small companies in DB2017). Still, Cameroon's overall DB2017 ranking is

Figure 19: Costs of Fixed Telephony across Selected Countries (2014)

Source: EIU.

poor (166 out of 190) and the three weakest areas are: **Trading across Borders** (186 out of 190), **Paying Taxes** (180 out of 190) and **Registering Property** (177 out of 190).

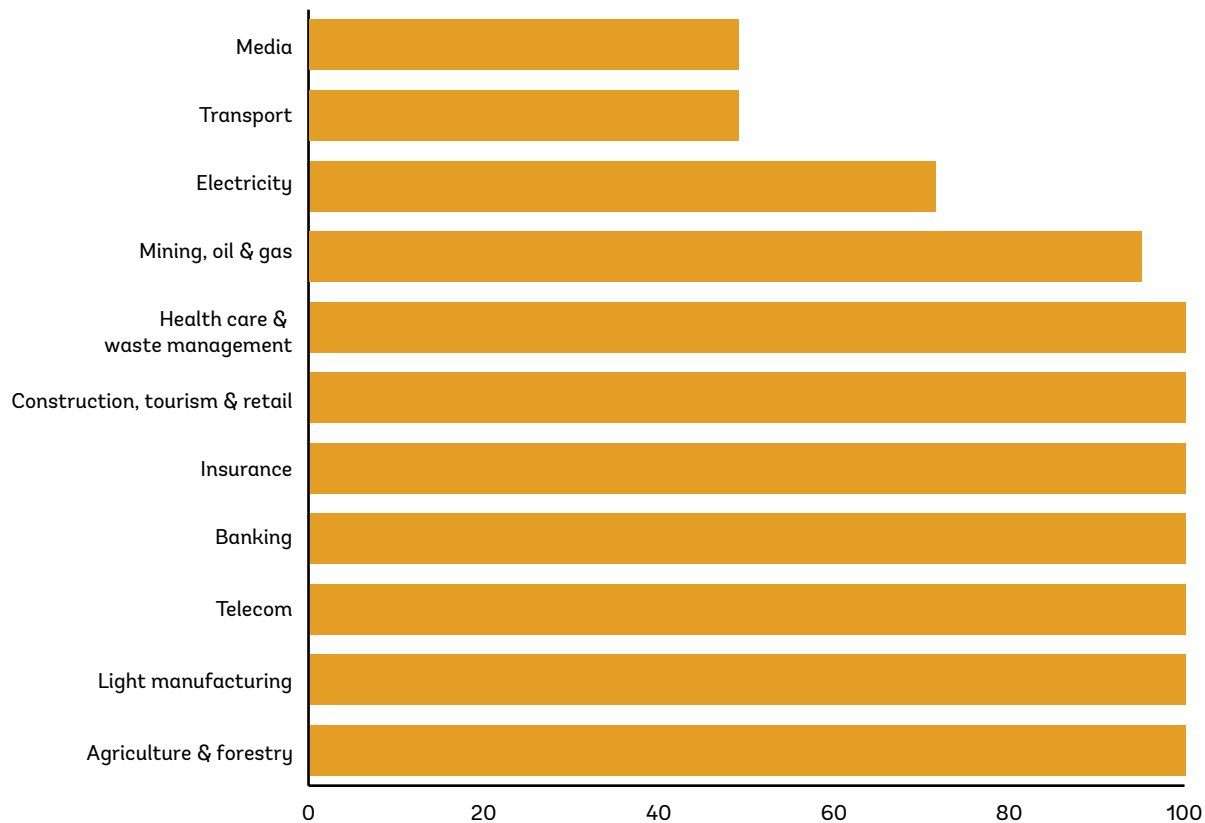
Lack of clarity also characterizes the foreign investment legal environment, discouraging entry. Intending to attract investors, Cameroon's government replaced the Investment Code of 1990, which included some restrictions on foreign ownership, with the Investment Chapter of April 19, 2002, which permits 100 percent foreign equity ownership. However, in practice, the Investment Chapter has not yet been fully implemented. Decree No. 2009/001 of May 2009 postponed the deadline for its implementation, setting the new date for 2014. In 2013, to promote and attract productive investment, the investment code was supplemented with Law No. 2013/004, which lays down private investment incentives in Cameroon. This "moving target" environment reduces interest in entering the Cameroonian market.

Cameroon still restricts foreign ownership in some sectors, which could affect new investor entry. According to the World Bank database Investing Across Borders (Figure 20), Cameroon restricts foreign ownership in these sectors: mining (95 percent of foreign ownership is allowed), power transmission and distribution (foreign ownership is not allowed), railway freight, domestic air, international air, airport and port operation (49 percent of foreign ownership is allowed), and television broadcasting and newspaper (49 percent of

foreign ownership is allowed). The Investment Code of 1990 established requirements for at least 35 percent Cameroonian equity ownership for enterprises under the SME regime. Such limitations could discourage entry from foreign firms and perpetuate concentration in certain markets. To illustrate, the proportion of firms that received foreign direct investment (FDI) in 2011 was negligible at 3.1 percent, and this FDI was concentrated in large companies.

Investment incentives granted only to select firms can affect competition. Such incentives facilitate anticompetitive behavior. These include creating or protecting dominant players, unduly encouraging firm consolidation that increases the risk of cartel formation, and creating barriers to entry for future competition. They can also generate market inefficiencies, discouraging beneficiaries from being more productive and innovative and driving out more or equally efficient firms that do not benefit from such incentives. Exceptions can be granted to first movers in new fields, provided the selection criteria are transparent. The IMF (2011) notes that although Cameroon's tax codes are generally precise, granting certain tax incentives is at the authorities' discretion. The Cameroon Business Survey 2012 found that, in a survey of 539 companies, only 7.3 percent reported benefiting from tax incentives. These were largely SOEs and parastatals, reflecting potentially unequal access to tax incentives, and increasing allocative inefficiencies (cf. Section 1.3).

