

Republic of Cameroon
Third Structural Adjustment Credit (Credit No. 3102-CM)
Release of the Second Privatization Support Floating Tranche -
Waiver of Two Conditions
and
Release of the Transport Support Floating Tranche -
Partial Waiver of One Condition

Tranche Release Document

I. BACKGROUND

1. **In June 1998, IDA approved the Third Structural Adjustment Credit (SAC III).** Its primary objectives were to help improve Cameroon's competitiveness through support for: (a) completing the privatization program, especially with regard to public utilities, agricultural parastatals, and the financial sector; (b) improving management in the forestry sector, with a view to enhancing the sustainable development of this important resource; and (c) improving the efficiency of transportation services by reforming the transport sector.

2. SAC III is a broad-ranging adjustment operation, supporting significant reforms in the forestry sector, the transport sector, as well as a major privatization program of state-owned enterprises and services provided by state agencies in many sectors--transport, communications, electricity, water and financial services. Of the six tranches of SAC III, two are "fixed" and four "floating". The first of the two cross-sectoral fixed tranches was released in September 1998 and the second in June 1999. The first privatization support floating tranche was released in June 2000. Further tranche releases were delayed as program implementation slowed from July 2001 to June 2002 because some of the proposed sectoral reforms turned out to be more complicated than expected. Furthermore, investor interest in some state enterprises to be privatized (fixed telephone, primary commodity producers) waned due to global developments such as the rise of the mobile telecommunications and the decline in primary commodity prices. Governance problems prevailing in Cameroon, which the adjustment program has helped to address, also contributed to slowing the reform process. However, performance has been improving since June 2002, leading notably to the release of the forestry tranche in November 2002.

II. RECENT POLITICAL AND ECONOMIC DEVELOPMENTS AND PROSPECTS

Political and Economic Developments

3. The political situation remains stable. The legislative elections in June 2003 strengthened the control of the country by President Biya's Party, RDPC (*Rassemblement Démocratique du Peuple Camerounais*). Presidential elections are expected in October 2004.

4. Macroeconomic performance has been satisfactory, although the fiscal situation needs careful management as oil revenues are declining. Real GDP growth in 2003 is estimated at 4.2 percent, slightly lower than projected, mainly due to the adverse impact of the recurrent electricity shortage. The 12-month average inflation rate declined to 2.8 percent at end-December 2002 (from 4.5 percent at end-June 2002), reflecting improved food supplies. This trend continued during the first semester of 2003 and the inflation rate is estimated at 1.2 percent for 2003. In 2002, the primary and overall fiscal surpluses were 5.0 percent and 1.3 percent of GDP respectively, exceeding their targets. This outcome was the result of higher-than-projected oil revenue due to higher world oil prices, and to lower public spending on investment. In 2003, the Government targets for primary and overall fiscal surpluses were 5.7 percent and 1.7 percent of GDP respectively and an external current account deficit of 3.1 percent of GDP.

5. The second PRGF program has been on track since the country reached the decision point in October 2000. The timetable for the fourth review slipped somewhat relative to initial expectations. The reasons were largely technical, linked to the implementation of the integrated financial management system and the transition towards the new fiscal year that matches the calendar year as of January 2003. As a result, the Government requested that the period of the PRGF arrangement be extended through December 20, 2004. The IMF Board concluded the fourth PRGF review on December 17, 2003.

6. The Boards of the IMF and the Bank discussed the full PRSP on July 28 and July 31, 2003 respectively. The PRSP, the product of a broad-based consultative and participatory process, was based on a detailed poverty profile, the integration of sectoral strategies within a coherent, long-term vision to diversify the economy and to reduce poverty, and a credible macroeconomic framework. It provides an ambitious medium-term strategy for diversifying the economy and accelerating growth in order to reduce poverty. Agriculture will continue to drive the economy and support broader rural development. The diversification will be towards a more dynamic industrial sector and high-value service activities. The central scenario projects steadily rising GDP growth, reaching 6 percent in 2007. Stronger non-oil export performance is expected to improve the external current account. With increases in public sector capital spending on priority sectors, overall investment is projected to reach 19.7 percent of GDP by 2007 from 17.1 in 2000. The PRSP recognizes that sustained growth performance will require *inter alia* the acceleration of the implementation of structural reforms, the intensification of investment in human resources and physical infrastructure, and significant improvements in governance.

