PROGRAM INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

October 30, 2017
Report No.: 121851

Operation Name	First Fiscal Consolidation and Inclusive Growth Development Policy Financing
Region	AFRICA
Country	Cameroon
Sector	Central Government (20%), Other Public Administration (20%), Health (20%), Rural and Inter-Urban Roads (20%), Ports/Waterways (20).
Operation ID	P163657
Lending Instrument	Development Policy Financing
Borrower(s)	REPUBLIC OF CAMEROON
Implementing Agency	Ministry of Economy, Planning and Regional Development
Date PID Prepared	October 30, 2017
Estimated Date of Appraisal	November 10, 2017
Estimated Date of Board Approval	December 20, 2017
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

I. Country and Sector Background

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 Community (CEMAC). The Region is experiencing a difficult economic crisis precipitated by 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 deteriorated between 2014 and 2016, threatening macroeconomic stability and exposing the country's vulnerability to oil prices despite its relatively diversified economic base. Following the 45 percent drop in oil prices between 2014 and 2016, Cameroon's fiscal deficit increased sharply as oil revenues fell from 3.9 to 2.2 percent of GDP over the same period. The security crisis in the North and an ambitious investment program further strained fiscal resources and hurt economic growth, which began to weaken in 2016. Foreign exchange reserves at the *Banque des Etats de l'Afrique Centrale* (BEAC), the regional central bank, declined sharply, as the BEAC stepped in to provide 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, growth has declined, and the need adjust to the terms of trade shock as well as restore macro stability in the region and confidence in the common currency requires Cameroon to implement adjustment measures alongside its CEMAC partners.

The deterioration in the economic situation could worsen poverty and shared prosperity, which have not improved despite historically healthy growth. Cameroon's growth acceleration over the last decade has not been accompanied by a significant reduction in poverty and inequality. Using the national poverty line, poverty declined marginally from 40.2 percent in 2001 to 37.5 percent in 2014. However, the number of poor increased between 2007 and 2014 by 12 percent to 8.1 million people. Poverty is increasingly concentrated in Cameroon's North and Far North regions with an estimated 56 percent of the poor in these regions alone. Moreover, economic disparities between rural and urban areas, as well as between the North and the South, have grown considerably. The pattern of consumption growth confirms regional inequalities. Regions with the highest initial levels of poverty (North, Far North, North-West) experienced declines in consumption whereas regions with lower poverty rates (Douala and Yaoundé, Littoral, West, South-West) saw their levels of consumption increase, and poverty decline. Consequently, inequality increased rapidly. The Gini coefficient was 44.0 in 2014, implying that the 20 percent poorest consumed less than 5 percent of all consumption, whereas the 20 percent richest consume almost half of the total consumption (49 percent). [1]

The challenging economic outlook requires an upfront fiscal consolidation and progress on structural reforms to support competitiveness, reduce inequality in social outcomes, and support the economy to perform at its potential capacity. Cameroon's past high growth performance was largely driven by accelerated public investment, with slow progress on strengthening the policy and regulatory environment or on reforms to improve productivity and inclusion. The economic slowdown has revealed these shortcomings and the oil price shock presents a good opportunity to accelerate the reform agenda. This agenda is well known in Cameroon, and includes a rich set of reforms to improve public sector l management, strengthen the business environment, ensure the sustainability of infrastructure financing, and strengthen governance. Given the stark regional inequality in economic outcomes and human development indicators, reforms are needed to protect the vulnerable and ensure equitable access to basic services.[2]

II. Operation Objectives

The Objective of the proposed programmatic DPF is to support the Government efforts to improve: (i) fiscal sustainability and public sector management; (ii) financial sustainability and efficiency of key infrastructure to enhance competitiveness; and (iii) social services and scale up social protection. The design of the program reflects the Government's priorities, as envisioned in the longer term "Vision 2035", the DSCE 2010-2015, the three-year emergency plan (PLANUT) and the recently adopted 2017–20 economic and financial program. The first pillar includes measures to strengthen domestic revenue mobilization, to improve the management of civil service and procurement and to strengthen the transparency and the management of the large SOE 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.

III. Rationale for Bank Involvement

The Bank's support will be part of a broader multilateral and bilateral effort to support Cameroon over the next three years. Development Partners (DPs) have come together to help stem the economic crisis in the CEMAC. The IMF ECF started in June and the first review will be concluded November 6. The program, which is on track so far, is focused on fiscal consolidation, structural fiscal reforms, private sector led economic diversification, and financial sector reforms. The African Development Bank (AfDB) is planning to support actions to improve public expenditure efficiency and enhance governance and competitiveness of key productive sectors The *Agence Française de Développement* (AFD) is supporting the water and agriculture sectors, as well as Public Financial Management (PFM). European Union's support will come as grants to strengthen PFM, agriculture, livestock, rural development and rural road infrastructure. All development partners are working closely to coordinate their assistance. Together, the

[1] 2014 Household survey
[2] The 2016 SCD documents these discrepancies well. While Cameroon is a lower middle income country, its health and education indicators are more at the level of Low Income Countries (LICs) and display large disparities between the North and the South.

programs would provide about US$2 billion in financial support for Cameroon over a three-year period, and help the country come out of a difficult economic situation provided it stays the course on the necessary reforms.