Figure 20: Restrictions on Foreign Ownership of Equity in New Investment Projects (Greenfield FDI) and on the Acquisition of Shares in Existing Companies (Merger and Acquisition)



Source: World Bank database Investing Across Borders for 2010.
Note: Full foreign ownership allowed = 100.

The incentives framework has been effective in committing investments and jobs, but discretion in providing them is a concern. Since inception until March 2015, 28 companies were granted incentives. Committed investments reached US\$557.5 million and committed jobs around 10,000. Most committed jobs and investment came from the agriculture sector. Many new or medium-size players have accessed the incentives. SOSUCAM is the only state-owned company that received incentives; it committed to invest US\$171 million and create 336 jobs. However, discretion enshrined in some provisions of the law should be managed carefully to avoid favoring certain businesses. For instance, the law allows the state to extend the incentives to shareholders, promoters, and local contractors through contractual arrangements (Article 11). The incentives can also be extended beyond the initial period in case of force majeure and economic difficulties. Clear and transparent guidelines on when to extend the benefits would be useful to prevent abuses.

3.3 Too Heavily Involved as Economic Actor

The state is directly involved in economic activities where private participation is possible and economically viable.

SOEs¹⁵ and companies with government participation play a role in several markets and sectors in Cameroon. In a sample of 51 countries, including five African countries, Cameroon has the second largest number of subsectors with SOE presence (World Bank—OECD Product Market Regulation database). The presence of SOEs in infrastructure sectors is not unusual in many economies, especially in sectors that require intensive capital investments (such as electricity transmission and road infrastructure). However, Cameroon also has SOEs in other sectors (including accommodation and production of sugar and edible oil) that many other countries tend to leave open to private companies. According to available informa-

¹⁵According 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.

tion, the government controls at least one firm in 20 subsectors out of 27 surveyed subsectors (Figure 20), as compared with an average of eight sectors in the five countries with the smallest SOE footprint according to OECD Product Market Regulation (PMR) data.¹⁶ The Cameroonian government also has noncontrolling shareholdings in companies in other subsectors (such as metal products, cement, glass, and insurance).

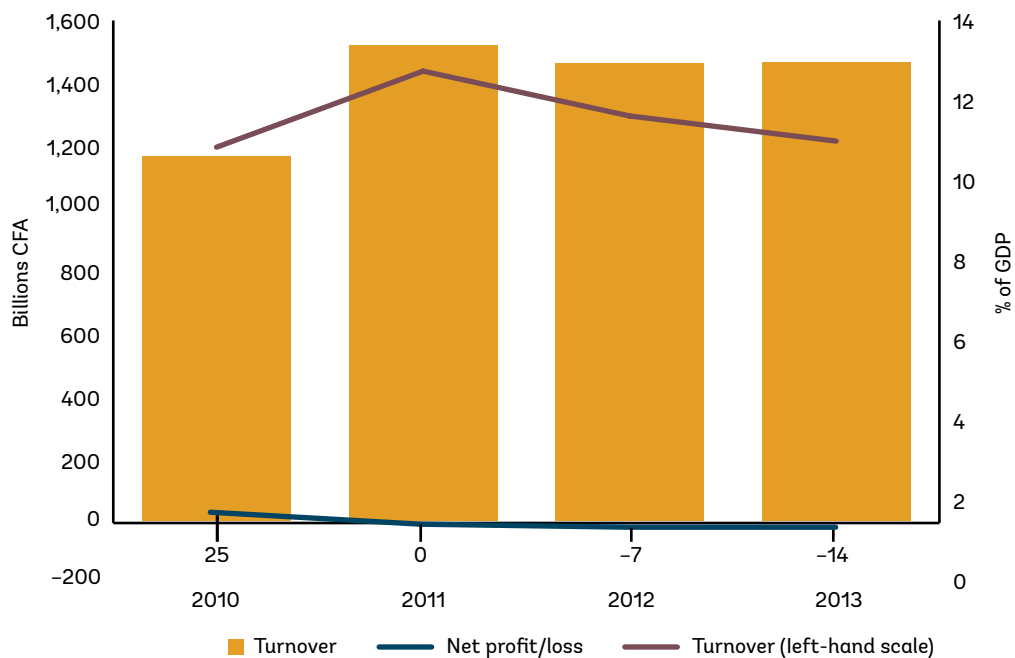
State participation in commercial activities, competing with the private sector, requires special attention to ensure value for money, given the potential negative effects on attracting investment. Although the government may have other objectives (for example, boosting job creation, reducing price volatility of commodities, or generating fiscal revenue), value-for-money principles can be applied to compare the benefits of state ownership with the cost of impairing economic efficiency, productivity growth, and fiscal sustainability. Cameroon’s SOE sector is large, and its impact on the economy and the government budget is substantial. The combined turnover of the 23 largest SOEs (out of approximately 40 commercial SOEs) was CFAF1.4 trillion in 2013 (US\$2.95 billion), about 11 percent of GDP. The net result for 2013 was a loss of CFAF13.7 billion (US\$27.8 million). Despite increased turnover since 2010, the net results have worsened, moving from a CFAF23.9 billion profit in 2010 to losses in 2012 and 2013 (Figure 21). The top five SOEs are responsible

for nearly 85 percent of total turnover of this sample of SOEs, with a combined turnover of CFAF1.2 billion, some with significant losses, others with significant profits.