III. PROGRESS UNDER THE STRUCTURAL ADJUSTMENT PROGRAM

7. SAC III is a broad-based and complex adjustment operation, supporting reforms in the forestry sector, the transport sector, and a major privatization program. The conclusion of SAC III and satisfactory implementation of the reforms it supports is a trigger for attaining the HIPC completion point. As described above, the Government has maintained a macroeconomic policy framework conducive to growth and poverty reduction and consistent with the objectives of the Program. This section discusses the

progress in implementing the reforms supported by SAC III in privatization as well as in the transport, forestry and financial sectors.

PRIVATIZATION PROGRAM

8. The main development objectives of the privatization program, the initial implementation of which was supported under SAC II (Credit No. 2813-CM), are: (a) to improve the availability and quality of infrastructure services through the privatization of the major public utilities (water, electricity and telecommunications) and thus mitigate the constraints that have hampered growth and poverty reduction; (b) to unleash the large growth potential in the agro-industries by attracting capable investors with the knowledge, access to world markets, and financing required to expand the operations of some of the largest companies of the country; and (c) to improve the availability and quality of financial services. Two floating tranches of SAC III have focused on the privatization program.

9. The First Privatization Support Floating Tranche was released in June 2000 following the fulfillment of the conditions on privatization transactions involving BICEC (a bank), CAMSUCO (a sugar company), SNEC (the water company), SOCAPALM (oil-palm), SOCAR (an insurance company) and the award of the second mobile telephone license. However, the award of a concession for SNEC could not be completed according to the original plan. After a successful bidding process and agreement between the Government and the successful bidder on a framework for the concession, the bidder notified the Government on July 4, 2003, that it was no longer willing to proceed within the agreed framework. The Government therefore declared the bidding process unsuccessful on September 12, 2003. Since then, the Government, in consultation with IDA, has prepared an action plan to re-launch the bidding process and has just published. The request for expressions of interest for consultant services to work on proposals for the establishment of a public-private partnership in the urban water supply sector in Cameroon. The Government is also preparing the terms of reference for the audit of SNEC accounts for the past four fiscal years.

10. The Second Privatization Support Floating Tranche contains conditions¹ regarding CAMTEL (telecommunications), CDC (agro-industrial conglomerate), CNR (reinsurance company) and SONEL (electricity company).

11. **CAMTEL.** There have been difficulties in the privatization of CAMTEL, which operates the fixed telephone network. The first round of bidding (pre-qualification), launched in July 1999, was disappointing as none of the prospective investors met the required criteria. The bidding was re-launched in December 1999 and the technical and financial analysis of the bids led to the selection of a successful bidder in December 2000. However, negotiations could not be successfully concluded and the Government entered into negotiations with the second ranked bidder but this also fell through. Consequently, in April 2002, the Interministerial Committee for Privatization declared the bidding process for CAMTEL unsuccessful. The Government has remained

¹ Cf. Section IV – Paragraph 31.

committed to the privatization of CAMTEL and, with the assistance of IDA, has reviewed its strategy for improving the quality of fixed telecommunications services and the approach to privatization. The management of CAMTEL was brought actively into the exercise and the Government adopted a new action plan to improve the quality of fixed telecommunications services.

12. The new strategy and approach envisages: (a) the active involvement of the management of CAMTEL in the new process; (b) the issuance of an interim *cahier des charges* (interim license) to CAMTEL until its privatization, to allow for some investment to stop its decline in the telecom market; (c) the strengthening of the telecom regulatory agency (ART) to monitor CAMTEL's obligations and performance; (d) the revision of the tariffs; (e) the preparation of new business plan for CAMTEL; and (f) a new call for bids would be issued after six months of business plan implementation under the *cahier des charges*. This new approach will have the flexibility to use various forms of public-private partnership in the privatization process. The *cahier des charges* was signed on November 14, 2003, and a minimum investment plan is now being implemented. Tariffs were revised in November 2003. The terms of reference for the preparation of the business plan have been finalized and the consultant has started work in January 2004 in order to pave the way for the privatization of the State-owned telecommunications incumbent operator (CAMTEL). The Government has published the request for expression of interest for the recruitment of the investment Bank to assist in the sale of CAMTEL.

