

## PPIAF Assistance to the Republic of Cameroon

The Republic of Cameroon (Cameroon) is a country with a vast natural and economic potential, as its geographic diversity favors varied economic and agricultural activities. Cameroon has one of the highest proportions of land area devoted to conservation in Africa (around 14% of its territory). It exports oil and has significant natural resources, including high-value timber; agricultural products including coffee, cotton, and cocoa; and as yet untapped natural gas, iron, bauxite, and cobalt. Cameroon's macroeconomic performance has also strengthened in recent years, in part due to the debt relief in 2006 under the Highly Indebted Poor Countries and Multilateral Debt Relief Initiative.

As part of its strategy to improve infrastructure services and create a better enabling environment to attract the private sector, the Government of Cameroon has requested PPIAF's assistance to support efforts to build up institutional capacity, implement key policy reforms, and explore possible transactions involving the private sector in several infrastructure sectors. Since 2006 PPIAF has supported four technical assistance activities in Cameroon. This includes three completed activities, one to build capacity of the electricity regulatory agency, Agence de Régulation du Secteur de l'Électricité (ARSEL), a second to analyze options for building a toll bridge concession in Douala, and a third to support reforms in the water sector. There is also one ongoing activity to assist with the implementation of the digital switch over to promote competition and innovation in the use of Ultra High Frequency spectrum and the broadening of access to telecommunications and other ICT services.

### Technical Assistance for Cameroon in the Transport Sector

In 2005 the Government of Cameroon approached PPIAF to request assistance to develop a legal and regulatory framework for public-private partnerships (PPPs) and evaluate strategic options to structure a concession for the construction and operation of a second bridge over the Woury River in Douala. Relieving transport congestion in the city of Douala was a major policy objective, as it would eliminate a major bottleneck to the efficient use of the Port of Douala, the entry port for a large part of the commodity trade in the sub-region. The technical assistance provided consisted of two phases. The first phase comprised a review of the legal and regulatory framework, and evaluation of strategic options for structuring a PPP scheme from a technical, legal, and financial standpoint. The findings of this initial assessment revealed that a PPP option would be only viable if 90% of the costs were funded by the public sector. The government actively participated in this first phase of the analysis, and reviewed and commented on the reports.

Based on these findings, the government decided not to pursue the PPP option, and therefore decided not to implement the second phase of the activity, which consisted of transaction support. Nevertheless, the PPIAF-funded study confirmed the importance of building the second bridge, as the current bridge can barely carry the ever increasing traffic, and this link is used every day to carry goods between the Port of Douala and the interior of the country and sub-region. The Government of Cameroon continued to explore other options for building this bridge, and in January 2011 the Ministry of Public Works announced the construction of the second bridge over the Woury River with the support of the Agence Française de Développement. The bridge will have five lanes for traffic and two-way lines for railways.

#### Results of PPIAF's Activities in Assisting Cameroon's Transport Sector

Category	Outputs
<b>Enabling environment reform</b>	
<i>Analyses/assessments prepared</i>	<ul style="list-style-type: none"> <li>• Analysis of PPP options for a toll concession for the construction and operation of a second bridge over the Woury River in Douala, Cameroon, 2008</li> </ul>

<i>Policies prepared or legal or regulatory changes recommended</i>	<ul style="list-style-type: none"> <li>Review of the legal and institutional framework for concession of a bridge in Cameroon, 2008</li> </ul>
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Category	Outcomes
<b>Enabling environment reform</b>	
<i>Institutions created or strengthened</i>	<ul style="list-style-type: none"> <li>The government was able to make a well-informed decision on how to best address the need for a second bridge over the Woury River to achieve more efficient logistic arrangements and improve the competitiveness of the Port Douala. In this case, rather than pursuing a project that was not bankable for the private sector, it decided to focus on mobilizing resources from the international donor community, and succeeded in securing the support of the Agence Française de Développement to launch the construction of the bridge.</li> </ul>