SOEs have significant cross debts and outstanding claims/accounts receivable from government and others, while revenue paid to the state is low. Total claims/receivables reached 60 percent of total turnover in 2013. No information is available about how overdue these claims are and the share of such claims that are subsequently written off, but clearly such high levels of outstanding receivables would complicate the management of SOE finances. The trend of increasing outstanding claims between 2010 and 2013 suggests that these may be cumulative. Total debt by the SOEs for which data are available reached 17 percent of GDP in 2013. Most of this debt is short term and will be paid as planned. However, not known is how much total long-term debt is guaranteed by the state and hence would be contingent liabilities that could be called on in case of debt default by the SOEs. A major concern is the high level of fiscal debts, or taxes owed by SOEs to government. Despite an increase in taxes paid in recent years, fiscal debts reached CFAF175 billion in 2013 (about US\$318 million), nearly 7 percent of total government revenues. Social security debts are another concern (CFAF35.8 billion in 2013, about US\$65 million). Credit to public enterprises went from CFAF113 billion in 2012 to 145 in 2013 and 170 in 2014 and is estimated to reach more than CFAF300 billion by 2018 (1.4 percent of GDP). Few SOEs pay dividends to the state. Dividends steadily decreased

¹⁶In these countries, SOE presence is limited to essential public utilities, mostly in infrastructure sectors such as electricity, gas, and water.

Figure 21: SOE Turnover and Net Profit/Loss



Source: Authors’ compilation.

between 2010 and 2013, from CFAF9.4 billion to 1.3 (about from US\$17.1 million to US\$2.4 million).¹⁷

SOEs are accountable to multiple institutions with little clarity on performance targets and achievements. The Ministry of Finance (MINFI) through the Commission Technique de Rehabilitation (CTR) is on the boards of all SOEs as an observer and produces an annual report on the SOE portfolio. However, neither the report nor any other SOE data are publicly available. The CTR reports problems with receiving regular financial statements from SOEs. Furthermore, CTR reports having no standard indicators to monitor SOE performance, and no companies have developed results contracts/agreements. The Commission Technique de Privatization et de Liquidation (CTPL) is the secretariat of an inter-ministerial committee in charge of the technical preparation for privatization and liquidation of SOEs. Around 25 companies were fully or partially privatized or closed in 1990–2015. There are still 127 SOEs remaining in Cameroon: 28 wholly publicly owned, 19 partially owned, and 80 administrative agencies.¹⁸ However, the IMF indicates no data are available on receipts to the state from

¹⁷In 2013, only SODECOTON paid a total of CFAF1.4 billion in dividends. In 2012 SODECOTON and SOPECAM paid CFAF1.8 billion, in 2011 CAMAIR and SODECOTON paid CFAF97.9 million, and in 2010 CAMPOST, the Port of Douala, and SCDP (a petroleum storage firm) paid CFAF9.4 billion. Government subsidies to the SOEs have increased from CFAF95 billion in 2010 to CFAF183.6 billion in 2012 (8 percent of government revenues) and decreasing again to CFAF137.4 billion in 2013.

¹⁸The Public Enterprise Sector (Secteur Parapublique) is organized into several categories:

1. Societes deconomie mixte (SEM): Are companies with several shareholders but where the majority of the capital is held by the state (public agency). There are 19 SEMs in Cameroon.
2. Societes a Capital Publique (SCP) are companies owned entirely by the state. This category counts 21 institutions, including Etablissements Public Industriel a Caractere Commercial (EPIC). It includes the large utilities (Water, Electricity) but also some smaller institutions such as the national veterinary laboratory.
3. Etablissements Publics Administratifs (EPA): Numbering 80, these are mostly government regulatory agencies or specialized technical agencies, including the investment promotion agency, the national public administration school, and several hospitals. These agencies are generally entirely reliant on transfers from the state budget for their activities, although some make substantial revenues from commercial activities, such as the Caisse Nationale de Protection Sociale (CNPS).
4. Etablissements Publics Administratifs de Type Particulier. This category includes another 7 companies, including a Bank, a research center, and a roads fund.
5. Companies in which the state has minority interests and which does not fall into any of the above categories. This category includes approximately 30 companies, ranging from the Douala stock exchange, to shipping and oil companies. Shares are held either by the Ministry of Finance, by the state investment company (Societe Nationale d'Investissement), the national oil company (SNH), the national oil stabilization fund (CSPH), or the national social insurance fund (CNPS).

these privatizations. The CTPL itself accompanies the privatization process only partway; the Office of the President takes over the latter stages of the process, including private-sector negotiations. Line ministries are in charge of technical oversight of SOEs operating in their sectors and select SOE management. They nominate board members subject to the approval of the President of the Republic who appoints the managing director on the recommendation of the responsible line ministries for the largest SOEs. The secretary general of the Presidency is generally the chairman of the board of the largest SOEs.

In addition to direct involvement in SOEs, the state plays an indirect role in the economy by controlling prices of several products and services. The Ministry of Commerce (Directorate of Metrology, Quality, and Prices) is responsible for price control.¹⁹ How price controls are applied is unclear, and stakeholders suggest the controls are redundant. In practice, no publicly available list of maximum prices is available. For some services, tariffs were never approved by the Ministry of Commerce, mainly due to the existence of sector agencies in charge of regulating them (electricity, ports, and hospitality services). In cases where a maximum price was set (for instance in sugar and cement), no specific methodology for calculating the price was published. The Ministry of Commerce supervises compliance with a team of inspectors. Depending on the value of the merchandise infringing the law, the penalties can be up to 50 percent of the realized benefit or 5 percent of the sales of the merchandise. In periods with no inflationary pressures, controls become nonbinding. However, they still create a business risk and increase the regulatory burden, especially for supermarkets that are the usual target of inspectors. Furthermore, the Ministry of Commerce requires retailers to file their new price lists 15 days before the sale in case of any increase. This regulation aims to foresee price surges, but in practice enforcement focuses on a few large market players, and the result is increasing burden for firms and the Ministry of Commerce.²⁰

¹⁹Order 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. The prices of these products are subject to approval: 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, 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, public passenger transport (road and rail); and services offered by hotels and tourist facilities, social housing, school and university accommodation.