13. **Mobile Phone.** Two privately-owned mobile phone companies are now fully operational. One was spun off from CAMTEL and the other started operating following the award of the second cellular license. The number of chips sold (prepaid cards and subscriptions) now exceeds 700,000 compared to less than 3,500 before the privatization process began in 1997. The presence of these two private cellular companies has improved services and lowered costs (particularly on international calls). The telecom regulatory agency (ART) is already being called upon to arbitrate between the operators and is being supported by technical assistance from IDA.

14. **SONEL.** The privatization transaction for the electricity company SONEL was completed in July 2001. Only one investor presented a bid on November 30, 2000, and was designated as successful bidder in February 2001. However, post-privatization performance has been disappointing. The privatized electricity company has not been able to deliver services in the hoped-for combination of quantity and quality owing to several factors, including a severe drought during 2001 and 2002. The significant load-shedding that occurred has caused economic disruption and public outrage. Efforts are now underway by the Government and the new company, with assistance from IDA and IFC, to increase generation capacity over time.

15. **Cameroon Development Corporation (CDC)** is the major agro-industrial complex in Cameroon with four crops (palm oil, rubber, bananas and tea). The Government decided to put each crop up for sale separately, without excluding the possibility of an investor bidding for more than one crop. One bid was received for the tea crop on June 29, 2001 and, following negotiations, the final transaction was

concluded in October 2002. No bids were received for the other crops. The lack of bids for the remaining crops can be attributed to the poor performance of the privatization advisor and the concerns over the disposition of the long-term contracts between CDC and the company currently operating the banana plantations. Furthermore, the political sensitivity of this divestiture in the region of the country where the plantations are located may have adversely affected investor interest.

16. The Government has decided to recruit new, reputable advisors to: (i) assess the financial value of the banana plantations; (ii) advise on the overall strategy for privatizing the three remaining crops; and (iii) examine the full implications of the legal arrangements between the Government and the company operating the banana plantations and propose a satisfactory resolution. A first draft of the report on the financial evaluation of the banana plantations was completed in December 2003 and the consultants for the two other studies are expected to start work by the end of February 2004. In parallel, the Government is about to start the recruitment process of the investment banker that would advise on the new round of privatization. According to the agreed timetable, the bidding documents will be prepared in the second quarter of 2004 and the bidding process launched in July 2004.

17. **CNR.** Despite intense marketing efforts², the two attempts at privatizing the National Reinsurance Company (CNR) proved unsuccessful. Therefore, the decision was taken at the end of May 1999 to liquidate the enterprise. The CNR is no longer operating and a clause abolishing the legal cession (whereby all insurance companies operating in Cameroon were required to reinsure with CNR 10 percent of the value of policies issued) was included and adopted in the 2001 budgetary law. While the CNR has *de facto* been liquidated for some time, a few steps remain to be taken to complete the formal process. CNR had little economic justification and had imposed a high cost on insurance companies. Its liquidation has had a positive impact on the insurance industry.

TRANSPORT SECTOR REFORM PROGRAM

18. **The overall objective** of the transport sector reform program is to ensure that the sector contributes to growth and poverty reduction through lower transport costs and higher quality of services. The adjustment program underlying SAC III encompasses institutional, regulatory and management reforms in the port sector and maritime transport as well as in road maintenance, and rail transport. **The conditions for the release of the first and second fixed cross-sectoral tranches** included the adoption of several transport-related measures: (i) the creation of a Road Fund and the establishment of its financing mechanism; (ii) the implementation of the Road Fund and its funding mechanism; and (iii) the adoption and implementation of a port sector reform plan to improve the performance and competitiveness of Cameroonian ports, especially the Port of Douala. In this context, the Government has established a National Port Authority, four autonomous ports, and consultative committees for each port. The rehabilitation of

² The latter include several publications in the *Financial Times*, *Wall Street Journal* and *Le Monde*, letters sent to several international reinsurance companies and the participation, in July 1998, in an international meeting in Monte Carlo between insurance and reinsurance companies.

the Port of Douala, including the dredging of the port, is underway and has advanced considerably. **The conditions for the release of the transport sector support floating tranche** focus on the institutional and regulatory reforms in the port sector, the transfer of industrial and commercial activities in the Port of Douala to the private sector, and the reduction of port clearance times.