### Technical Assistance for Cameroon in the Electricity Sector

Despite Cameroon's large hydropower resources, electricity in Cameroon continues to be insufficient and unreliable, and is considered a major constraint to the development of an active and dynamic economy. AES acquired 56% of SONEL, Cameroon's electricity utility, in July 2001 and became the main operator in the electricity sector. There were severe electricity outages in 2002–2003, and the expansion of coverage fell short of the target agreed upon in the contract. However, there were also significant improvements in the provision and quality of services between 2003 and 2005. The contract between the government and AES SONEL was renegotiated in December 2006, and the new dispositions aimed to reduce the deficit of electricity production and improve services by taking into account the risks for generation associated with hydrologic conditions.

It is in this context that ARSEL, the regulatory agency for the electricity sector, approached PPIAF in 2007 to request support to develop a regulatory economic and financial model, and to train its staff in the use of this model. The objective of this work was to provide the regulator, the operator, and other stakeholders in the sector with a transparent and standardized tool to monitor compliance with the terms of the contract, and ensure that the objectives of better services, expanded coverage, and a sustainable PPP between the operator and the government were met. Looking forward, this regulatory model would also provide the tools and capacity to the regulator to oversee the sector as new operators or generators enter the market.

An economic and financial regulatory model was developed for the regulatory agency, and the staff training was undertaken in 2011. The PPIAF activity also highlighted some significant changes that needed to be made to the way data is provided by the regulated companies, so that information requirements are met and the model could be used effectively. The main change was the need to separate the data from the different activities in the sector (generation, transmission, and distribution) to ensure accurate quantification of costs and revenues for each activity.

Further to the completion of this PPIAF activity, the World Bank continued to support ARSEL in improving its data collection and organization to ensure the efficient use of the model. The regulator has now completed the separation of accounts, an essential requirement to make proper use of the model. Once audited, the regulator will be able to use this data and use the regulatory model effectively.

### Results of PPIAF's Activities in Cameroon's Electricity Sector

Category	Outputs
<b>Enabling environment reform</b>	
<i>Analyses/assessments prepared</i>	<ul style="list-style-type: none"> <li>Financial Economic Regulatory Model for Electricity, 2011</li> <li>Reports on technical strengths and weaknesses of regulatory practices, 2010</li> </ul>
<b>Capacity and awareness building</b>	
<i>Workshops/seminars</i>	<ul style="list-style-type: none"> <li>Training for regulatory agency staff in the principles of regulation and the use of regulatory tools, 2011</li> </ul>
<i>Knowledge products disseminated</i>	<ul style="list-style-type: none"> <li>Guide for using the financial model, 2011</li> </ul>

Category	Outcomes
<b>Enabling environment reform</b>	
<i>Institutions created or strengthened</i>	<ul style="list-style-type: none"> <li>ARSEL adopted a regulatory model to effectively oversee regulated companies; concluded the separation of accounts by activity of the regulated companies; and obtained the corresponding data, to be used to accurately monitor the companies once it is audited, 2011</li> </ul>
<b>Capacity and awareness building</b>	
<i>Technical capacity enhanced</i>	<ul style="list-style-type: none"> <li>Technical capacity of ARSEL staff enhanced in monitoring regulated companies, as it has started requiring more appropriate data from regulated companies, such as in separating accounts by activity to ensure the proper quantification of costs and revenues, 2011</li> </ul>

### **Technical Assistance for Cameroon in the Water Sector**

In May 2007, the World Bank's Board of Directors approved the "Cameroon Urban and Water Development Support Project." Its water component, amounting to US\$50 million (including additional financing approved in September 2010), supported the implementation of a water PPP under a 10-year affermage contract between the public asset holding company (Camwater), and a private operator (Camerounaise des Eaux), which mobilized in May 2008.

Contrary to the sector policy letter approved by the Government in 2007, the Government failed to make its agreed upon annual contributions of US\$10 million to the urban water sector. Its non-payment impacted Camwater's operations and delayed a critically needed water network extension program. Furthermore, in February 2011, the Government imposed burdensome salary increase requirements on Camerounaise des Eaux, weakening its ability to operate effectively.

