



# Program Information Document (PID)

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Concept Stage | Date Prepared/Updated: 03-JUL-2018 | Report No: PIDXXXX



**BASIC INFORMATION**

**A. Basic Project Data**

Country Cameroon	Project ID P166694	Project Name Second Fiscal Consolidation and Inclusive Growth DPF	Parent Project ID (if any) P163657
Region Africa	Estimated Board Date 25-OCT-2018	Practice Area (Lead)(s) Macroeconomics and Fiscal Management Global Practice	Financing Instrument Development Policy Financing
Borrower(s) MINISTRY OF ECONOMY, PLANNING AND REGIONAL DEVELOPMENT	Implementing Agency MINISTRY OF FINANCE		

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**Proposed Development Objective(s)**

The Operation will support Government efforts to (i) improve fiscal sustainability and public sector management; (ii) enhance competitiveness; and (iii) improve social services and scale up social protection.

**Financing (in US\$, Millions)**

**SUMMARY**

<b>Total Financing</b>	100.00
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**DETAILS**

Source: International Bank for Reconstruction and Development (IBRD)	100.00
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**Decision**

The Decision from the Concept Meeting, for example whether team is authorized to continue to prepare DPF operation?



## B. Introduction and Context

### Country Context

**Cameroon, the largest economy in CEMAC, is a lower-middle-income country with a population of about 23 million.** The country's two official languages are French and English, and 17 percent of the population lives in the country's Anglophone South West and North West Regions. Cameroon faces high rates of poverty and inequality and low human-capital indicators. In 2014, 38 percent of the population lived below the national poverty line of FCFA 339,715 per year (or about US\$1.65 per day). Approximately 90 percent of poor Cameroonians live in rural areas, and 56 percent live in the country's Far North and North Regions. The total number of poor Cameroonians increased by 12 percent between 2007 and 2014 to 8.1 million people, and the poor population in the North and the Far North Regions more than doubled between 2001 and 2014, from 2.1 million to 4.5 million. The Gini index increased by 7 percentage points between 2007 and 2014, as the economic gap between rural and urban areas and between the northern and southern parts of the country widened.

**Cameroon is increasingly vulnerable to instability and violence.** Until recently, the country had experienced few episodes of widespread violence.<sup>1</sup> However, violence is becoming increasingly frequent in Cameroon's North and Far North Regions, where Boko Haram is waging a low-intensity war. Piracy in the Gulf of Guinea remains a serious challenge, and the ongoing crisis in CAR poses additional security threats. In late 2016, peaceful protests and acts of civil disobedience by civil servants in the education and justice sector in the two Anglophone regions were met with repressive measures. These protests have now escalated into a secessionist conflict between paramilitary groups such as the Ambazonian Defense Forces and the Cameroonian military, and this conflict now claims as many lives every month in the South West and North West as the Boko Haram insurgency does in the North. Some 21,000 Cameroonian refugees have fled to Nigeria, and an additional 160,000 people are now internally displaced within Cameroon.

**CEMAC countries, including Cameroon, were hit hard by the 2014 oil-price shock.** Between 2014 and 2016, oil prices dropped by 45 percent and the GOC's oil revenue fell by two-thirds. CEMAC member countries, including Cameroon, agreed to implement a rapid fiscal consolidation, along with measures to support diversification, to adjust to the terms-of-trade shock, restore macroeconomic stability, bolster confidence in the common currency, and address the deterioration of their domestic fiscal positions. Dwindling BEAC reserves prompted member countries to seek budget support from the IMF and other development partners. As oil prices have gradually recovered, the economic outlook for the CEMAC region has slightly improved. The region's aggregate real GDP growth rate remained below 1 percent in 2017 but is projected to pick up to about 1.6 percent in 2018—driven by Chad and the Republic of Congo (ROC)—largely due to increased oil production and moderately higher non-oil growth. Over the past four years, regional growth has proven highly sensitive to the volatility of crude-oil prices, which dropped from US\$98.9 per barrel in 2014 to a low of US\$44.0 in 2016 before partially rebounding to US\$64.7 in 2018. A sharp decline in oil revenues greatly reduced public spending in most CEMAC countries and caused the accumulation of large budget arrears. However, this regional trend masks very different dynamics among individual member states, especially Equatorial Guinea, which experienced the region's worst recession.

**Cameroon's macroeconomic policy framework remains adequate for development policy financing.** The GOC's response to its challenging economic situation—which includes important measures to rationalize spending and boost nonoil revenue collection—is appropriate. The GOC has prepared a revised 2018 budget targeting a fiscal deficit of 2.6 percent of GDP, implying a fiscal adjustment of 2.4 percent of GDP between 2017 and 2018. The President signed the revised 2018 budget decree on June 4, 2018. Structural reforms to tighten budget processes and increase expenditure efficiency will

<sup>1</sup> These few episodes include a failed coup attempt in 1984, conflicts with Nigeria over the Bakassi Peninsula in 1981 and again in the 1990s, pro-democracy social unrest in 1990-1991, and urban food riots in 2008.



help institutionalize measures that support fiscal sustainability. The second pillar of the proposed DPF2 and other structural reforms supported by the IMF and Cameroon's other development partners are expected to improve competitiveness and support economic recovery. External support, including the proposed operation, should provide adequate financing to meet the government's fiscal needs over 2018-2021.