Roads

19. The operations of the Road Fund, established to secure adequate funding and timely disbursement for road maintenance activities by the private sector, have proved broadly satisfactory. Funds have been available on a regular basis, and the amount and quality of road maintenance financed by the Fund have steadily increased over the last three years of its operations. Based on results achieved by the Road Fund, current discussions are focused on the desirability of expanding Road Fund responsibilities to the financing of road rehabilitation, and on finding an alternative financing mechanisms (notably for HIPC resources) for the roads sector. In addition, implementation of a new rural road maintenance strategy has begun. It includes a training program for rural populations and the designation of rural roads that would receive priority in maintenance services. Long-term effectiveness and sustainability of the strategy would require progress on this decentralization process. Beyond this, challenges for the road sector include finalizing the roads administration reform, as well as increasing funding for maintenance. The level of funding for maintenance, though several times higher than before the reform, needs to be raised again to meet the current needs of the network. The Government and the donor community are continuing a dialogue on these issues, texts have been drafted and the Bank is considering mobilizing additional financing to support further progress on these issues.

Ports

20. **Institutional Reforms.** The port sector law was voted by the November 1998 session of the National Assembly and promulgated by the President of the Republic on December 24, 1998. The Law (No. 98/021 dated December 24, 1998) and the implementation decree (No. 99/127 dated June 15, 1999) provide for the creation of a National Port Authority (*Autorité Portuaire Nationale* - APN), with responsibility for overall management and oversight of the sector, but no operational responsibilities. Meanwhile, port operations are placed under the management of Autonomous Port Entities (*Organismes Portuaires Autonomes* – OPAs), with private operators performing all commercial and industrial activities. Lastly, the Law and the implementation decree (No. 99/129, dated June 15, 1999) provide for the creation of a consultative committee within each port. Since the promulgation of the Law and its implementation decrees, the APN has been set up and has operated since 2000 in a way consistent with its mandate. It has been associated with most of the strategic decisions in the port sector since then, and has produced some sector analysis for the Government. Nevertheless, the implementation of the reform, except for the establishment of the *Port Autonome de Douala* (PAD), slowed down between 2000 and 2002. *The decrees No. 99/130, 131, 132 and 133* dated June 15, 1999 creating the Ports of Douala, Garoua, Kribi, and Limbé were revised in 2002 to reflect the provisions of the OHADA Uniform Act on

Companies. The Government decided by end 2003 to transfer the Port of Garoua to the City of Garoua. This development is deemed satisfactory as it confirms that each Port is operated separately. The structures in charge of liquidating the former *Office National des Ports du Cameroun* (ONPC) were effectively put in place only in early 2003, and the members of the board of directors and the general assembly of the Ports of Kribi and Limbé were appointed by presidential decrees in November and December 2003. The Government has yet to fulfill its obligations related to its contribution to the capital of the Port of Douala and to its financing of dredging activities. These will be dealt with under the framework of the overall public finance dialogue with the Government.

21. **The Transfer of the Industrial and Commercial Activities and Port Services in the Port of Douala (PAD) to the Private Sector.** Progress has been made in several areas, including the maintenance of the access channel, as well as of piers and basins, which has consistently been performed satisfactorily through contracts awarded under competitive bidding processes. The PAD has retained responsibility for the maintenance of the land infrastructure and two bilateral donors (France and Germany) made loans to the PAD late in 2002 for the rehabilitation of most of the berths, partly in recognition of the institutional reforms undertaken. In early December 2003, the PAD finalized the transfer to the private sector of towing and berthing as well as of ice manufacturing. IDA staff and the Government have agreed that activities relating to the maintenance of navigational aids and piloting should remain under the direct responsibility of the PAD, as both have safety implications and are not usually outsourced except if the Authority fails to deliver proper service (which was the case at the beginning of SAC III). The PAD has since set up specific accounting of these activities and shown a sustained capacity to maintain an adequate level of safety in the channel. Since mid-2001, the state of operational navigational aids has remained constantly satisfactory, compared to 1999, when half of the equipment was out of order.

