Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 21-Oct-2019| Report No: PIDC26743

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Cameroon	P168332	Third Fiscal Consolidation and Inclusive Growth DPO (P168332)	P166694
Region	**Estimated Board Date**	**Practice Area (Lead)**	**Financing Instrument**
AFRICA	Aug 10, 2020	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	**Implementing Agency**		
MINISTRY OF ECONOMY, PLANNING AND REGIONAL DEVELOPMENT	MINISTRY OF FINANCE		

Proposed Development Objective(s)

The objectives of the proposed Third Fiscal Consolidation and Inclusive Growth Development Policy Financing operation are to support the Government of Cameroon's efforts to : (i) ensure fiscal sustainability and improve public-sector management, (ii) reinforce financial sustainability and increase the efficiency of infrastructure spending to enhance competitiveness, and (iii) enhance the provision of social services and scale up social protection to mitigate the vulnerability of poor households.

Financing (in US$, Millions)

SUMMARY

Total Financing	100.00

DETAILS

Total World Bank Group Financing	100.00
World Bank Lending	100.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

The proposed (US$100 million equivalent) Fiscal Consolidation and Inclusive Growth Development Policy Financing (DPF) operation is the third operation in a programmatic series of one International Bank for Reconstruction and Development (IBRD) loan and two International Development Association (IDA) credits. The series supports the Government of Cameroon's efforts to implement structural reforms to ensure long-term fiscal sustainability, enhance competitiveness, and reinforce economic resilience. Cameroon and the other Central African Economic and Monetary Community (Communauté Economique et Monétaire de l'Afrique Centrale, CEMAC) member states were hit hard by the 2014-15 oil-price shock. Cameroon is the largest economy in CEMAC and restoring the country's fiscal stability is critical to the region's economic recovery. The proposed operation is part of Cameroon's development partners' coordinated effort to support a region-wide economic recovery. The regional support strategy has helped avert an exchange rate and international reserves crisis but has, so far, only brought about limited structural reforms towards a more sustainable and less resource-intensive growth model. This operation is expected to support deeper structural reforms in Cameroon that will contribute to address critical bottlenecks to help promote foster inclusive growth and ensure that poorest households are not left behind.

The 2014-15 oil crisis has created an opportunity for the World Bank to work with the authorities to accelerate the implementation of long-delayed structural reforms. Cameroon's improved growth performance since 2010 has not generated significant gains in poverty reduction or shared prosperity, particularly in rural areas and in the country's northern regions. Growth has accelerated but the country has made little progress in addressing structural impediments to sustainable and inclusive development (unreliable electricity, high transportation costs, inadequate telecommunications services, and a poor overall business environment, inter alia). Cameroon ranked 166th out of 190 countries on the 2019 Doing Business Index. Cameroon also performed poorly on the 2017-18 Global Competitiveness Index, especially on indicators related to economic infrastructure. Cameroon ranks 132nd out of 157 countries in the 2018 Human Capital Index. The oil crisis has shown the importance of implementing structural reforms that the World Bank has long advocated. The proposed operation, DPF3, builds on the achievements of the first two operations in the series and advances their development objectives by maintaining a focus on the quality of governance mechanisms. The operation is organized around three pillars: (a) improving fiscal sustainability and public sector management; (b) enhancing competitiveness and (c) improving social services and expanding social protection

Cameroon's macroeconomic policy framework is adequate to support the proposed operation. Cameroon's fiscal policies have consistently focused on fiscal consolidation. Cameroon has reduced its overall fiscal deficit from 6.1 percent of GDP in 2016 to 2.4 percent of GDP in 2018. The deficit is expected to gradually decline to 2 percent of GDP in 2021 and 1.9 percent of GDP in 2022. The regional central bank, the BEAC, has implemented measures to limit capital outflows from the CEMAC region and ensure adequate repatriation of export proceeds. These measures have helped stabilize foreign-exchange reserves. Annual GDP growth rebounded from 3.5 percent in 2017 to 4.1 percent in 2018 and an estimated 4 percent in 2019. It is projected to average 4.3 percent over 2020-2022 thanks to ongoing road construction and rehabilitation, 2021 Africa Cup of Nations infrastructures' construction, and increased electricity supply and dynamism of the service sector. Inflation is expected to remain below the BEAC's target of 3 percent in 2020-2021. Disruptions in food production in the Anglophone regions are pushing up inflation, which is expected to reach 2 percent at end-2019, compared to 1.1 percent in 2018. The external current account deficit is projected to slowly narrow, as nonoil commodity exports increase, and imports decrease

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.

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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, better incorporate payment practices into PFM, as well as, improve transparency and increase the availability of SOEs performance data and improve transparency and management of public debt. 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

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; (d) strengthen management and oversight of SOEs, and improve the management and transparency of public debt.

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.
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 Environmental Aspects

Poverty and Social Impacts

The proposed DPF is expected to have a positive social impact and contribute to poverty reduction. Both direct and indirect effects on poverty reduction are expected: direct effects will come from improving social services and expanding social protection programs, while indirect effects will be through the development of markets and an increase in private investment. More specifically: The prior actions focusing on improving fiscal sustainability and public sector management are expected to create more fiscal space in the short term for social programs aimed at poor households, provided that funds are redistributed to social sectors. There may also be long-term indirect effects on poverty reduction if additional public revenue is used to create favorable conditions for the development of markets and the private sector (for example, through infrastructure development). Some prior actions aimed at enhancing economic competitiveness can contribute to accelerate private sector development, and thus job creation, which would contribute to economic mobility and poverty reduction. The successful implementation of the proposed energy reforms would improve access to and the quality of electricity, which would contribute to increased performance and earnings of home-based enterprises and small businesses. But the positive effects may be partly offset by a potential increase in the price of electricity. Prior actions to improve social services and expand the country's social programs may have the highest positive social impact. To materialize the benefits, the reforms will need a more accurate targeting of beneficiaries. The education reforms aimed at making textbooks more affordable and available will have a positive impact on completion rates for girls in primary and secondary schools, and the extension of the Health PFF will likely reduce the country's maternal mortality rate, all resulting in a reduction of gender disparities.

Environmental Impacts

Prior action 6, prior 2 and Trigger 7 will have significant, positive effects on the country's environment and natural resources which may allow the operation to qualify for climate change Co-Benefits. Art 56 and 57 of the new procurement Code set general Environment, Social, Health and Safety (ESHS) requirements for the procurement process in Cameroon. Prior action 2 will support the operationalization of procurement steps, which include specific guidelines for the integration of ESHS requirements into procurement documents for civil works and its supervision, and ESHS performance especially in relation to large-scale public and private investment projects (for example, transport and hydropower projects). Depending on the specific targeted sectors and measures aimed at eliminating tax incentives and exemptions for indirect and direct taxes, the measures will have positive or negative impact on Cameroon 's environment, and natural resources. Incentives and exemptions that might negatively affect the environment and natural resources will not be considered. Prior actions 9 and 11 are likely to have negative impact on the country's environment, however, after more than two decades of experience with environmental legislation and policy development, Cameroon' s environmental management framework is relatively mature and operational. The framework law No 96/12 of 5 August 1996 on environmental management and subsequent decrees establish the general conditions, prohibitions, enforcement for the prevention and control of pollution, and lay down requirements for prior environmental assessment. There is a track record for managing the identified risks under Health System Performance Reinforcement Project (P156679) in Cameroon and CM Social Safety Nets Project (P128534).

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APPROVAL

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