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Cameroon First Fiscal, Inclusive and Sustainable Growth DPF (P175249)

Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 31-Oct-2022 | Report No: PIDA34801

**BASIC INFORMATION****A. Basic Project Data**

Country Cameroon	Project ID P175249	Project Name Cameroon First Fiscal, Inclusive and Sustainable Growth DPF (P175249)	Parent Project ID (if any)
Region WESTERN AND CENTRAL AFRICA	Estimated Board Date 15-Dec-2022	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) Ministry of Economy, Planning and Regional Development	Implementing Agency Ministry of Finance		

Proposed Development Objective(s)

The development objective is to support the Government of Cameroon's efforts to promote inclusive and robust growth by (i) improving fiscal sustainability, governance, and public sector management, (ii) improving inclusion by ensuring equitable access to services and empowering women and girls and, (iii) laying the foundations for sustainable infrastructure development.

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

Total Financing	100.00
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DETAILS

Total World Bank Group Financing	100.00
World Bank Lending	100.00

Decision

The review did authorize the team to appraise and negotiate



The World Bank

Cameroon First Fiscal, Inclusive and Sustainable Growth DPF (P175249)

B. Introduction and Context



Country Context

- 1. After displaying resilience in 2020 and a rebound in 2021, Cameroon's economy is facing headwinds due to increasing fiscal and external financing pressures.** Thanks to a strong recovery in the primary and tertiary sectors, real GDP growth remained robust at 3.6 percent in 2021, and growth is expected to reach 4 percent in 2022. The economic fallout of the war in Ukraine and the tightening global financial are, however, putting a strain on the economy. Cameroon faces significant fiscal challenges as a result of high security spending, rising interest rates, and surging food, fertilizer and fuel prices, with fuel subsidies reaching an estimated 3 percent of GDP and representing 21 percent of the total expenditures in 2022. Moreover, rising external borrowing costs have limited Cameroon's capacity to access international markets, while the appreciation of the US dollar has inflated external debt service costs. These fiscal challenges are compounded by a structurally low level of domestic revenue mobilization. Indeed, Cameroon's tax-to-GDP ratio is generally below the 15 percent benchmark needed to cover the state's essential functions and below the average of lower-middle-income countries (LMICs), Sub-Saharan Africa (SSA), and most structural peers.
- 2. Poverty has remained high with more than one in four Cameroonians living on less than \$2.15 a day (2017 PPP¹).** Between 2014 and 2018, it's estimated that poverty has slightly declined, driven by a modest growth record. This reduction was mainly in rural areas although poverty has also increased in urban areas. Despite a decline in the poverty rate over the last decade, the absolute number of poor people has increased consistently as the population has grown almost as fast as the economy. Economic growth averaged 4.5 percent pre-COVID (2016-2019) but, in per capita terms, GDP growth was only 1.9 percent and insufficient to drive substantial poverty reduction. The prevalence of extreme poverty was estimated at 25.3 percent in 2021, with widening inequality. Poverty remains mostly a rural phenomenon, as about one in two people living in rural areas is poor. Rural areas, especially in conflict-affected regions, continue to experience deprivation in access to basic infrastructure and essential social services.
- 3. The country is facing substantial fragility risks resulting from conflict and insecurity.** Since 2012, Cameroon has experienced a range of destabilizing events, leading to several sub-national crises. The country has become more fragile since conflicts affecting 6 out of 10 regions have displaced people, increased violence, and led to social services collapsing. Conflicts in the Far North and the North- contributed to the regions' extreme poverty and low human development. As of September 2022, Cameroon hosted 2,023,233 persons of persons² displaced by conflict and instability, including refugees and internally displaced persons (IDP).
- 4. Low human capital development limits the potential for inclusive growth in Cameroon.** While it is an LMIC, Cameroon's health and education outcomes are closer to the average of low-income countries and are marked by large regional and rural-urban disparities. The country has an HCI of 0.4 percent, lower than the average of SSA and LMICs. A child born in Cameroon today will grow up to be, at best, 40 percent as productive as he or she could be if he/she enjoyed complete education and full health. In the same vein, 92 out of 100 children born in Cameroon survive to age 5, compared to 96 out of 100 across LMICs. Cameroonian children who start school at age 4 are expected to complete only 8.7 (adjusted) years of school by their 18th birthday compared to 10.4 years across LMICs. Meanwhile, large gender gaps remain with unemployment rates for men and women is high (13.7 percent for men compared to 30.6 percent for women in 2014).³ Similarly, informal employment rates were ten percentage points higher for women (88.0 percent) than for men (78.1 percent) in 2016. Laws have yet to be passed upholding the rights of women to work in the same sectors as men.
- 5. Cameroon remains highly vulnerable to the impact of climate change, threatening the economy's prospects of sustained growth and the livelihoods of millions of people who depend on the land.** The Climate Change and



Development Report (CCDR) identifies four main sectors of the economy as highly vulnerable to the effects of climate change: agro-forestry, transport, energy, and urban development. Coastal areas are vulnerable to floods and rising sea levels, while northern regions risk increased drought and floods. Over the past years, higher temperatures and prolonged drought in the conflict-affected regions of northern Cameroon have further driven local populations to migrate into neighboring countries or further south in search of water and arable land. Additionally, climate variability has affected crop yields and continues to pose a threat to food security.