22. Regarding stevedoring activities, when SAC III was approved in 1998, the container terminal did not operate as a separate facility. Private operators, without restriction at entry, were carrying out container operations without gantry cranes. Prior to 1998, the Government had obtained a credit from Japan to acquire gantry cranes. However, there was a disagreement between the donor community and the PAD on whether this was the best option for container operations. When the Government finally acquired the cranes in 2001, the issue of the management of the container terminal as a distinct facility came to the fore, with the need concretely arising of finding an operator for the cranes. The PAD worked out a transitional arrangement whereby it contracted several (private sector) stevedores to operate the cranes. Nevertheless, it was agreed with the Cameroonian Authorities that owing to the significance of the container terminal operations, their transfer to the private sector should be carried out on a competitive bidding basis, in a manner satisfactory to IDA. The concessioning process for the container terminal was launched in March 2003. Out of the two bids received, a successful bidder was selected. The conduct of the concession process has been judged satisfactory to-date by IDA staff. The understanding between the Government and the Bank on this issue has constantly been that the completion of this process was not a condition of tranche release, but that the process would be monitored as part of the SAC III program oversight. Negotiations with the winning bidder have started and the

outcome of these negotiations will have a substantial impact on the broader outcome of the port reform program on the economy's competitiveness. Due account will be taken of this in assessing progress towards the HIPC completion Point triggers.

23. **Port Costs and Clearance Time.** Since the year 2000, the cost of moving a container in Douala has decreased by around 17 percent for a 20-foot container. The concessioning of the container terminal that is currently under way should help to sustain this downward trend. To speed up transit time and improve transparency in the clearance process, the Government set up the *Guichet Unique du Commerce Extérieur* (GUCE), which provides a single window to importers and exporters by consolidating all of the various services involved in the import/export of goods. A dynamic facilitation committee chaired by the private sector was also put in place and now closely monitors the efficiency of the port and the clearance operations. One unexpected finding as a result of the activities of the GUCE is that clearance time by shippers and their agents account for more than half of the average clearance time at the port. Delays in clearance time often reflect the time necessary to gather the sums needed to pay customs duties and/or the use of the port as a storage area. An action plan has been designed and its implementation has already begun, to sensitize shippers and agents on the actions to further reduce delays in clearance activities. The first actions, targeted to large shippers, seem to have proven successful, with a reduction of total time by more than two days on average in 2003 compared to the other shippers, while their performance was equivalent in previous years.

24. As far as the administration and related services (such as shipment inspection company, SGS) are concerned, the following trends are observed:

- * On imports, the average clearance time inside the GUCE has been under seven days over the last ten months and around five days over the last three months. This shows that the clearance time that can reasonably be ascribed to the administration is less than seven days for imports. It is also noteworthy that the delay associated with the availability of the shipment manifest (which shippers and agents need to fill in the clearance form) has been reduced to one day on average.
- * On exports, the average clearance time through the GUCE is more difficult to capture than for the imports, which has been the main focus of the GUCE work as it gathered most of the complaint of shippers. A survey made by the GUCE in September 2003 shows an average transit time of more than two days for the administrative process (3.38 days exactly based on a sample of more than 1000 shipments), but less than two days for urgent deliveries or perishable goods. No complaints from shippers indicate that ships were missed because of delayed procedures, which explains the lower attention to exports by the Cameroonian authorities.

25. The next steps include the computerization of the GUCE and the interconnection of all administration services. Work has started by end November 2003 as the contract under AFD (*Agence Française de Développement*) financing was signed in November

2003. The upgrade of the Customs system has also started and should bring the entire Port clearance system into a modern configuration by the end of 2004, with expectations for further cuts in clearance time.

Railways

26. The concession of REGIFERCAM (the public company) to CAMRAIL (a new private company) was concluded in 1999 in the context of the preparation of the Railway Concession Project (Credit No. 3695-CM). The Investment Program of CAMRAIL includes: (a) the rehabilitation and modernization of rail infrastructure, hydraulic sites, sleepers, acquisition of telecommunications materials; (b) the rehabilitation of rolling stock and track and the acquisition of maintenance equipment; and (c) the environmental and social improvement activities. It is financed by the French Development Agency's private sector arm (PROPARCO), the European Investment Bank (EIB), local commercial banks and IDA. The project financed by IDA became effective on January 23, 2003. Operational and financial performance is satisfactory. The railways are now net contributors to the Government budget through taxes paid, while they were subsidized before the concession came in force.