#### Relationship to CPF

**The proposed DPF is fully consistent with the WBG FY2017-2021 CPF for Cameroon (Report number 107896).** The CPF draws on a comprehensive SCD completed during FY16, which identified constraints to achieving the WBG twin goals of eliminating poverty and fostering shared prosperity in a socially and environmentally sustainable way. The SCD points to three main areas of constraints - and opportunities - to achieving Cameroon's development objectives: (i) low rural productivity, particularly in northern regions; (ii) a non-conducive business environment for the formal and informal private sector; and (iii) fragility and poor governance of the private and public sectors. The CPF is structured around three focus areas: (i) addressing poverty traps in rural areas (with focus on northern regions); (ii) fostering infrastructure and private sector development; and (iii) improving governance.

**A key strength of the proposed operation is its strong link with the World Bank's ongoing operational program in Cameroon.** The proposed DPF has been developed from and will complement many sectoral operations and TA activities in Cameroon. Sectoral reforms in energy, road transport and health sectors are well informed by the ongoing investment projects that are providing technical and financial support to implement significant institutional changes. Procurement, wage bill and SOE related reforms will be supported by analytical work and an investment project currently under preparation. Similarly, education and social protection reforms are underpinned by projects in the respective areas. This close link between the operational program and the DPF provides a high level of confidence about the authorities' ability to implement the wide range of planned reforms, and brings a high degree of ambition to this operation.

#### C. Proposed Development Objective(s)

The Operation will support Government efforts to (i) improve fiscal sustainability and public sector management; (ii) enhance competitiveness; and (iii) improve social services and scale up social protection.

#### Key Results

**In line with these objectives, the key expected results of this operation are as follows.** For Pillar 1, reforms are expected to reduce tax expenditures, increase revenue mobilization in the SME sector, reduce the average time taken to complete the procurement process for public investment projects, help regularize the remuneration system, better incorporate payment practices into PFM, and provide transparent and equitable financial incentives for civil servants, as well as, to improve transparency and increase the availability of SOEs performance data. For pillar 2, reforms are expected to substantially reduce government arrears to ENEO while mitigating the risk of a renewed buildup of arrears, MINTP is expected to enhance its road-maintenance programming system, and reforms are also expected to increase port efficiency as measured by the reduction in the average length of stay for a container at the Port of Douala. For Pillar 3, reforms are expected to help ensure adequate resources are available for health facilities while scaling up and sustaining the successful PBF program, reduce the student-to-textbook ratio at the primary and secondary level and increase the number of households covered by the social safety-net program.



## D. Concept Description

Consistent with these objectives, the operation is organized around three pillars, each including several policy areas, as summarized in the complete policy matrix outlined in Annex1 of the Program Document:

### Pillar 1: Improving Fiscal Sustainability and Public-Sector Management

This pillar supports fiscal sustainability and enhanced public-sector management through actions in four policy areas. Measures under this pillar aim to: (a) increase revenue mobilization by rationalizing tax expenditures and strengthening tax administration; (b) improve public investment management and reduce procurement delays by implementing a more efficient institutional framework for public procurement; (c) tighten control over the wage bill and improve human-resource management; and (d) strengthen management and oversight of SOEs.

### Pillar 2: Enhancing Competitiveness

**This pillar focuses on reforms in three policy areas.** These include: (i) achieving financial sustainability in the energy sector; (ii) expediting road maintenance and strengthening the road network's resilience to climate change; and (iii) improving the efficiency of the Port of Douala and strengthening the performance of logistics platforms and supply chains. As a pilot country for the World Bank's MFD initiative, a key objective of these reforms is to improve the viability Cameroon's infrastructure sectors, paving the way for increased private financing.<sup>2</sup>

### Pillar 3: Improving Social Services and Scaling Up Social Protection

This pillar focuses on Improving the performance of public health facilities and the quality of healthcare services, increasing access to textbooks in primary and secondary schools, and expanding the social safety-net program.

## E. Poverty and Social Impacts and Environment Aspects

### Poverty and Social Impacts

**In general, the proposed DPO will have positive social and poverty impacts.** The 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 improving social services and scaling up social protection pillar.

**The prior actions under the improving fiscal sustainability and public sector management pillar may have both direct and indirect poverty effects.** In theory, the expected increase in public revenue will enhance the fiscal space for social service delivery for the poor. But this may not necessarily mean that the funds are redistributed to the poor. The policy may have a direct poverty impact in the short term if the additional revenues are used to increase social spending, including services delivery for the poor. There may also be indirect effects in the long term if additional revenues are used to create favorable conditions for the development of markets and private sector (for example, infrastructure development). However, some challenges may prevent the revenue mobilization reform from having the desired effects. One challenge is poor governance in the public administration. This challenge can however be mitigated with a successful implementation of the other prior actions under this pillar that aim to improve transparency and efficiency through

<sup>2</sup> For example, in the area of road maintenance, the World Bank is working closely with the IFC to modernize tolls through a PPP to generate more revenue for road maintenance.



reforms in public procurement and civil service, and by improving management of States Owned Enterprises (SOEs). Another challenge is related to the way the revenue mobilization reform itself will be implemented. To ensure better poverty and social impact, the elimination of tax incentives and exemptions for indirect taxes should be done carefully to avoid negative effects on the wellbeing of poor and vulnerable people.