²⁰These products are subject to price filing: food products (sugar, milk, crude palm oil, imported frozen fish, wheat flour, imported rice, salt, edible oils, alcoholic beverages, sardine in oil, tea, coffee, bread, butter, pasta), building materials (Portland cement; roofing sheets), and other consumer goods such as detergents and household soaps.

The Ministry of Commerce also imposes import controls for several products, generally coupled with price controls. Import controls are imposed indirectly through tariffs on imported products to make them costlier or by nontariff barriers (prohibitions and quantitative restrictions).²¹ Cameroon has one of the highest trade tariff rates in the world and imposes high nontariff barriers. According to the Global Competitiveness Report of 2014–2015, Cameroon ranks 132 out of 144 countries in terms of weighted average tariff rates (Figure 22, Panel A). According to World Trade Organization Agriculture (WTO), agriculture is the most protected sector in CEMAC countries with an average tariff rate of 23.6 percent. Cameroon applies some exceptions to the CET, including exemptions to the trade of live animals, animal products, and vegetable products. Most products face an excise duty rate of 25 percent, the maximum rate provided in CEMAC

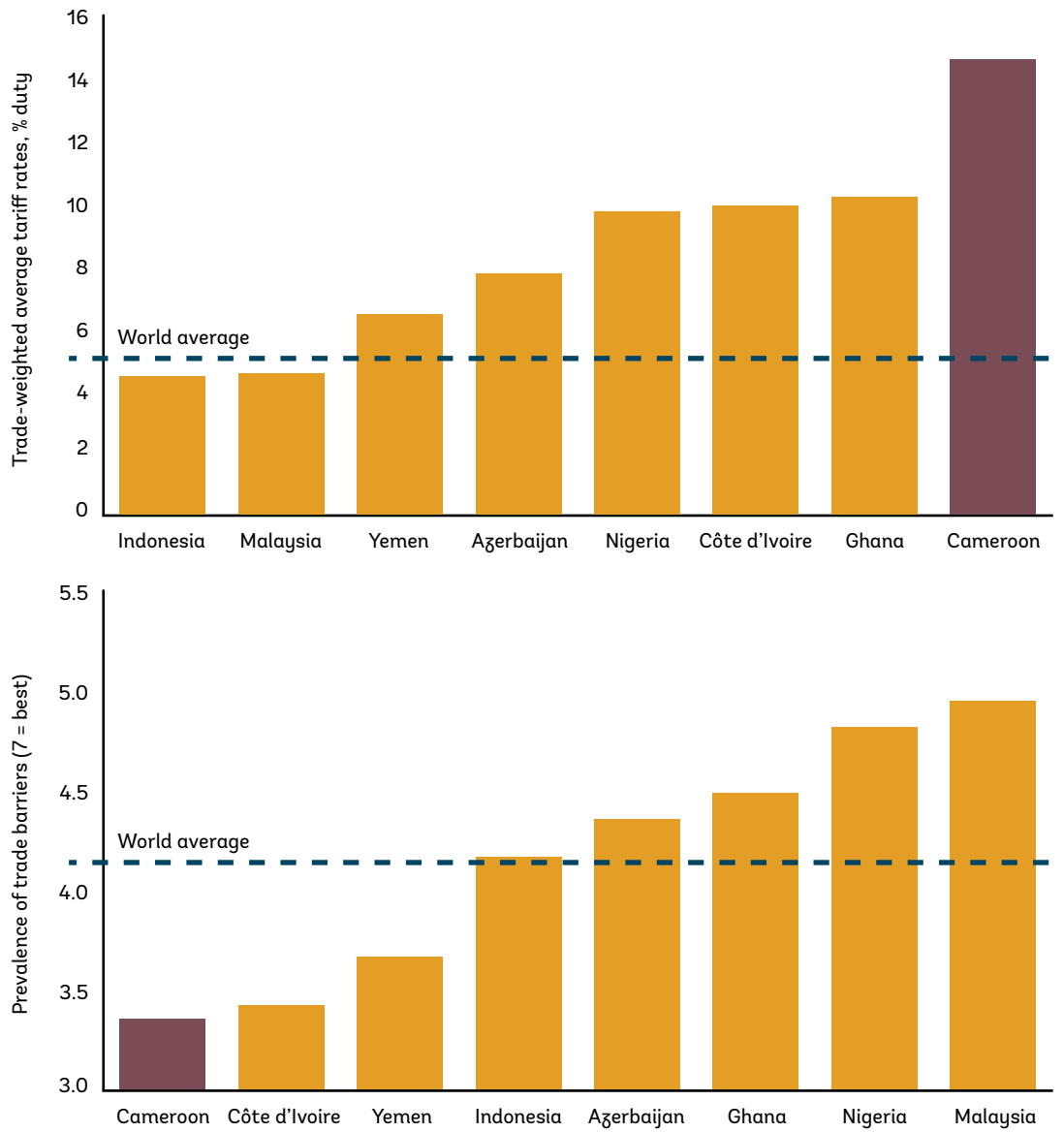
²¹These are examples of import controls: For palm oil and oil, imports are approved during periods of shortage. To import refined petroleum products, a “shortage certificate” drawn up by the fuel price stabilization fund must be obtained. In the case of sugar, rice, and cement, importers must obtain 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 (CFAF458,000/ton in 2012, about US\$830/ton), which, added to a customs duty of 30 percent, may reduce the competitiveness of imports. In the case of sugar, SOSUCAM and other companies in the subsector can import at a 10 percent tariff instead of the 30 percent common external tariff (CET). Similarly, the special program for imports of fast-moving consumer goods such as petroleum products, palm oil, sugar, biscuits, beverages, or confectionery, allows sector operators to import goods at a lower tariff in case of a shortage. In some cases imports are completely banned. For instance, since 2006 the Ministry of Livestock, Fishing, and Animal Industry (MINEPIA) banned the import of frozen chicken. Currently the government is evaluating the establishment of an import ban on cement to protect the domestic industry. These examples were obtained from interviews conducted in Douala and Yaoundé and complemented with WTO (2013), Trade Policy Review of CEMAC.

