1. Key development issues and rationale for Bank involvement

**Background**
Cameroon’s urban sector represents slightly over half of the country’s population and the largest share of the economy. Urban population growth remains very high (over 6% per annum as compared with 2.9% in the country as a whole, with peaks of 7% in Yaoundé and 6.5% in Douala), creating a doubling of the urban population every thirteen years. In the past fifteen years, urban population growth has been absorbed by poor housing spreading out from the edges of towns and growing density in low-income neighborhoods near city centers. Most of the urban sprawl has occurred without links to infrastructure and poor access to basic services. The current urban infrastructure stock is almost the same than it was at the end of the 1980s, while the population has more than doubled. Nearly 70% of the urban population, and all of the poorest urban inhabitants, have no public utilities or basic services. The 2002 survey of living conditions carried out in Douala and Yaoundé shows a very high percentage of underserved neighborhoods in the two cities –71.6% in Douala and 62.4% in Yaoundé. The situation is even worse in the majority of the other cities. As a result, underemployment and unemployment are widespread, insecurity is on the rise and more and more people are living in precarious and vulnerable conditions.

**Key development issues**

*Access to basic services.* A large number of neighborhoods have limited access to basic services:

- mobility is reduced because of the deteriorated urban network in and around the neighborhoods, making them virtually land-locked to the outside and precluding the population from getting easy access to basic services and public transport;
- access to potable water supply is difficult; the connection rate is very low – about three fourths of the households of Douala and Yaoundé do not have individual access to drinking water; and public standpipes are located for away from houses;
- solid waste collection is poor, creating accumulation of garbage in the neighborhoods and clogging of drains; and
- poor drainage is the cause of floods and unhealthy conditions.

*Lack of public investments in urban areas.* Urban poverty has increased considerably in the past twenty years because of the combined effects of rapid urban growth and Cameroon’s 1985-1994 economic crisis, followed by a decade of relative lack of public expenditure for urban infrastructure. Core urban
management, particularly of urban services and utilities, has suffered greatly from this situation. Urban management has also suffered from the relative imbalance in the utilization of available funding for heavy primary infrastructure, leaving low-income settlements deprived of access to basic services and outside the scope of economic development.

**Lack of human and financial resources at the local level.** Decentralization remains timid and has not yet been followed by a significant transfer of financial resources to local governments (estimated at less than 1% of GDP and less than 5% of the national budget). Institutional capacity also needs to be strengthened at the local level, in terms of investment planning, maintenance management, and overall municipal management.

**Complex institutional setting.** In addition to the local governments, a large number of ministries and public agencies are involved in the various aspects of urban development. These entities often fail to coordinate among themselves, creating inefficiencies on the ground.

**Lack of urban data.** There is currently no reliable data on the urban sector; one relies on extrapolation of old and obsolete data. This situation is an impediment to efficient city management, adequate investment planning, and informed knowledge of the potential of cities as engines of growth.

**Limited access to water supply.** Urban water supply services in Cameroon are significantly less developed than in other Sub-Saharan African countries that have reached a similar level of development. The connection rate is less than half the one of Côte d’Ivoire and Senegal and most of water facilities need rehabilitation. This situation results from a predatory public management of the national water utility, SNEC, until 2002. Since then, the Government has engaged into sector reform and is actively pursuing the establishment of a public-private partnership, through a lease contract. The contract will be tendered in the first semester of 2006. The African experience with PPP in the water sector shows that Bank support to their implementation is a key factor of success. A donors meeting is scheduled in March 2006.

**Rationale for Bank involvement**

The proposed project follows an Urban Economic and Sector Work (ESW) finalized in May 2004. This Bank work was prepared after an absence of about eight years in the sector. It provided an avenue for a renewed dialogue and a direct contribution to the National Urban Strategy and to the urban sections of the Poverty Reduction Strategy Paper (PRSP) and its updated version (2005). The project also builds on the IDA-supported efforts, through the Public-Private Partnership for Growth and Poverty Reduction Project (Cr.3359-CM) to promote the participation of the private sector in the Utilities sector. These initiatives coincided with the preparation of the joint IDA-IFC Country Assistance Strategy (CAS), which was presented to the Board on September 11, 2003. The CAS, which covers the period FY 04-06 has two main axes: (i) strengthen the institutional framework for improved pro-poor economic management and service delivery; and (ii) support private development, leading to the diversification of the economy and growth. The proposed project is part of the first pillar supported by the CAS, with a specific outcome of improving the delivery of basic services by urban municipalities and by the private sector.

The proposed project supports the Government’s strategy of (i) maximizing the contribution of cities to economic growth while attacking the roots of poverty in and around the urban areas; and (ii) resuming the development of water services to be in a position to achieve the Millennium Development Goals. The project is directly derived from the findings and recommendations of the urban ESW. These include: (i) financial re-engagement in the sector on the part of the central government; (ii) increased financial and technical autonomy at the local government level; (iii) improvement in city knowledge and management; (iv) improved public spending efficiency through an adaptation of infrastructure standards, models and techniques to the desired level of services; and (v) development of “City Development Contracts”
established through participative processes between the various stakeholders - the city, the central government, and the communities – clarifying defined sets of programs and responsibilities for the development of the city over a certain period of time. In addition, the project builds on the lessons of more than fifteen years of PPP in urban water services in West Africa, and on the highly successful models implemented in Cote d’Ivoire, Senegal, and Niger.