**Some prior actions under the enhancing competitiveness pillar are expected to have positive overall social and poverty effects, as they can lead to job creation and improved earnings.** Competitiveness and economic growth are often positively correlated. Increasing competitiveness through development of the infrastructure sector (including energy) may, with the development of private sector, lead to economic growth and possibly poverty reduction. In African countries, energy sector reforms usually lead to higher prices, which is disadvantageous to the poor. However, by improving the efficiency and financial soundness of this sector, the resulting higher tariffs have the potential to create additional revenues that can be used to develop and expand electricity networks even for the benefit of the poor. Thus, the proposed 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 influence 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. The proposal to improve road maintenance and road resilience to climate change will reduce the time it takes to disburse project funds. This will have positive poverty and social impact through job creation. In addition, given that poor road maintenance is one key reason for high transport costs in Cameroon, funding road maintenance will help to reduce the high transport costs in Cameroon and this will have a positive social and poverty impact for many Cameroonians. For example, access to good roads will reduce transport costs of agriculture produce, thus increasing farmers' incomes. On the other hand, the reform of the Port sector is not expected to have positive social and poverty impacts.

**Prior actions under the improving social services and scaling up social protection pillar are expected to have significant positive social and poverty impacts.** Actions under this pillar aim directly at benefitting the most disadvantaged population groups. The social protection policy will result in a 150% increase in the number of beneficiary households covered by the social protection program (100,000 households by 2020 compared to 40,000 households in 2016). However, such positive impact will only be realized if targeting is done correctly. For education, the price of textbooks is very high in Cameroon and places a burden on families, especially poor families. While most countries make books available to students at a unit price of less than USD\$1-3, the cost of textbooks in Cameroon ranges between USD\$5.5-9 in primary schools. The textbook policy will lead to a decrease in the price of school textbooks and this will benefit poor households. Also, free access to textbooks may also improve educational outcomes for children from poor households with long term social, poverty and inequality impact. For health, increasing the performance and the quality of care in public health facilities, will directly impact poor people since health appears usually as one of the dimensions of poverty and health care as a basic service for households. In fact, the expected increased births attended by skilled professionals in the three northern regions will reduce inequality in access to quality health services in the country and child mortality, especially for poor people. Moreover, investing in the health of the poor also relies on an economic rationale including higher labor productivity and improved human capital among others.

### Environment Impacts

The Republic of Cameroon has an elaborate superstructure of constitutional rights, seemingly progressively sectoral laws with environmental proviso, environmental policies, regulations and laws, which should mitigate any negative impacts from some actions under the DPF2. However, regulatory oversight and enforcement are limited, and operating procedures do not typically meet international standards for Environmental, Social, Health and Safety (ESHS) performance. To ensure



that prior actions to be implemented under this DPF address these challenges effectively, their potential environmental positive and negative effects were analyzed and management measures proposed.

The prior actions proposed under the Enhancing Competitiveness pillar, including those focus on modalities for calculating the electricity tariff profile, are expected to contribute to streamline the pathway towards low-emissions policies. The prior action on road resilience to climate change will contribute to ensure that key corridors and routes are available to the user in all expected weather and climate conditions. Furthermore, signing a Memorandum of Understanding on the modalities for calculating the electricity tariff profile on a quarterly basis, is expected to result in more efficient electricity tariffs and pave the way for low-emission policies. Although, the prior action on the roadway network maintenance because of direct and indirect consequences of induced traffic, is expected to lead to increased greenhouse gas emissions, it will contribute to improve the gas mileage of the cars and trucks that use it. Decongesting the port terminal in Douala will lead to a reduced time in port, which encourages a more rational use of infrastructures. This is likely to have potential occupational health and safety benefits because workers will easily move about in all areas in which they may have to work or to which they may have to gain access without being in danger of falling, being struck or being trapped.

Other prior actions under Improving social services and scaling-up social protection pillar (health and education sectors) are expected to bring potential negative effects. The reforms supported in the health sector are likely to lead to an increase in volumes of health care waste. To ensure continuous monitoring and coaching on healthcare waste management, the Performance Based Financing and Quality of care checklist included waste management and compliance will be enforced. The availability of textbooks could have a small negative environmental impact and the principles guiding the new school textbook policy will include a non-mandatory quality assurance mechanism for potential vendors (publishers, printers, pulp and paper product importers). In addition, prior action under the Improving fiscal sustainability and public-sector management Pillar on procurement is expected to lead to more effective investment projects with their associated environmental impacts and occupational safety risks. To mitigate this potential negative impact, this DPO has considered an approach that will facilitate the consideration of general environmental requirements in the procurement process code.

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