agreements.²² Cameroon is also perceived to impose high nontariff barriers to imports. According to the Global Competitiveness Report of 2014–2015, Cameroon ranks 120 out of 144 countries in terms of prevalence of nontariff trade barriers (Figure 22, Panel B). The rigid exchange rate combined with high tariff protection is detrimental to exporters, especially manufacturing exporters that need imported intermediate products for inputs. A fast and effective way to reduce the domestic inefficiencies of the Cameroonian economy is to liberalize imports sequentially, beginning with raw materials and intermediate products and then final products and consumer goods.

A good investment climate is achieved when state involvement in business operations is neutral to competition and does not hamper private sector participation. While each country determines the degree of state involvement in markets, good practice is to limit state involvement to the extent needed to address specific market failures and to when the benefits of such intervention outweigh the costs. Cross-country comparisons show that although prices in Cameroon are controlled, they are higher than international prices and increasing. Import restrictions (through licenses and bans) and limited competition in domestic markets contribute to this result. A pro-competitive government will increase Cameroon’s growth prospects, improve competitiveness, and increase the chance of reaching emergence by 2035. The next chapter proposes concrete short- and medium-term policy recommendations to achieve this objective.

²²Fruit juices, aerated beverages, mineral waters, malt beers, vermouth and other wines made from fresh grapes, other fermented beverages, eaux-de-vie, whiskey, rum, gin and spirits, cigars, cigarillos and cigarettes, chewing tobacco and 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.

Figure 22: Estimated Tariff and Nontariff Rates



Source: World Economic Forum.

CHAPTER

4

Policy Recommendations

The Cameroonian state plays its role of regulator and economic promoter poorly while at the same time being heavily involved in production, thus stifling competitiveness and constraining growth. Growth happens through three main drivers: factor accumulation; factor reallocation to its most productive use; and innovation. In a perfect market economy where competition is the rule, the rational decision of consumers and producers triggers such multipronged growth process. Although government is not needed in production, in Cameroon there is too much government in production, which distorts markets. Distorted markets allocate production factors inefficiently, hence constraining growth. In Cameroon, the full benefit of an increasing stock of infrastructure is not captured because of too little state where needed, in regulation. Poorly regulated backbone infrastructure services (power, transport and telecommunication) keep production factor costs high, hence constraining competitiveness. In Cameroon, red tape overwhelms the private sector despite the official talk about facilitating business. An unfriendly business environment discourages private investment, hence constraining growth. There is therefore a need to revamp the role of the state to enhance competitiveness and productivity. To this end, this chapter focuses on nine major areas the government and the private sector need to collaborate on to promote growth, foster competitiveness and ensure value for money in any state intervention. This will in turn unlock Cameroon's potential for accelerated inclusive growth.

4.1 Promoting Growth

Growth in Cameroon is constrained by low productivity, low savings and allocative inefficiencies. Chapter 1 documents that for Cameroon to reach its 2035 goal of

upper-middle-income status, total factor productivity (TFP) has to grow by 1 to 1.5 percent a year, compared to 0 percent over the past decade. The slower TFP growth, the more Cameroon has to rely on its investment rate to accelerate real growth to 8 percent, the annual rate needed to reach upper-middle income country by 2035. At 20 percent of GDP, the current investment rate already relies on increasing public investment. To push the investment rate to 25–33 percent (the level required to reach upper-middle income country 2035 depending on TFP growth), more savings have to be mobilized, either through the public sector, households or tapping foreign savings through FDI. Finally, the current allocation of production factors among Cameroonian firms is inefficient, as illustrated by the fact that although most productive firms are on average 10 times more productive than less productive firms within the same sector, they are subjected to a higher tax burden while less productive firms receive an implicit subsidy. If this allocative inefficiency was addressed, aggregate productivity would increase by at least 68 percent, bringing growth closer to the targeted 8 percent. This section proposes three sets of actions the government, in conjunction with the private sector, can undertake to promote growth in Cameroon by increasing productivity, harnessing savings, and reducing allocative inefficiencies.

Increasing Productivity

Policies impacting the determinants of firm productivity should be urgently implemented. Involvement in activities such as training workers, certification, Internet utilization, and licensing of foreign technology are found to increase productivity in Cameroon. Some of these actions are straightforward (certification, Internet utilization and licensing of technology) and require the strengthening of institutions mandated to deal with them, and seeking

feedback from the private sector to adjust them as needed. The training of workers should, however, be a joint responsibility between the government and the private sector. The education and vocational training system of Cameroon needs to be aligned with the skills demanded by sectors with growth potential such as agribusiness, wood products, textile and garments, leather products, and chemicals. A shift to more technical and engineering studies versus humanities is needed. A vocational training system allowing students to alternate between the training and work environment will also help, but this requires a full collaboration with the private sector speaking with one voice. This is all the more important given the upcoming tougher competition from European imports following the entry into force of the Economic Partnership Agreement between Cameroon and the EU in August 2016.

