

**PROGRAM INFORMATION DOCUMENT (PID)
CONCEPT STAGE**

June 21, 2017
Report No.: AB7910

Operation Name	Fiscal Consolidation and Growth Development Policy Operation
Region	AFRICA
Country	Cameroon
Sector	
Operation ID	P163657
Lending Instrument	Development Policy Lending
Borrower(s)	Republic of Cameroon
Implementing Agency	Ministry of Economy, Planning and Regional Development
Date PID Prepared	June 19, 2017
Estimated Date of Appraisal	October 4, 2017
Estimated Date of Board Approval	November 22, 2017
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

I. Key development issues and rationale for Bank involvement

The proposed operation aims to support Cameroon's efforts to adjust to a large decline in oil prices which has precipitated a regional economic crisis and hurt the country's prospects for growth and poverty reduction. Cameroon, a lower middle income country with a population of about 23 million and vast natural resources is the largest economy in the Central African Economic and Monetary Union (CEMAC), with 44 percent of the community's GDP, and 39 percent of its exports.¹ The region is experiencing a difficult economic crisis due to the steep fall in the price of oil, which comprised 76 percent of the region's exports in 2014. Cameroon's fiscal and external balances have deteriorated, threatening macroeconomic stability and exposing the country's vulnerability to oil despite its relatively diversified economic base. The security crisis in the North and an ambitious investment program have further strained fiscal resources. Foreign exchange reserves at the BEAC, the regional central bank, have declined sharply, as the BEAC stepped in to provided advances to member countries, well above the statutory limits in some cases. Cameroon was less impacted than its peers, as oil represented only 7 percent of GDP in 2014. Nevertheless, the rapid deterioration in fiscal and external balances, and the need to restore macro stability in the region and confidence in the common currency requires Cameroon to implement adjustment measures alongside its CEMAC partners. Domestically, the crisis is impact growth prospects, which in turn threatens progress on poverty reduction and shared prosperity. The Government of Cameroon has played a leadership role to address the regional crisis, and taken steps to address the deteriorated economic situation at home.

The Bank's support will be part of a broader multilateral and bilateral effort to support Cameroon. Development partners have come together to help stem the economic crisis in the CEMAC, and are discussing financial support with all members with discussions advanced in Gabon and Cameroon.² In

¹ The CEMAC region comprises the following six countries: Chad, Cameroon, Central African Republic, Equatorial Guinea, The Republic of Congo, and Gabon.

² Chad and Central African Republic are already under IMF programs and have ongoing DPO programs with the Bank as well as budget support from other development partners. The policy areas to be addressed under the operation include: (i) revenue mobilization; (ii) expenditure control; (iii) SOE governance; (iv) energy sector

Cameroon, the IMF is currently finalizing a three-year Extended Fund Facility (EFF) focused on fiscal consolidation, structural fiscal reforms, private sector led economic diversification, and financial sector reforms. The African Development Bank is planning to support actions on the improvement of public expenditure efficiency under a three-year program, focusing in part on public investment management. The *Agence France Development* (AFD) is targeting to support the water and agriculture sectors, as well as some aspects of public finance and governance. Finally, the European Union support will come as grants to strengthen rural development, agriculture, infrastructures and climate change. All development partners are working to closely coordinate their assistance and collectively support a set of complementary reforms that can address the twin issues of fiscal stability and sustainable growth. Together, the programs would provide about \$2 billion in financial support for Cameroon, and help the country come out of a difficult economic situation provided it stays the course on the necessary reforms.

II. Proposed Objective(s)

The Objective of the proposed programmatic DPO is to support the Government of Cameroon to implement reforms that: (i) improve fiscal sustainability and public sector management; (ii) enhance competitiveness of the economy and (iii) improve social services and scale up social protection to reduce vulnerability among the poor.

The proposed program supports the Growth strategy pillar of the DSCE. It is designed to address the challenges associated with the implementation of the Infrastructure development, Human development and the financing of the economy pillar of the Growth strategy

III. Preliminary Description

The design of the program reflects the Government's priorities, as reflected in the longer term "Vision 2035", the DSCE 2010-2015, the three-year emergency plan (PLANUT) and the recently adopted 2017–20 priority reforms economic and financial program in response to the commodities prices shock affecting the CEMAC region as part of the overall framework defined by the CEMAC heads of states summit of December 23, 2016.

- The first pillar includes measures to strengthen domestic revenue mobilization, improve the management of civil service and procurement and strengthen transparency and the management of the large state-owned enterprise sector.
- The second pillar includes structural reforms in the electricity and transport sectors
- The third pillar includes reforms that will improve the efficiency of spending on health and education and scale up social protection.

Pillar 1: Improve fiscal sustainability and public sector management

An immediate priority is to support the ongoing fiscal adjustment through fiscal consolidation measures and improved management of the public sector. The first pillar supports fiscal sustainability and public sector management through four policy areas: (a) Improve revenue mobilization by the rationalization of tax expenditures (b) improve the effectiveness of public procurement through the adoption and implementation of more efficient procurement institutional framework, (c) control the wage bill and strengthen human resources management, and (d) improve fiscal performance and corporate governance in the SOEs.

reforms; (v) transport and logistics related reforms (vi) health services delivery; (vii) education; and (viii) social protection.