Relationship to CPF

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- 7. The proposed operation is aligned with the WBG strategic priorities, the 2022 Systematic County Diagnostic (SCD) Update, the ongoing Country Partnership Framework (CPF) 2022–2027, and the Global Crisis Response Framework (GCRF).** The proposed DPF contributes to the three pathways of the SCD update, including (i) strengthening the Private Sector through sounder fiscal policy and improved infrastructure, (ii) reducing Fragility and Strengthening Governance by setting frameworks for effective (decentralized) regions, improved public expenditure management and service delivery and (iii) Protecting and Investing in People by Improving human capital through better water and sanitation, basic education, and productive safety nets and greater women empowerment. The DPF is aligned with Global Crisis Response Framework (GCRF) consists of four interrelated pillars underpinned by the GRID agenda by (i) responding to Food Insecurity through supporting production, facilitating trade, supporting the vulnerable, and investing in the sustainable food system; (ii) protecting People and Preserving Jobs to help mitigate the medium- to the long-term impact of crises; (iii) strengthening Resilience and; (iv) strengthening Policies, Institutions, and Investments for Rebuilding Better to utilize long-term policies to improve development outcomes.

C. Proposed Development Objective(s)

The development objective is to support the Government of Cameroon's efforts to promote inclusive and robust growth by (i) improving fiscal sustainability, governance, and public sector management, (ii) improving inclusion by ensuring equitable access to services and empowering women and girls and, (iii) laying the foundations for sustainable infrastructure development.

Key Results

- 8. The key results for this operation are to promote inclusive and robust growth in Cameroon while strengthening the country's resilience to climate change.** To support the Government's reforms, the series is organized around three pillars. Pillar 1 "Improving Fiscal Sustainability, Governance, and Public Sector Management" aims to improve medium-term fiscal sustainability, governance, and public sector management by supporting a decentralization policy, improving state-owned enterprise (SOE) governance, and increasing revenue mobilization. Pillar 2 "Improving Inclusion by Ensuring an Equitable Access to Services and Empowering Women and Girls aims to promote equitable access to education across the country, improve girls' access to education, and strengthen the social protection system. Pillar 3 "Laying the foundations for sustainable infrastructure development" lays out the foundations for

¹ Source: Macro and Poverty Outlook, October 2022. There are delays in conducting core statistical operations such as the Population and Housing Census and the ECAM household survey. Consequently, the narrative on poverty is based on micro-macro simulations as opposed to observed microdata. The country is currently finalizing data collection of the 5th ECAM survey with support from the World Bank.

²UN High Commission for Refugees (UNHCR); Government of Cameroon; International Organization for Migration (IOM); Office for the Coordination of Humanitarian Affairs (OCHA)

³ ECAM (LSMS) 2014 calculations (indicator *n jobs* = 0). Latest ECAM was completed in 2014.



sustainable infrastructure development by preserving road assets and strengthening water resources management. The selected areas are priorities in the National Development Strategy (SND30).

D. Project Description

9. To support the Government's reforms, the series is organized around three pillars:

- **The first pillar** includes four prior actions aiming to improving public sector management. This will be achieved through a combination of measures focusing on: (i) accelerating the ongoing decentralization process with a focus on transparent and equitable fiscal arrangements; (ii) strengthening the governance and accountability of SOEs; (iii) improving revenue mobilization; and (iv) improving treasury management. These reforms, notably those related to decentralization have been identified in the SCD update and the Joint WB/IMF regional policy paper (2021) as pathways for enhancing sustainable and inclusive growth in Cameroon.
- **Pillar 2** includes three prior actions that will promote inclusion. Improving efficiency and transparency of resource allocation and funds flow within the education sector and strengthening management and planning, including a focus on the teachers/civil service reforms throughout the education cycle, have been identified as short-term priority reforms to boost learning outcomes (WB/IMF joint paper, 2021). At the same time, building inclusive and shock-responsive delivery systems to facilitate identification, registration, and provision of services (social registries) will help households manage shocks and invest in their human capital. Lastly, Empowering girls and women through an enabling environment by repealing discriminatory laws or restrictive provisions will promote inclusive development.
- **Pillar 3** includes two prior action that will help Cameroon to lay the foundations for sustainable infrastructure development in line with the CCDR's recommendations and existing analytical works Adapting road transport to climate change is essential to ensure sustainable socio-economic development in Cameroon, while a new water policy will pave the way for institutional and governance reforms in irrigation and water resource management.