Air Transport

27. With the completion of the legal framework in 1999, Cameroon now has a modern Civil Aviation code as well as an autonomous Civil Aviation Authority. The financial condition of the civil aviation and airports sector is still fragile, and is complicated by the client-supplier relationships between the airport management company (ADC, *de facto* controlled by the Government) and state-owned Cameroon Airlines (CAMAIR). Although a new management was put in place in CAMAIR in 2000, the Government has not been successful in restructuring and privatizing the airline and it continues to face serious operational and financial challenges, which results in a significant drain on the government budget. Air transport costs remain below operating costs for domestic flights, and are artificially high on the sub regional network as CAMAIR is basically in a position of an unregulated monopoly. The Government has appointed a new team in the second semester of 2003 that has prepared, by the end of December, an action plan on financial issues.

FORESTRY

28. For the forestry sector, the reforms supported by SAC III have created a policy and regulatory environment and an incentive framework conducive to environmentally sustainable development for the sector. The reforms and the process leading to these reforms continue to have a positive impact on other key areas of the Government development agenda: environment, governance, economic management, and poverty alleviation. The SAC III forestry package included the following reforms: (i) a competitive award of concessions with participation of an independent observer; (ii) a national strategy for the allocation of logging rights; (iii) the adoption by the National Assembly of major forest sector tax reforms; (iv) the implementation of a forestry tax revenue enhancement program that has resulted in increased revenues from the forestry

sector; (v) the changes in the distribution of the forest rent to include local populations; (vi) the publication of regulations governing forest management plans; (vii) the establishment of a guarantee system to ensure compliance with management plans; (viii) the awarding of contracts for the supervision of forest management and reinforcement of the Ministry's capacity in this area; (ix) the selection of areas to be reserved for community forests; and (x) the revision of the statutes of ONADEF (*Office National des Forêts*) and its transformation into ANAFOR (*Agence Nationale d'Appui au Développement Forestier*), with a clear mandate and financing mechanisms. Since the release of the forestry tranche, IDA has continued to monitor the implementation of reforms in this area as part of the monitoring of the progress towards the HIPC completion point triggers. With a more comprehensive body of policies and regulations to oversee, and with more demands from private and public clients from local communities and development partners, the Ministry of Environment and Forestry (MINEF) has recently set up a new team in order to better respond to the challenge of an expanded and qualitatively more demanding workload. Significant institutional strengthening and ministerial coordination are needed to secure the full and continued implementation of the forestry sector reform agenda.

FINANCIAL SECTOR

29. Under SAC II and SAC III, **the banking and insurance sectors** have been restructured, with restructuring initiated under SAC II and completed under SAC III. Today, all large banks are liquid, solvent and profitable. Under the first privatization support floating tranche of SAC III, BICEC (*Banque Internationale pour le Commerce et l'Épargne au Cameroun*), the outcome of a successful split of BICIC (*Banque Internationale pour le Commerce et l'Industrie au Cameroun*) into a "good" bank and a liquidation structure, was privatized. SOCAR, a state-owned insurance company was also restructured in the same way and privatized, while CNR, a state-owned reinsurance company, was closed down for lack of business and relevance. The focus of the reform effort has now shifted to other financial institutions. Regional regulations of **micro-finance establishments** have been developed through an appropriate regional legal instrument that was adopted in early 2002. The process of issuing licenses to micro-finance establishments has been completed. In this context, over 300 establishments have been eliminated from the registry of the Ministry of Agriculture, because they have not submitted a request for a license. **The Douala Stock Exchange** was officially inaugurated in April 2003, but transactions have not fully started yet. **The Social Security reform** is moving forward, albeit at a slow pace.

IV. PROGRESS AGAINST THE RELEASE OF THE REMAINING TRANCHES

30. The Development Credit Agreement requires the maintenance of a macroeconomic policy framework for growth and poverty reduction consistent with the objectives of the Program, satisfactory progress in the implementation of the reform program and the fulfillment of specific actions as conditions for the release of the various tranches. Bank staff are satisfied that the macroeconomic framework is satisfactory. The

fourth review under the Three-Year Arrangement under the Poverty Reduction and Growth Facility (PRGF) was concluded by the IMF Board on December 17, 2003.

