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REPORT

On Bill No. 2040/ PJL/AN to Ratify Ordinance No. 2023/1 of 2 June 2023 to Amend and Supplement Some Provisions of Law No. 2022/20 of 27 December 2022: Finance Law of the Republic of Cameroon for the 2023 Financial Year

Presented

On behalf of the Committee on Finance and the Budget

By

Honourable NDONGO ETEME Edgard, General Rapporteur

Right Honourable Speaker,

Fellow Members of the National Assembly,

At its sitting of Wednesday, 21 June 2023, the Chairmen's Conference deemed admissible Bill No. 2040 /PJL/ AN to Ratify Ordinance No. 2023/1 of 2 June to Amend and Supplement some Provisions of Law No. 2022/20 of 27 December 2022: Finance Law of the Republic of Cameroon for the 2023 Financial Year and, pursuant to the provisions of Articles 24 and 38 of the Standing Orders of the National Assembly, entrusted the said bill to the Committee on Finance and the Budget for a substantive study.

To discharge its task, your Committee met on Thursday, 29 June 2023.

The Bill was defended by the Minister of Finance who was assisted in that regard by the Minister Delegate to the Minister of Finance in the presence of the Minister Delegate at the Presidency of the Republic in charge of Relations with the Assemblies.

In her opening statement, the Chairperson for the Committee on Finance and the Budget began by wishing a warm welcome to members of Government.

She went on to salute the decision to sign the Ordinance under scrutiny, especially as it has made it possible to amend the Initial Finance Law for the 2023 Financial Year by taking cognisance of the global economic situation as well as the evolving socio-economic situation in our country.

She equally commended Government for tabling the bill under scrutiny and opined that it demonstrates Government's determination to respect budgeting principles of sincerity and transparency, meet the need of keeping Parliament informed and, in the process, enable the Nation's representatives to contribute their quota through recommendations.

Continuing her statement, the Committee Chair was keen to note that the Ordinance submitted for Parliament's consideration has made changes to the general budget, which has increased significantly from CFAF 6,274.8 billion to CFAF 6,642.5 billion, an increase of around CFAF

367.7 billion, mainly driven by domestic revenue forecasts of around CFAF 106.6 billion and loans of CFAF 280 billion.

As concerns the budget for the Special Appropriation Accounts (SAAs), the Committee Chair stressed that it has been increased from 70.3 billion CFA francs to 84.4 billion CFA francs due to the amount allocated to the Special Fund of SAA for the Reconstruction and Development of the Far North, North-West and South-West Regions which has been increased from 15 to 29.13 billion CFA francs. According to the Committee Chair, the above increase further demonstrates Government's resolve to see these three Regions contribute their quota to our country's growth.

She went on to seek clarifications on:

- implementation rate of reconstruction plans for the 3 (three) Regions;
- impact the plans have had on the population in the respective Regions in terms of improved living conditions;
- impact of the plans on economic revival in the 3 (three) Regions.

Continuing her statement, the Committee Chair reiterated that Special Appropriation Accounts came into being as an exception to basic rules of management and were meant to improve performance in some sectors. Accordingly, she sought to know the contribution of the 12 (twelve) Special Appropriation Accounts to development and better performance in the 12 sectors.

As regards State budget expenditure estimates, the focus of Chapter 2 of the Ordinance under scrutiny, the Committee Chair pointed out that recurrent expenditure has increased by 395.2 billion CFA francs while the financial cost of debt has increased by 308.2 billion CFA francs and that of loans and personnel emoluments has increased by 299.2 billion CFA francs and 55.5 billion CFA francs respectively.

Regarding the increase in personnel expenditure, your Committee sought to know whether the wage bill would ultimately be sustainable since there are high prospects for the wage bill to still increase when demands made by 2700 (two thousand seven hundred) striking temporary health workers for Government to sign contracts with them that formally give them the status of contract workers are satisfied.

The Committee Chair equally sought to know the progress made, so far, in the reform process on health facilities initiated several years ago with the technical support of Germany and which was aimed at rendering hospitals autonomous and improving their material and financial management.

With respect to loans, the Committee Chair expressed misgivings about government's policy option to systematically give preference to loans in budgeting and financing our economic activities and not to alternative policy options which, inter alia, are better governance, appropriate management of public contracts and the policy option of prioritising expenses.

On that score, she sought to know whether Government was considering alternative solutions.

Continuing her statement, she pointed out that remittances increased by 129.8 billion CFA francs while remittances to households increased by 125.3 billion CFA francs. She also expressed the wish to be briefed on money transfer mechanisms, the objectives of money transfer measures taken to ensure money is actually transferred.