IV. Tentative financing

Source:		($m.)
BORROWER/RECIPIENT		0.00
International Development Association (IDA)		0.00
IBRD		200.00
Others (specifiy)		
	Total	200.00

V. Tranches *(if applicable)*

Not Applicable

VI. Institutional and Implementation Arrangements

The MINIPAT will be responsible for the overall implementation of the proposed operation. The Ministry has constituted an inter-ministerial committee which is expected to coordinate actions under the DPF program and report progress to all relevant stakeholders. The results framework includes indicators for which data is mostly available, and the close involvement of sectoral teams through IPFs and TA will help with regular monitoring of the operation. Most indicators are already regularly produced through the available administrative data, including ministries' sector plans and budget programs. Other indicators will be monitored and reported through the multi-sectorial steering committee which will help coordinate information and data needs across the various sectors involved in this operation.

VII. Risks and Risk Mitigation

The overall risk rating for this operation is high and reflects political, macroeconomic, institutional and fiduciary capacity for implementation risks, in determining the success of this programmatic operation. These risks are elaborated below.

The political and governance risk is rated as high. Increased backing for federalism and unprecedented violence observed in the Anglophone regions of Cameroon since October 2017 pose significant risks to social peace and political stability. The security situation in the Far North region of the country has deteriorated and attacks by Boko Haram have increased. The preparation of the next presidential election alongside rising social and political tensions could slow implementation of structural reforms. The political sensitivity of reforms under this program could also slow down progress towards program outcomes. This risk is mitigated by choosing actions that are feasible, and ensuring that the Government gets strong buy-in for reforms in the program.

The macroeconomic risk is rated as substantial. Further deterioration of the CEMAC region's foreign exchange reserves (possibly due to delays in negotiating IMF programs with Republic of Congo and Equatorial Guinea) could create significant challenges for the regional agenda. High debt and contingent liabilities from SOEs will continue to constrain Cameroon's ambitious investment plans, dampening growth prospects. Furthermore, the hope that oil prices may improve could increase the risk of muddling through and delay long needed structural reforms, for example reforms related to restructuring the large SOE sector, the control of the payroll, the adoption of the new procurement code and measures aiming at ensuring the sustainability of the electricity sector. Mitigation measures to address this risk include that Cameroon stays on track with the IMF program.

The institutional capacity for implementation and sustainability risk is rated as substantial. Time between decision and execution of programs is sometimes too long. The Executive is highly centralized in the Presidency, which delays further decision-making with decision going through Prime Minister Office, then Presidency before reaching the President or its representative. Cabinet decisions or ministerial policy announcements are dropped or otherwise not implemented, or explicitly reneged on or reversed because of lack of follow-up or resource. To mitigate these risks, the project team has involved high level authorities including the Prime Minister, the key Ministers and the office of the President at the beginning of the project and plan to update them regularly on its development.

Fiduciary risk is rated as high. Issues related to the effectiveness and efficiency of public procurement continue to affect public investment. The management of budgetary risks also has weaknesses resulting from insufficient or even lack of supervision and follow-up of public establishments and decentralized local and regional authorities. Finally, as described above, despite the progress represented by the program budgeting approach to make budget documents more understandable and exhaustive, access to and use of this information are still limited. Fiduciary risks will be addressed through the implementation of the WB PFM TA.

VIII. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

The proposed DPF will generally have a positive social impact on poverty reduction. This DPF has positive and direct effects on poverty reduction. The direct poverty and social effects come mainly from the improving social services pillar. The prior actions under the improving fiscal sustainability and public sector management pillar are not expected to have direct positive social, poverty or distributional effects. 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. Prior actions under the improving social services pillar are expected to have significant positive social and poverty effects. Measures under this pillar aim directly at benefitting the most disadvantaged population groups, like the improvement in funding for health facilities, the extension of the PBF coverage of the central administration structures and the textbook policy that will lead to a decrease in the price of school textbooks will directly benefit poor households.

Environment Aspects

Cameroon has an elaborate superstructure of constitutional rights, seemingly progressively sectoral laws with environmental proviso, environmental policies, regulations and laws. After more than two decades of experience with environmental legislation and policy development, Cameroon’s environmental management framework is relatively mature. The cornerstone of environmental legislation in Cameroon is the framework law No 96/12 of 5 August 1996 on environmental management. This law and subsequent decrees establish the general conditions, prohibitions, enforcement for the prevention and control of pollution, and lay down requirements for prior environmental assessment. Despite this, significant aspects of institutional design and operational efficiency remain to be resolved. Environmental monitoring, compliance and enforcement need strengthening. Some prior actions to be implemented under this DPF are likely to have environmental effects, and need to receive scrutiny and close supervision.

IX. Contact point

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