THE SECOND PRIVATIZATION SUPPORT FLOATING TRANCHE

31. The four specific actions for the release of the Second Privatization Support Floating Tranche of SAC III are listed in Part D of Schedule 2 to the Development Credit Agreement. These conditions are as follows:

In accordance with paragraphs 33, 36, 38, 43, and 86 of the Letter of Development Policy (LDP), all bids received for CAMTEL, CDC, CNR and SONEI respectively have been analyzed, and the successful bidders have been selected and invited to enter into negotiations.

The following paragraphs review progress on fulfillment of these specific conditions.

32. CAMTEL (Cameroon Telecommunications). **The condition has been met.** The bidding process for the sale of CAMTEL was launched on December 30, 1999. Three bids were received, one of which did not meet the bidding criteria. After evaluation of the bids and approval by the Interministerial Committee for privatization, the invitation to negotiate was sent to the successful bidder in December 2000.

33. CDC (Cameroon Development Corporation). **The condition has been partially met, although the Government took the expected actions toward its fulfillment. The Government has committed to launching a new bidding process. In view of these, a waiver is requested.** After the bidding process was launched, and despite significant marketing efforts, only one bid was received for the tea crop unit on June 29, 2001. No bids were received for the three remaining crop units, palm oil, rubber and bananas. The bid for the tea unit was independently evaluated and then was assessed by the Interministerial Committee for privatization. The successful bidder was invited to negotiate in May 2002 and the presidential decree awarding the license to exploit the tea crop was signed in October 2002. In summary, the privatization of all CDC activities could not be completed as no bidders made offers for three of the four crops. The Government has decided to re-launch the process and with the assistance of IDA, has formulated and is implementing a new action plan for the privatization of the remaining three units of CDC.

34. CNR (Caisse Nationale de Réassurance). **The condition has not been met even though the Government took the expected actions toward its fulfillment. The change to liquidation, from the originally envisioned strategy of privatization, the basis of the formulation of the conditionality, has nevertheless fulfilled the intent of the required action. In view of this, a waiver is requested.** Despite significant marketing efforts and two rounds of call for bids in 1998, no bids were received. In the circumstances, the Government took the decision to liquidate CNR in January 1999. The liquidation of this company, which was imposing a high cost on insurance companies, has had a positive impact on the insurance sector.

35. SONEL (*Société Nationale d'Electricité*). **The condition has been met.** One investor presented a bid in November 2000. The technical offer received was judged satisfactory and the financial offer was considered a good start for negotiations. The investor was selected as successful bidder and the invitation to negotiate was sent on February 21, 2001. Subsequently, agreement was reached with the signature of the protocol of sale in July 2001.

THE TRANSPORT SUPPORT FLOATING TRANCHE

36. The three specific conditions for the release of the Transport Support Floating Tranche of SAC III are listed in Part E of Schedule 2 to the Development Credit Agreement. These conditions are as follows:

With respect to the port sector, in accordance with paragraphs 65 to 72 of the Letter of Development Policy (LDP), the Borrower has:

- (a) completed the institutional and regulatory reform measures specified in Part B. 2 (a) (i) and (ii) of this Schedule (i.e., Schedule 2 to the Development Credit Agreement);*
- (b) with respect to the port of Douala, completed the transfer to the private sector of all commercial and industrial activities (warehousing, stevedoring, freight forwarding, consignment) as well as port services (maintenance of access and superstructure, towing, piloting, berthing, ice manufacturing, maintenance of maritime navigational aids,) on a competitive bidding basis, in accordance with procedures satisfactory to the Association; and*
- (c) made progress satisfactory to the Association to achieve on average, for a period of three consecutive months, the following performance indicators for port clearance of containerized merchandise in the port of Douala: 7 working days for imports and 2 working days for exports.*

The following paragraphs review progress on these specific conditions.