With respect to capital expenditure, the Committee Chair revealed that it was cut by 25,879 billion CFA francs.

In this wise, she sought to know the rationale for decreasing investment funds that are used for purchases, construction works and major repair works on buildings more than investment funds earmarked for purchases, construction works and major repair works on equipment and furniture.

Similarly, she sought to know reasons for cutting the budgets allocated to some ministries, namely the Ministry of Territorial Administration, the Ministry of Decentralisation and Local Development, the Ministry of Water Resources and Energy and the Ministry of Public Works in spite of the population's increasing demand for diverse facilities.

Before rounding off her statement, the Committee Chair sought clarifications on:

- the kind of projects that could be financed with funds harvested from government bonds whose issuance was launched recently;
- implementation rate of the import-substitution policy at a time when price hikes on our markets are eroding the purchasing power of Cameroonians with the attendant fall in their living standards;
- measures taken by government to really control the prices of basic commodities on our markets.

It emerged from the explanatory statement that pursuant to the provisions of Sections Eighty-four and Eighty-five of the 2023 Finance Law, the President signed Ordinance No. 2023/1 of 2 June 2023 to amend and supplement some provisions of Law No. 2022/20 of 27 December 2022: Finance Law of the Republic of Cameroon for the 2023 Financial Year.

This Ordinance would help to factor in socio-economic developments not provided for in the abovementioned Initial Financial Law (IFL), in particular**: (i)** insufficient provisions in the IFL to cover marketers' lost earnings from petroleum imports for Q4 of 2022 and the 2023 financial year; **(ii)** the readjustment of fuel prices on 1 February 2023, which would curb lost earnings for 2023; **(iii)** the 50% fall in the market value of imported fuel, which would induce a reduction in the IFL customs revenue objectives; **(iv)** salary increase resulting from the aforesaid readjustment, which has led to a rise in personnel expenses provided for in the IFL; **(v)** the fall in price projections per barrel of oil in USD to CFAF parity; and **(vi)** the increase in expenditure projections for payment of interest on 2022 government bonds.

By thus taking the above developments into account, and to ensure realistic budgeting, **the aforementioned ordinance has increased the 2023 State budget to CFAF 6726.9 billion** (6642.5 billion for the general budget and CFAF 84.4 billion for Special Appropriation Accounts), from **CFAF 6345.1 billion in the IFL** (CFAF 6274.8 billion CFAF for the general budget and CFAF 70.3 billion for Special Appropriation Accounts). This represents **an increase of CFAF 381.8 billion in absolute terms and 6% in relative terms.**

(I) The revision has affected the components of **the general budget** as follows:

(1) Domestic revenue and grants: **CFAF 4744.5 billion**, as against CFAF 4 676.5 billion in the IFL, or a CFAF 68 billion (+1.5%) increase, broken down as follows:

- Oil revenue: **CFAF 841.8 billion**, as against 807 billion in the IFL, or a CFAF 34.8 billion (+4.3%) increase. This rise is due to the upward revision of revenue from oil company tax and the outstanding 2022 NHC royalty;

- Tax revenue: **CFAF 2594.7 billion**, as against CFAF 2523.4 billion in the IFL, or a CFAF 71.3 billion (+2.8%) increase, induced by the additional tax collection effort and the fiscal impact of the abovementioned salary increase;
- Customs revenue: **CFAF 937.7 billion**, as against CFAF 1004.7 billion in the IFL, representing a CFAF 31 billion (-3.1%) reduction;
- Non-tax revenue: **CFAF 269.3 billion**, as against CFAF 250.4 billion in the IFL or a CFAF 18.9 billion (+7.5%) increase, resulting from the payment of dividends by banks in which the State is shareholder;
- Grants: **CFAF 101 billion**, as against CFAF 91 billion in the IFL, or a CFAF 10 billion (+11%) increase, resulting from a European Union budget support.