The proposed project also takes advantage of the experience gained through pilot community upgrading operations currently being implemented in two low-income neighborhoods of Douala, as part of the Douala Infrastructure Project. These operations are designed to increase access to basic infrastructure and services to a population that is largely cut-off from the city’s economy. The main focus is on the development of structuring infrastructure (mainly roads and drainage) identified on a participatory way with the population with the objective to facilitate access to and from the neighborhoods.

2. Proposed objective(s)

The project development objective is to increase access of the urban population, particularly those living in low-income settlements to basic infrastructure and services, including water supply. To achieve this objective, the project will (i) assist the various stakeholders of urban development in the preparation and implementation of tools and investments designed to increase access to services to as large a number of beneficiaries as possible; and (ii) support and facilitate the implementation of the public-private partnership in urban water services.

3. Preliminary description

The project will include three main components, as follows:

1. **Capacity building and support to decentralization**  
   *(Estimated cost: US$3 million).*

   (a) **National urban database**: a database – currently lacking – will be developed to (i) assess the demographic and economic importance of cities; (ii) identify their respective functions and hierarchy in Cameroon’s urban network; and (iii) determine, at the local level, the public investments that would have the most impact on economic development and poverty reduction. The objective will be to establish a system for regular monitoring of urban data and management indicators independent from projects and technical assistance. In the long term, this system would provide the basis for implementing a national urban public investment program (PIP), facilitate identification of cities eligible for city development contracts, and contribute to reaching sector strategy goals.

   (b) **Capacity building**: provision of municipal management tools, training, and technical assistance to the municipalities in order to improve planning, programming, maintenance management, as well as mobilization and utilization of local financial resources. Training programs will be tailored to the size of the municipality; some support will also be provided to the ministries in charge of decentralization and urban development.

   (c) **Preparing and implementation of city development contracts** in pilot cities – Bamenda, Douala (three urban municipalities), Maroua, Mbalmayo, and Yaoundé (two urban municipalities)  
   *(Estimated cost: US$1million).*

   The choice of cities was made by the Cameroonian authorities on the basis of their importance and representativity in the national urban setting, their accessibility, and the presence of previous
The objective of the city contracts will be to render the municipalities responsible for the choice and financing of a set of actions to be carried out within the framework of a program by contracting interventions. These contracts will be agreed upon and engage the responsibility of three partners – the local authority, the central government, and the beneficiary communities. The contract will define reciprocal commitments by the three parties on the basis of a program including a definition of objectives, priorities, an action plan, responsibilities, a financial plan, and provisions for monitoring and evaluation.

The component will include (i) the preparation of technical and financial audits in each of the municipality in order to identify the gaps in terms of capacity to carry out the city development contracts; (ii) support to implementation of a participative process of preparation of the contracts; (iii) training and technical assistance, on the basis of the findings and recommendations of the audits; and (iv) strengthening of the financial management capacity in place in each of the municipalities, and support to increasing financial resources.

2. *Infrastructure works in low-income settlements. (Estimated cost: US$30 million).*

Infrastructure upgrading operations will be carried out with a view to increase access to basic services. The works will be carried out in the same pilot cities. Selection of neighborhoods will be based on population density, existing level of access to services, areas suitable for construction, and presence of community participation. Investments will include small infrastructure works (primarily roads and drainage) as well as construction or repair of social facilities (such as classrooms or health centers). The methodology will be based on the experience of Douala. It will underline (i) the core role of the municipalities; (ii) extensive participation on the part of the beneficiary communities; (iii) search for an adequate level of service, on the basis of affordability and arbitrage by the beneficiaries; (iv) gradual solutions, allowing for a progressive improvement in the level of service; (v) absence of resettlement, to the extent possible; (vi) planning and budgeting of maintenance activities from the start; and (viii) use of local resources (local SMEs, labor-intensive techniques, and local construction materials).

3. *Support to the implementation of the public-private partnership in urban water services. (Estimated cost: US$20 million)*

(a) **Capacity Building:** to ensure a smooth implementation of the PPP, it is necessary to build the capacity of the public parties to monitor and regulate, as well as plan investments, which will remain the responsibility of the public sector. The project will thus assist in developing the regulatory framework and regulatory tools, providing technical assistance, and strengthening the capacities of the (public) asset-holding company and of the technical ministry.

(b) **Improvement and development of access and of the quality of services:** the project will help finance priority rehabilitation works and equipment and to promote access of the poor through a social connections program and other poverty-focused activities.

4. *Project management. (Estimated cost: US$2 Million)*
4. Safeguard policies that might apply

*Guideline: Refer to section 5 of the PCN. Which safeguard policies might apply to the project and in what ways? What actions might be needed during project preparation to assess safeguard issues and prepare to mitigate them?*

Safeguards procedures: It is proposed that the project be a category B, based on the infrastructure investments program in components 2 and 3. The Borrower will prepare environmental and social safeguards assessments, as well as a resettlement policy framework for the project. In line with Bank-wide changes in safeguards procedures and its mainstreaming in the Africa Region, it is proposed to transfer the responsibility for assuring compliances with environmental and social safeguard to AFTU2.

5. Tentative financing

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6. Contact point

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