The situation undermined the financial equilibrium and sustainability of the sector, jeopardized the stability of the water PPP, and put at risk World Bank and other donor (including Agence Française de Développement and European Investment Bank) funds available to Cameroon's water sector.

To improve the implementation of the water PPP and to renew the water sector policy dialog, Cameroon's Ministry of Energy and Water approached PPIAF in early 2012 for support to help identify and propose a solution that would achieve effective cooperation between the Government, Camwater, and

Camerounaise des Eaux. To achieve this goal, PPIAF assistance contributed to an assessment of the state of the affermage contract, including its progress towards achieving key performance indicators as well as a simplified SWOT analysis of the sector. The report identified and recommended strategies—organizational, institutional and contractual—to facilitate more effective cooperation among the PPP parties. All report findings as well as a time-bounded action plan, monitoring arrangements, and the relevant remedies in the event of non-compliance were presented at a roundtable held in Yaoundé in March 2012. The roundtable included participants from key ministries, institutions, and development partners.

At the roundtable, all stakeholders agreed to the presented action plan, and the Government mobilized 5 billion FCA, which is roughly US\$10 million, to restore the financial capacity of Camwater, enabling it to meet its contracted investment commitments.

It is expected that a successful “Cameroon Urban and Water Development Support Project” would provide water access to an additional 1.2 million people and a 20% increase in the number of consumers benefiting from piped water. Furthermore, the project will increase employment opportunities in the country. The implementation of the project will create roughly 800 construction jobs and 100 operations and maintenance jobs. Finally, increased piped water access will bring in an additional \$20 million in revenues, serving to reduce government subsidies.

### **Results of PPIAF’s Activities in Cameroon’s Water Sector**

Category	Outputs
<b>Enabling environment reform</b>	
<i>Analyses/assessments prepared</i>	<ul style="list-style-type: none"> <li>Evaluation du PPP entre le Gouvernement du Cameroun, Cameroon Water Company Ltd (Camwater) et Camerounaise des Eaux, April 2012</li> </ul>
<i>Plans/strategies prepared</i>	<ul style="list-style-type: none"> <li>Action plan for PPP management, March 2012</li> </ul>
<b>Capacity and awareness building</b>	
<i>Workshops/seminars</i>	<ul style="list-style-type: none"> <li>Roundtable to discuss PPP arrangement, Cameroon, March 24–30, 2012</li> </ul>

Category	Outcomes
<b>Enabling environment reform</b>	
<i>Institutions created or strengthened</i>	<ul style="list-style-type: none"> <li>Camwater strengthened as a result of the Government of Cameroon’s 5 billion FCA (roughly US\$10 million) contribution, 2012</li> </ul>
<i>Plans/strategies adopted or implemented</i>	<ul style="list-style-type: none"> <li>Action plan for PPP management adopted, 2012</li> </ul>

Category	Impacts
<i>Increased number of people with infrastructure services</i>	<ul style="list-style-type: none"> <li>The successful project would provide water access to an additional 1.2 million people</li> </ul>
<i>Improved level of services</i>	<ul style="list-style-type: none"> <li>Additional 20% of consumers will benefit from regular water services through piped water connections</li> </ul>

<i>Increased employment opportunities</i>	<ul style="list-style-type: none"> <li>• Project implementation will create about 800 jobs during the construction period, and about 100 operation and maintenance jobs in the water sector</li> </ul>
<i>Fiscal impact on government (US\$)</i>	<ul style="list-style-type: none"> <li>• US\$20 million in expected additional water revenues</li> </ul>

**Looking Ahead: PPIAF and the PPP Agenda in Cameroon**

PPIAF has been supporting the efforts of the Cameroon government to improve infrastructure services, particularly in the transport sector where the lack of related infrastructure constitutes a major bottleneck for the economic development of the country. The government continues to emphasize the importance of the provision of better infrastructure services to increase the country’s competitiveness and improve the living standards of the population.