E. Implementation

Institutional and Implementation Arrangements

10. **MINEPAT remains responsible for the overall implementation of the proposed operation.** The inter-ministerial committee in charge of monitoring the structural reforms will continue to coordinate actions under the first operation of the DPF series and report progress to all relevant stakeholders. The results framework includes indicators for which data are mostly available, and the close involvement of World Bank sectoral teams through investment project financing and TA will help ensure regular monitoring of the operation. Most program indicators are already regularly estimated by relevant government agencies, reflected in administrative data releases, and included in ministries' sector plans and budget programs. Performance on other indicators will be monitored and reported through the multi-sectoral steering committee, which will help coordinate DPF team data requests across the various sectors involved in the operation.



F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

11. Reforms supported by this operation are expected to have positive social impacts and contribute to poverty reduction by creating fiscal space for pro-poor spending, strengthening institutions, promoting equitable access to education, and boosting women's economic participation, building an effective social protection system; and supporting sustainable road and water infrastructures. As designed, the proposed reforms will have a mix of direct and indirect effects on poverty reduction. By supporting the operationalization of ongoing decentralization efforts via the clarification of competencies transferred from the central Government to regions, the proposed reform will allow an increase of financial resources allocated to local governments, which is expected to result in better service delivery at the local level. Recent research by Chuling Chen and Jon Jellema (2018) shows that Cameroon's fiscal system is not doing enough to reduce poverty and inequality. The proposed actions, including the optimization of the tax regime and the increased efficiency of spending in social sectors, will improve the impact of fiscal policies on poverty and inequality. Introducing equalization criteria in formula-based budgetary transfers to local authorities will improve the targeting of poor areas and ensure that resources are allocated where they are most needed. Reforms aiming at reducing gender gaps in education and labor force participation will have a long-lasting effect on livelihood, especially for poor households where issues of gender gaps are more pronounced. Quality roads and access to water for production are critical in boosting economic activities, especially for poor households who rely primarily on agriculture for livelihood. Enhanced irrigation will increase productivity, while the quality road will boost market accessibility, resulting in higher income, especially for the poor who rely more on agriculture for earnings.

Environmental, Forests, and Other Natural Resource Aspects

12. Measures supported by the proposed operation are expected to have positive or neutral environmental effects. Cameroon is highly exposed to climate and disaster risks including rising temperatures, propensity for droughts, rising sea levels along the coast, and severe flooding during the rainy season as well as geophysical hazards (landslides), and the authorities are working toward enhancing the country's resilience. A climate and disaster risk screening for the DPF has been completed. Prior Actions 8 and 9 are expected to have a positive direct impact on the environment through improved water resources management and the promotion of smart and resilient agriculture practices. These prior actions as well as Prior Action 7 are expected to strengthen the resilience of the agriculture and transport sectors to climatic hazards. Prior Action 1 is also likely to contribute positively to the protection of the environment, as is the transfer of the power from the central Government to the Decentralized Territorial Collectivities (CTD), the modalities of execution of these functions, and the provision of financial and qualified human resources. As about 40 percent of women are involved in agriculture, increasing women's access to education and the labor market (Prior Action 6) is expected to increase innovation in sustainable farming practices and resilience to natural disasters.

G. Risks and Mitigation

13. The overall risk rating of the proposed Operation is substantial. The rating reflects political, governance-related, macroeconomic, and institutional risks that may impact the Government's capacity to successfully implement the proposed Operation. Political and Governance risks are mitigated through the implementation of practical measures



and reforms that address the critical needs of the population. In October 2021, the Government shared its strategy for addressing drivers of fragility identified during broad consultations at the beginning of 2021. The authorities have also taken essential steps to curb the pandemic's adverse social impacts by extending social safety net programs. Fiscal risks are partially mitigated by a series of tax administration and expenditure control measures. The proposed operation and the IMF ECF program will also continue to anchor prudent macroeconomic policies and help mitigate the macroeconomic risks Institutional risks have been tackled by the team by engaging high-level authorities, including the Prime Minister's office, key ministers, and the office of the President from the beginning of the project and has kept them regularly informed on the program's development to ensure their buy-in and willingness to champion DPF supported measures.

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APPROVAL

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Approved By

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