Harnessing Savings

Financial inclusion and financial deepening is needed to harness more domestic savings to finance the private sector. The Central Bank (BEAC) should help banks to better assess the creditworthiness of firms (through the establishment of credit bureaus and collateral registries for instance) to increase access to finance. The government can also support SMEs and rural nonfarm businesses by facilitating the development of financial products such as factoring, leasing, and warehouse receipts. The government could also adopt the regulations needed to make mobile financial services available to the general population, in order to increase financial inclusion and make mobilizing domestic savings easier. Mobile banking and agent banking will increase financial inclusion and facilitate the collection of savings from households and firms in areas underserved with traditional banking.

An aggressive FDI attraction strategy is needed. The government must target and attract to Cameroon multinationals operating in sectors with the potential for high employment and export to anchor private sector growth on a bigger external demand. A fundamental step toward such a policy could be the clarification of the legal regulatory framework of foreign investment promotion. In certain sectors, restrictions on foreign ownership still apply, including mining (95 percent of foreign ownership is allowed), power transmission and distribution, railway freight, domestic air, international air, airport and port operation (49 percent of foreign ownership is allowed), and television broadcasting and newspapers (49 percent of foreign ownership is allowed). The Investment Code of 1990 establishes requirements for at least 35 percent Cameroonian equity ownership for enterprises under the SME regime. Combined with a weak legal system, this reduces the willingness of foreign firms to enter the market of Cameroon. The government should tackle these issues head-on as part of an aggressive FDI attraction strategy.

Reducing Allocative Inefficiencies

The government needs to urgently take measures to discontinue price controls and production monopolies in contestable markets to help reduce allocative inefficiencies of production factors. The government's direct intervention in markets through import controls and bans, and price control on a number of products, affects the entry of newcomers and prices to end consumers. A cross-country comparison shows that although prices in Cameroon are controlled, they are higher and increasing compared to international prices. The government should just trust the market and lift all price and import controls. The most effective way to protect the poor and vulnerable during price hike periods is to set an effective and well-targeted cash transfer system.

4.2 Fostering Competitiveness

Competitiveness in Cameroon is constrained by limited local, regional and global competition. Chapter 2 documents that market concentration is high in Cameroon and is exacerbated by the state participation in multiple firms. At the regional level, the oligopolistic structure of the trucking industry keeps transport costs high limiting regional competition in product markets. Global competition is also limited by an inefficient port and a relatively less diversified production base. These limited competitions are symptomatic of a state doing too much of what it is not expected to do (direct participation in production), doing too little of what it is expected to do (regulation of backbone infrastructure services) or failing to promote diversification. This section proposes three sets of actions the government, in conjunction with the private sector, can undertake to promote domestic competition, support regional trade and transport facilitation, and pursue a comprehensive diversification strategy.

Promoting Domestic Competition

The various factors coinciding to create a poor domestic competitive environment should be systematically tackled by the government. To level the playing field, state ownership should be withdrawn from all companies operating in an unregulated sector where the private sector is already successfully operating. This is the case for agribusiness and textile sectors. For network sectors such as utilities (energy and water), transport and telecommunication where state ownership is not uncommon, the regulatory agencies need to be strengthened to protect the rights of consumer on quality of service and price, and the standard of management of these SOEs would need to be lifted. For example, in the case of railways, infrastructure services and transport services are not separated, and an access policy that could allow other companies to use their own rolling stock to provide transportation services is lacking. In goods markets (such as sugar, palm oil, and cement), price controls and import restrictions exacerbate the effects of a concentrated market and should both be abolished to take advantage of cheaper imports. Finally the

playing field on paying tax should be leveled between formal and informal firms by systematizing and intensifying the tax administration's current efforts to encourage informal firms to register by providing incentives such as a discount on the minimum tax (1.1 percent instead of 2.2 percent for informal firms that register in a tax center) and providing good public services to newcomers to maintain momentum.

Supporting Regional Trade and Transport Facilitation

Without deregulating the trucking industry, it will be hard to reduce delays and costs of transporting goods or improve the quality of trucking services. Trucking services should be liberalized to improve quality and reduce transport prices. In parallel with scaling up road investments, the government should deregulate the trucking industry to increase competition and thereby reduce transport prices for shippers and enhance the quality of services. One way to generate reform momentum for breaking the regulatory status quo could be to build in financial support for affected parties during the transition period and announce it as part of the deregulation reform program. Government measures to create an enabling environment for transporters to access finance to renew their fleet is also needed to unleash the sector's potential.

Chronic road maintenance underfunding and weak implementation capacity are negatively impacting the quality and sustainability of the road network. Funding for the rehabilitation of roads remains insufficient. To improve road asset management, the second generation Road Fund created in 1998 and abolished in 2007 needs to be reinstated. Furthermore, road maintenance activities need to be better planned to optimize the life cycle of road assets. Simulations conducted by CARPA show that the use of PPP could allow to fund and implement a routine maintenance of a stretch tarred with a fixed toll of 500 CFA Francs for several years. Long-term performance-based road maintenance is also showing positive results in many developing countries. The government should explore these innovative ways to sustain road maintenance.

Road checkpoints should be limited to the strict minimum to reduce informal payments. Removing road checkpoints to accompany better roads and a more competitive trucking industry is key. If complete removal is not possible, the number should be drastically reduced and regularly monitored, and clear terms of reference should explain the purpose of such roadblocks. But for this measure to be sustainable, the root cause of the problem of informal payment should be addressed: a fragmented transport sector dominated by informal and small players relying on obsolete and old trucks and vehicles. Greater efficiency of transport services will imply new measures and mechanisms to improve transparency of transport prices. In this regard, the government should consider establishing a robust and transparent

market information system to manage transport flows and services.