(2) Expenditure (excluding debt principal): **CFAF 4972.9 billion**, as against CFAF 4904.3 billion in the IFL, or a CFAF 68.6 billion (+1.4%) increase. It is broken down as follows:

- Personnel expenditure: **CFAF 1313.2 billion**, as against CFAF 1257.7 billion, representing a CFAF 55.5 billion (+4.4%) increase;
- Goods and services expenditure: **CFAF 965.4 billion**, as against CFAF 1073.7 billion in the IFL, or a CFAF 108.3 billion (-10.1%) reduction. This budget cut was required by the stipulations in Cameroon's Economic and Financial Programme with the IMF which set the ceiling of non-oil budget deficit at 2.41 % of GDP;
- Transfers/subsidies**: CFAF 1172.8 billion**, as against CFAF 1033 billion in the IFL, or a CFAF 139.8 billion (+13.5%) increase;
- Equity investment: **CFAF 418.7 billion**, as against CFAF 446.2 billion in the IFL, or a CFAF 27.5 billion (-6.2%) reduction;

- <u>Externally-financed investment</u>: **CFAF 779.8 billion**, as in the IFL;
- <u>Interest on debt</u>: **CFAF 322.9 billion**, as against 313.9 billion in the IFL, or a CFAF 9 billion (+2.9%) increase.

(II) <u>The budget of Special Appropriation Accounts</u> is now **CFAF 84.4 billion**, as against CFAF 73 billion in the IFL, representing a CFAF 14.1 billion (+20.1%) increase. It is worth noting that this increase is intended exclusively for the Special Fund for the Reconstruction and Development of the Far North, North-West and South-West Regions.

Moreover, economic growth has been revised downward to 3.8 %, compared with the initial projection of 4.2%, and inflation rate is currently estimated at 5.9 %, a sharp rise compared with the 3% assumption in the IFL.

Amid efforts to contain budget deficit, additional expenses have led to reduced goods and services as well as equity investment expenditure, by excluding, to a large extent, ministries in charge of social affairs. However, the budget deficit has been reduced by CFAF 31.3 billion, from CFAF 257.6 billion to CFAF 226.3 billion.

This bill has been tabled pursuant to Section Eighty-seven of abovementioned Law No. 2022/20 of 27 December 2022 which stipulates that **"the ordinances referred to in Sections Eighty-four and Eighty-five above shall be tabled before the Bureaux of the National Assembly and the Senate for purposes of ratification at the parliamentary session following their publication".**

Ratification will give force of law to Ordinance No. 2023/1 of 2 June 2023 as provided for in Article 28 of the Constitution.

Taking the floor to furnish additional explanations, the Minister of Finance revisited the background against which the State budget was amended in the Ordinance signed on 2 June 2023 by the President of the Republic and that was characterised, in particular, by review of the macro-economic framework of the Initial Finance Law for 2023 in December 2022.

In this regard, he reiterated that the Ordinance under scrutiny has increased the State budget from 6 345.1 billion CFA francs to 6 726.9 billion CFA francs while the general budget and the funds allocated to Special Appropriation Accounts have been increased to 6 642.5 billion CFA francs and 84.4 billion CFA francs respectively. When compared with the Initial Finance Law for 2023, the amended State budget has witnessed an increase of 381.8 billion CFA francs in absolute terms and 6% in relative terms and the overall budget deficit has been reduced from 0.9% in the Initial Finance Law to 0.8% in the Amended Finance Law.

According to the Minister of Finance, when compared to the Initial Finance Law for 2023, loans contracted to meet funding needs and to carry out expenditure, however, witnessed an increase of 299.2 billion CFA francs. The new loans to be contracted would be exclusively used to clear outstanding treasury bills (+ 259.2 billion CFA francs) and to reimburse all natural or legal persons, public or private, who hold treasury account records (+ 40 billion CFA francs).

Before rounding off his explanations, the Minister of Finance disclosed that to meet the new funding needs, Government would use its Special Drawing Rights (SDRs) to procure the sum of 80 billion CFA francs from its reserves with the Bank of Central Africa States (BEAC).

Government would also set aside the sum of 200 billion CFA francs that was sourced from foreign stock markets and banks in order to clear outstanding treasury bills. It is worthy to note that the Minister's statement is appended to this report.

During the ensuing general discussion, your Committee members commended Government for taking a batch of social measures to stabilise the purchasing power of Cameroonians, especially by increasing the salaries of State employees with effect from February 2023 after an increase in fuel prices at the pump.

They also commended the efforts deployed by Government to increase non-tax revenue in a rather difficult economic environment.

Their concerns during a first round of questions, however, focused on:

- measures taken by Government to enhance the development of Cameroon amid challenges such as the health and economic crises, security concerns, rate of indebtedness and the Russo-Ukrainian conflict;
- resolutions of the Summit in Paris on a New Global Financing Pact and assurances that the resolutions would be implemented;
- the rather low increase in fuel prices at the pump. In the opinion of your Committee members, such a low increase does not provide the necessary guarantee that the policy option of subsidising hydrocarbon prices would be ultimately sustained. And failure to sustain the subsidies would lead to another increase in fuel prices and social unrest.