Pillar 2: Enhancing Competitiveness

Cameroon's continued vulnerability to shocks has re-established the urgency of efforts to improve competitiveness and enhance prospects for investment and growth. While policy documents stress the importance of a strong, diversified economy and the policy agenda has prioritized a rapid acceleration in infrastructure spending to create the enabling environment for growth, the reality on the ground is different. A long list of reforms remains to be implemented, including in energy, transport, ICT, business environment, water, agriculture and other sectors. The DPO supports a number of these reforms, building in large part on ongoing Bank operations and dialogue.

Pillar 3: Improving social services and scaling up social protection

The need for fiscal consolidation combined with a large divide in the access to and quality of social services creates a high priority to improve the efficiency of service delivery while enhancing access. As Cameroon builds its vision of an upper middle income country, while grappling with its current fiscal challenges, the Government will need to re-think the financing and delivery of critical social sector related expenditures namely in health and education. In addition, the Government will have to rationalize its social protection framework while leveraging an initially successful cash transfer program to protect a greater share of vulnerable populations. The third pillar supports reforms that will improve the efficiency of spending on health, education and social protection services.

IV. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

The proposed DPO will have a positive social impact on poverty reduction. This DPO has some positive and direct effects on poverty reduction, but most of the effects are indirect. The direct poverty and social effects come mainly from the protection of vulnerable people pillar.

The prior actions under the fiscal sustainability and public sector management pillar are not expected to have direct positive social, poverty and distributional effects. Prior actions on public procurement code, management of public enterprises and public service reform do not have any clear direct poverty or social impact. Improved revenue mobilization, including by the rationalization of tax expenditures, will enhance the fiscal space for social service delivery for the poor. However, rationalization of tax expenditures may not necessarily mean that the funds are redistributed to the poor. It remains to be seen if the poor will benefit from this action.

Some prior actions under the competitiveness pillar are expected to have positive overall social and poverty effects, as they can lead to improved earnings. The prior action proposing to improve road maintenance is expected to establish a sustainable mechanism for financing road maintenance. This would improve the share of roads maintained, particularly in rural areas, and this would have a direct impact in the livelihoods of the poor. Access to good roads will reduce transport costs of agriculture produce, thus increasing farmers' earnings/incomes. Reform of the electricity sector will help to improve access to and quality of electricity, which is a social service that will benefit people across the country, including the poor. This will also have an effect on poverty reduction as increased access to electricity can lead to improved earnings, particularly for home based enterprises and small and medium size enterprises that need electricity for their business.

Prior actions under the third pillar (improving social services and scaling up social protection) are expected to have significant positive social, poverty and distributional effects. Measures under this pillar aim directly at benefitting the most disadvantaged population groups. Improving funding for health

facilities, and extending the PBF coverage of the central administration structures will enhance both access to and quality of health services, and will benefit lower income households in general and rural areas more specifically, where the poor are concentrated, by making health care geographically more accessible. The textbook policy will lead to a decrease in the price of school textbooks and this will benefit poor households. In addition, free access to textbooks may also improve educational outcomes for children from poor households with long term social, poverty and inequality impact. The social protection policy and strategy will result in setting up a more rigorous social safety net program with improved targeting, and this will minimize abuses and exclusion errors, making sure it benefits poor and vulnerable people. More reliable and sustainable funding will result in more effective assistance, as well as increase in the number of people covered by the social safety net program.

Environment Aspects

Cameroon has an elaborate superstructure of environmental policies, regulations and laws which should mitigate any negative impacts from some actions under the DPO. Actions to be implemented by the Ministry of Public Works and the Ministry of Public Health are environmentally regulated. For e.g. the Order No 00001/MINEPDED of 08 February 2016 which is based on the Environmental and Social Impact Assessment decree signed in 2013 and the 1996 Environmental Law, requires a prior environmental and social impact assessment for construction, rehabilitation or maintenance of roads, construction of electricity transmission lines, stations and substations. In addition, section 9 of the Law N° 2011/022 Of Governing the Electricity Sector in Cameroon requires compliance with the laws and regulations on environmental protection. Environmental institutions are also in place namely the Ministry of Environment, Nature Protection and Sustainable Development, the Ministry of Domain, Cadastral and Land Registration Affairs, and Ministry of Socials Affairs, and the Ministry of Public Works has dedicated a specific department to environmental issues associated with road projects. However, in Cameroon law enforcement and environmental monitoring and compliance present some challenges that may impede environmental sustainability. To mitigate these potential challenges, environmental compliance reporting mechanism and environmental issues are mainstreamed into the DPO results framework.

V. Tentative financing

Source:		(\$m.)
Borrower		0.00
International Bank for Reconstruction and Development		200.00
Borrower/Recipient		
IBRD		
Others (specify)		
	Total	200.00

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