Pursuing a Comprehensive Diversification Strategy

To develop new products, Cameroon may want to follow the experience of East Asia in the development of clusters. In it, the government's role is to nurture and support existing clusters rather than trying to create clusters from scratch. Entrepreneurs, rather than governments, create clusters. Once clusters expand, the public sector can develop general infrastructure (roads, utilities, land) and target facilities to meet the specific requirements of emerging clusters (market structures, financial institutions, training programs, quality control mechanisms, and so on). This needs to be done in sync with the FDI attraction strategy already mentioned to make sure sectors with growth potential are stimulated through the technology transfer that generally accompanies a well-managed FDI operation.

In parallel, the Port of Douala (and later, Port of Kribi) management operations should be strengthened, using data-based performance monitoring. The current poor management of the Port of Douala contributes directly to a quarter of the average dwell time and indirectly to more through its cargo storage rules. The Port Authority should adopt measures identified as part of the trade and transport facilitation policy dialogue supported by the CEMAC Transport and Trade Facilitation Project to improve the current situation. The government should also subject the Port Authority to performance monitoring, using detailed data as was done in customs. Detailed data should be compiled, with the cooperation of shipping lines on times of ship arrival, entry to quays, and cargo discharge for all 1,200 ships that discharge cargo at Douala during the year. These data should be used to monitor changes in the Port Authority's performance, and the Port Authority should do the same with the private contractor managing the container terminal. This performance-based approach should be applied to the Port of Kribi when it starts operating. Furthermore, because many importers prefer cheap storage in port, a straightforward way to improve efficiency is to amend the rules for free time and storage fees. This will induce these firms either to find alternative arrangements or alter their business model such that they can benefit from shorter dwell times.

4.3 Revamping the Role of the State

Growth and competitiveness are constrained by a state poorly playing its role of regulator and economic promoter while being too involved in production. Chapter 3 documents that poor regulation of backbone infrastructure services in Cameroon leads to unreliable and expensive service factors, which negatively affect competitiveness and growth. The heavy hand of the state leads to an unfriendly

business environment that discourages domestic and foreign investors alike, which constraints a private sector-led growth. Finally, the Cameroonian state is found to be heavily involved directly in production, even in some sectors already championed by the private sector and with no consideration for value for money. This section proposes three sets of actions the government has to undertake to revamp its roles of economic regulator, promoter and actor.

Reinforcing Backbone Services Regulation

In ports and railways, three situations need close monitoring and regulatory action to prevent restrictions on competition. Common ownership of the companies that operate the port and the railway infrastructure requires attention to avoid hampering competition. A private monopoly, Camrail, operates the railway infrastructure and the rolling stock under a 20-year contract signed in 1999. Companies from the same economic group operate the Port of Douala (and soon the Port of Kribi) and provide ancillary services (towing and berthing; managing the container terminal, the vehicle yard, and transit operations; and handling and storage). The group also includes logistics companies that forward cargo through the port and railways. In this situation, monitoring competitive neutrality regarding the treatment of cargo that is not handled by the group's logistics company is important. A fully integrated logistics chain improves the efficiency of cargo management, but it can limit competition and put other firms at a disadvantage. Under such conditions, the government will need to regulate fares and freights to ensure that firms do not exert their market power when setting tariffs.

A more predictable, consistent way of granting spectrum rights would benefit the ICT sector and the country. Radio spectrum represents a scarce resource for a government, and spectrum rights are typically highly valued by telecom operators but also by the broadcasting industry. Spectrum management strategies are thus needed to coordinate the various uses of spectrum, maximize the benefits for citizens (arbitrage of spectrum allocation between spectrum users), ensure fair competition in the telecoms and broadcasting markets (fair allocation of spectrum) and generate revenues for the state (e.g. sale of spectrum rights through auctions and spectrum fees). For instance, the planned analogue television switch-off will free up important amounts of spectrum, which will need to be efficiently reallocated. The government needs to adopt a comprehensive, efficient and transparent approach to spectrum management to generate significant benefits to citizen and fiscal revenues.

Reinvigorating Economic Promotion

Measures to improve the weakest points of Cameroon business environment should be taken to promote the development of the private sector. The 2016 and 2017

Doing Business data indicate that the three weakest areas are trading across borders, paying taxes and registering property. The government needs to urgently adopt a reform agenda focusing on these three areas to demonstrate to the business community its commitment to reduce allocative inefficiencies. This will go a long way to stimulate the industrialization of the country before more targeted interventions such as Special Economic Zones like the Kribi growth pole. Moreover as long as first order issues such as ICT, electricity and transport costs are not addressed, it is hard to see how an SEZ will help attract FDI.

Withdrawing from Production

SOE portfolio management should be enhanced to incentivize SOE performance, while mitigating the impact on competition. Cameroon's SOE oversight model seems complex, with overlapping mandates and lack of clarity. The presence of many principle-agent relationships tends to weaken accountability and therefore the state's ability to hold SOEs accountable. First, the government should conduct a thorough assessment of all the existing SOEs to determine their fiscal position as well as their economic contribution. Second, the government will need to develop and adopt legal and institutional frameworks that outline the objectives for state ownership, clearly outlining the government's objectives for state ownership and each SOE's main task, expectations for reporting, performance monitoring and transparency of SOEs, board nomination processes, and remuneration principles. Third, the monitoring of SOEs should be improved with proper expertise, capacity, and resources. At minimum, quarterly and annual audited financial statements from SOEs focusing on liabilities and risk should be produced.