They also pondered on:

- the criteria used by Government to adjust fuel prices at the pump;
- reasons for cutting the budget allocated to some ministries, namely the Ministry of Public Works, the Ministry of Water Resources and Energy in disregard of the population's dire need of roads, electricity and potable Water;
- the applicable CEMAC wage bill/ Gross Domestic Product (GDP) ratio and its respect in the salary increase of State employees recently;
- the fact that Government is not interested in enlisting the financial support of the Bank for the Development of Central African States (BDEAC) to finance some development projects, especially as it is increasingly difficult to source the requisite funds;
- the current rate of inflation which has doubled in the Ordinance under scrutiny compared to the Initial Finance Law for 2023.

Taking the floor to address the concerns raised by your Committee members, the Minister of Finance posited, as concerns measures taken by Government to ensure prices for basic commodities are respected on our markets, that numerous measures are taken by the Minister of Trade to ensure that official prices for consumer goods are respected.

As for the kind of projects to be financed with funds harvested from government bonds whose issuance was launched recently, the Minister revealed that funds harvested from government bonds would be used to finance some priority projects in the sectors of public works, water resources and energy, urban development, reconstruction of devastated areas and development of the Kribi Deep Seaport.

With respect to giving preference to loans which perpetuate indebtedness in budgeting and not to alternative policy options which improve governance and enable government to prioritise expenses, the Minister explained that Government implements its policies by taking a batch of measures designed to improve institutional governance which, inter alia, enables government to prioritise expenses and to promote good governance.

Nevertheless, indebtedness is still necessary to meet increasing funding needs for the implementation of important projects that are likely to accelerate economic growth, in particular.

In the opinion of the Minister, owing to the current socio-economic environment, emphasis would be laid on finalising the implementation of ongoing projects.

As concerns measures taken to ensure money is effectively transferred to households, the Minister revealed that such remittances take the form of subsidised fuel prices at the pump and funding for the Programme on Social Safety Nets.

As for the contribution of 12 (twelve) Special Appropriation Accounts to development and better performance in the 12 sectors, the Minister explained that the 12 SAAs which are now better structured and followed up more appropriately have significantly contributed in improving performance in the 12 sectors.

Regarding the progress made, so far, in the reform process on health facilities, the Minister posited that the said reform was taken into account in the National Development Strategy (NDS 30) via the adoption of a new health sectorial strategy.

With respect to measures taken by Government to enhance the development of Cameroon amid challenges confronting the latter, the Minister stressed that governmental action is a function of revenue collected and prioritised expenses.

To this end, the Minister expressed satisfaction with the resilience of our country's economy which should be credited to the sterling performances of its taxation and customs services plus the close collaboration between taxation services and customs services which has, in turn, optimised receipts and the decision taken by the Government to streamline spending and bring indebtedness under control.

Concerning resolutions of the Summit in Paris on a New Global Financing Pact, the Minister saluted the collective consciousness by State Parties of the need to restructure indebtedness whose current structure is inimical to growth in developing countries because of political, economic, commercial and environmental constraints to developing countries.

In his opinion, the problem has to do more with debt sustainability and less with indebtedness per se. It is, therefore, important for developing countries to go for lucrative projects that would offset effects of the debt burden.

As for assurances that the resolutions of the Summit in Paris on a New Global Financing Pact would be implemented, the Minister expressed reservations regarding imminent reform of the global economic system and a paradigm shift in the functioning of the Bretton Woods Institutions.

Talking about the rather low increase in fuel prices at the pump, the Minister reiterated that fuel prices rose in a global and national environment characterised by rising prices. He added that the calculated increase demonstrates the firm determination of the Head of State to enhance social cohesion.

On the criteria used by Government to increase fuel prices at the pump, the Minister explained that prices of petroleum products could be readjusted when the amount spent in the form of subvention to hydrocarbons impacts negatively on the State budget.

He, however, averred that the decision to increase fuel prices is the exclusive prerogative of the Head of State.

Regarding reasons for reducing the budget allocated to some ministries, namely the Ministry of Public Works, the Ministry of Water Resources and Energy, the Minister was keen to make it clear that the budgets allocated to ministries in the social sector, namely the ministries in charge of health, education and social affairs were not reduced.