37. **Condition (a) has been met.** The National Port Authority, APN (*Autorité Portuaire Nationale*) is operating in conformity with its mandate, though greater efficiency could be obtained. The organic texts of the Autonomous Port Agencies of Douala, Limbe and Kribi have been respectively modified by Decrees 2002/163, 2002/164 and 2002/165 dated June 24, 2002. Authority over the Port of Garoua was transferred to the City of Garoua by decree 2003/335 dated December 9, 2003. The Ministry of Transport's Decisions Nos. 01106 and 01107 dated December 4, 2003 have respectively determined the geographic circumscription of the Autonomous Ports of Limbe and Kribi. The members of the board of directors of the Ports of Limbé and Kribi were appointed respectively under decrees 2003/317 and 2003/320 dated November 14 and 17, 2003. The members of the college that constitutes the general assembly of the Ports of Limbé and Kribi were appointed respectively under decrees 2003/333 and 2003/334 dated December 9, 2003. The consultative committees of the four autonomous ports have been established under Ministry of Transport Decisions. The liquidation of

the former ONPC (*Office National des Ports du Cameroon*) is now being carried out under the Minister of Finance's Decision No. 239 dated June 17, 2002.

38. **Condition (b) has been partially met.** A waiver is proposed in view of a departure from the originally envisioned strategy for piloting and the maintenance of navigational aids.

39. All commercial and industrial activities are in the hands of the private sector. Warehousing, stevedoring, freight forwarding have always been private and open to any company provided that administrative requirements are complied with under Cameroonian legislation.

40. Operations in the Douala Port Container Terminal (DCT) are currently carried out by private stevedoring companies. These arrangements will be replaced by a concession arrangement to be awarded under an ongoing competitive bidding process in order to rationalize DCT operations. The completion of the *concessioning process* is not required by specific condition (b) for the release of the Transport Floating Tranche. As mentioned above, when Credit No. 3102-CM was approved in 1998, container operations were carried out without any gantry cranes. The operations were carried out by private stevedores registered with the Port Authority without restrictions to entry. Therefore the transfer of the operations to the private sector was not an issue. When the PAD acquired gantry cranes in 2001, the Government and IDA agreed that because of the importance of container activities in the overall port reform program, container handling operations should be transferred to an experienced private sector operator through a competitive concession process. IDA has monitored the process closely and is satisfied with the bidding process and the conclusions of the technical evaluation report. The contract is expected to be signed in March 2004.

41. Among the port services, maintenance of access and superstructure is done through contracts awarded regularly on a competitive basis (the next dredging contract for the channel is to be awarded by mid-2004). The maintenance of the container terminal equipment is currently done by private stevedoring companies, and will be included in the above-mentioned concession of the terminal. Towing and berthing have been awarded under a concession contract and the ice manufacturing unit has been transferred to a private company, both on December 3, 2003.

42. The Government decided, after consultations with IDA, to have the PAD continue to be responsible for the piloting and maintenance of navigational aids, given their safety and security implications. The rationale for seeking divestiture from these two activities in 1998 was that, at that time, the port of Douala was extremely inefficient and could not be relied on to manage these activities. Thus, contrary to common practices in other ports, it was decided to privatize these two activities. Over the last five years, the management of the now-autonomous PAD has greatly improved, with the assistance of IDA and other donors. In that context, the Government decided, and IDA staff agreed, that these two activities would remain under PAD management, given their safety and security implications. Based on the steady progress in management by the PAD between 1999 and 2001, and its maintenance of satisfactory performance with respect to piloting

activities and maintenance of navigational aids since 2001, the proposed waiver for these two activities is justified.

43. **Condition (c) has been met.** The clearance time for imports attributable to the PAD and related administrative activities has been under seven days for the last ten months. Export clearance time cannot be measured on a thorough basis, but the average transit time inside the export process is around three days but less than two days for all perishable goods and urgent deliveries. The shippers' community has not claimed any loss of shipment attributable to delayed processing of export shipments by the administration.

VI. CONCLUSION

44. Overall execution of the Program is satisfactory. The macroeconomic framework is consistent with the objectives of the Program and execution is satisfactory:

- (i) Two out of four conditions for the release of the Second Privatization Support Floating Tranche of the Third Structural Adjustment Credit have been fully fulfilled to the satisfaction of IDA. One condition requires a partial waiver and the other condition requires a waiver in view of a departure from the originally envisioned strategy.
- (ii) Two out of three conditions for the release of the Transport Support Floating Tranche of the Third Structural Adjustment Credit have been met to the satisfaction of IDA. One condition requires a partial waiver in view of a departure from the originally envisioned strategy.