The government should ensure proper regulation of dominant SOEs, neutral treatment of competitors, and competitive selection of partners in PPPs. This will facilitate private investment and guarantee open markets. This is particularly important for network sectors (electricity, ICT, postal services, transport, and water services). Open access to essential facilities such as transmission infrastructure for electricity producers is critical for a well-functioning generation market to guarantee dispatch of electricity to the grid. Open, transparent and nondiscriminatory rules to access CAMTEL's national high-speed network and international gateway, if properly enforced, could boost competition in telecommunication services (at the wholesale level), reduce retail prices of ICT services, decrease companies' ICT cost, and increase their competitiveness.

Finally, the government should withdraw from production in those sectors where the private sector is already successfully operating. The government should adopt a specific timetable to withdraw from them, and hence considerably reduce the number of SOEs.

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Annex: Selected Manufacturing Products Using the Product-Space Analysis

SITC4	Product	Cameroon Exports (Formal)		World Imports	
		Value 2010-12 (US\$ thousand)	Change 2007-12 (%)	Value 2010-12 (US\$ billion)	Change 2007-12 (%)
	Chemicals				
5121	Acyclic alcohols and their halogenated, derivatives	2,487	-11.0	120	7.0
5111	Acyclic hydrocarbons	224	9.2	78	8.3
5225	Other inorg. bases and metallic oxid., hydroxid. and perox.	1,174	-8.4	50	4.8
5221	Chemical elements	974	10.2	62	10.2
5239	Inorganic chemical products, not elsewhere specified	870	2.9	12	6.6
5232	Metallic salts and peroxy salts of inorganic acids	1,169	12.7	35	6.1
5322	Tanning extracts of vegetable origin and derivatives			4	9.4
5621	Mineral or chemical fertilizers, nitrogenous	5,603	38.9	73	12.0
5629	Fertilizers, not elsewhere specified	7,040	143.1	64	16.9
5911	Insecticides packed for sale, etc.	1,811	144.9	19	9.8
	Leather				
6114	Leather of other bovine cattle and equine leather	69		46	-2.2
	Rubber				
6252	Tires, pneumat., new, of a kind used on buses, lorries	796	-4.1	77	8.2
6251	Tires, pneumatic, new, of a kind used on motor cars	233	41.5	123	8.6
	Wood				
6342	Plywood consisting of sheets of wood	5,659	-36.0	30	0.7
6359	Manufactured articles of wood, not elsewhere specified	1,158	16.6	23	0.3
6353	Builders' carpentry and joinery	2,277	4.7	63	0.2

SITC4	Product	Cameroon Exports (Formal)		World Imports	
		Value 2010–12 (US\$ thousand)	Change 2007–12 (%)	Value 2010–12 (US\$ billion)	Change 2007–12 (%)
6354	Manufactures of wood for domestic/decorative use	51	-13.1	8	-0.2
6349	Wood, simply shaped, not elsewhere specified	47	16.0	1	0.1
6343	Improved wood and reconstituted wood	20		21	-1.9
	Paper				
6416	Building board of wood pulp or of vegetable fiber	9		28	-0.5
6417	Paper and paperboard, corrugated, creped, crinkled, etc.	26	38.7	14	2.9
6428	Articles of paper pulp, paper, paperboard, cellular wadding	3,467	13.2	74	5.7
	Textile fabrics				
6575	Twine, cordage, ropes, and cables and manufactured thereof	131	-34.7	12	6.6
6583	Traveling rugs and blankets, not knitted/crocheted	331		11	10.1
6589	Other made-up articles of textile materials, not elsewhere specified	32	23.0	37	7.3
6594	Carpets, carpeting, rugs, mats, and matting of wool, etc.			4	-5.4
	Iron and steel				
6716	Ferro-alloys	130	3.8	87	1.1
6725	Blooms, billets, slabs, and sheet bars of iron or steel	399	-14.9	110	0.2
6744	Sheets and plates, rolled >4.75mm of iron/steel	620	-19.9	71	-6.6
6731	Wire rod of iron or steel	40		57	1.9
6727	Iron or steel coils for re-rolling	56	20.9	136	-1.8
	Metal products				
6932	Wire, twisted hoop for fencing of iron or steel	8	-56.7	1	4.5
6924	Casks, drums, boxes of iron/steel for packing goods	2,313	17.0	43	3.1
6931	Stranded wire, cables, cordages, and the like	397	-33.5	29	4.3
6911	Structures and parts of structures, iron/steel plates	5,143	11.4	125	4.6
	Electrical machinery				
7711	Transformers, electrical	242	34.8	60	2.7
7752	Household type refrigerators and food freezers	203	41.7	58	2.6
	Furniture				
8219	Other furniture and parts	915	-3.3	213	3.5
8211	Chairs and other seats and parts	94	-16.2	171	4.9

SITC4	Product	Cameroon Exports (Formal)		World Imports	
		Value 2010–12 (US\$ thousand)	Change 2007–12 (%)	Value 2010–12 (US\$ billion)	Change 2007–12 (%)
	Apparel				
8462	Undergarments, knitted of cotton	230	-8.7	103	-2.2
8422	Suits, men's, of textile fabrics	148	-9.9	14	-5.6
8439	Other outer garments of textile fabrics	176	-13.8	125	1.0
8429	Other outer garments of textile fabrics	18	-57.3	55	5.6
8465	Corsets, brassieres, suspenders, and the like			23	1.7
8433	Dresses, women's, of textile fabrics	0		31	10.8
8441	Shirts, men's, of textile fabrics	21		36	-1.0
8452	Dresses, skirts, suits, etc., knitted or crocheted	3		37	13.8
8434	Skirts, women's, of textile fabrics			11	-9.5
8432	Suits and costumes, women's, of textile fabrics			7	-9.5
8431	Coats and jackets of textile fabrics			35	1.0

Source: World Bank staff estimates.



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