Continuing his statement, he disclosed that the budget of the ministries enumerated above were cut because of withdrawal of projects that had not reached the maternity phase, the need to service debt and withdrawal of budget support. He, however, posited that priority was given to investment expenditure while readjusting the budgets allocated to ministries.

As concerns the applicable CEMAC wage bill/tax revenue ratio, the Minister averred that it is 35%. In order to comply with this ratio, government sees to it that personnel expenditure is sustainable and is below 35%.

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With respect to the fact that Government is not interested in enlisting the financial support of the Development Bank of Central African States (BDEAC) to finance some development projects, especially as it is increasingly difficult to source the requisite funds, the Minister pointed out that BDEAC which is partly financed by the Bank of Central African States BEAC lacks the requisite funds to meet the funding needs of Central African States.

That notwithstanding, Cameroon received BDEAC funding through multilateral funding to carry out some integrative road construction projects, especially the MINTOM Road Project at the Cameroon-Congo Border.

As for reasons for rising prices, the Minister disclosed that inflation is being brought under control even though it is still high when compared to initial projections. The current rate of inflation is, however, lower than in other developing countries.

In a second round of questions, the concerns of your Committee members focused on:

- the veracity of information widely relayed in the social media that Cameroon is grey listed on account of its exposure to the risk of money laundering. In this wise, your Committee members sought to be briefed on measures taken by Government to combat money laundering;
- the fact that the content of the report on the implementation of the Presidential Plan for Reconstruction contrasts sharply with information disseminated by some media outfits on rehabilitation of health, school and road infrastructure in the North-West, South-West Regions and Far North Regions.

In this regard, your Committee members wanted to have assurances that the increase in the budget allocated to the Reconstruction Plan in the Ordinance under scrutiny would be actually used to rebuild devastated infrastructure.

- exactitude of information concerning the provision of the sum of 18 000 billion CFA francs by China to enable the Government of Cameroon to finance development projects with Chinese Road Investment Fund (SRIF).

Addressing these other concerns of your Committee members, the Minister acknowledged, as concerns information widely relayed in the social media that Cameroon is grey listed on account of its exposure to the risk of money laundering, that the information is correct.

He went on to reveal that at the end of the accelerated follow up of Cameroon by the Action Group Against Money Laundering in Central Africa (GABAC), Cameroon was officially placed under increased surveillance by the Financial Action Task Force (FATF) which is in charge of combating money laundering and those financing terrorism. The increased surveillance is partly justified by the economic importance of Cameroon in the sub-region,

That aside, Cameroon is working in close collaboration with FATF in order to stamp out money laundering.

Before rounding **off** his statement on your Committee's concern, the Minister averred that the National Agency for Financial Investigation (NAFI) received instructions to formulate a communication policy that would enlighten public authorities and the general public on money laundering.

Concerning the fact that the content of the report on the implementation of the Presidential Plan for Reconstruction contrasts sharply with the information disseminated by some media outfits on rehabilitation of health, school and road infrastructure in the North-West, South-West and Far North Regions, the Minister, while acknowledging the hasty enthusiasm being shown by the populace to see the devastated areas rebuilt, posited that some actions have been undertaken in that regard by Government with the support of the United Nations Development Programme (UNDP).

What is more, Government is, notwithstanding the huge financial resources required, committed and determined to see normalcy return to devastated areas.

Before concluding his statement on your Committee's concern, the Minister reassured your Committee members that the new financial package allocated to the Reconstruction Plan in the bill under scrutiny would be audited by authorities in charge of implementing the Reconstruction Plan.

As concerns the exactitude of information concerning the provision of the sum of 18 000 billion CFA francs by China to enable the Government of Cameroon to finance its development projects, the Minister disclosed that a memorandum of understanding had actually been signed with the Chinese Road Investment Fund under the auspices of the Prime Minister, Head of Government.

In this wise, financial resources procured from the said memorandum of understanding could be used to finance income generating projects in the private and public sectors provided public sector stakeholders respect the provisions of Cameroon’s Economic and Financial Programme with the IMF, especially the debt ceiling.

After the general discussion, your Committee members went on to scrutinise sections of the bill.

Sections 1 and 2 were adopted without amendment.

Having come to the end of its deliberations, your Committee on Finance and the Budget adopted each of the sections without amendment as well as the entire Bill No. 2040/PJL/AN to Ratify Ordinance No.2023/20 of 2 June 2022 to amend and supplement some provisions of Law No. 2022/020 of 27 December 2022: Finance Law of the Republic of Cameroon for the 2023 Financial Year.

It now prays the entire House Chamber to kindly endorse its conclusions.