Public Disclosure Authorized

Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 19-Jun-2019 | Report No: PIDA25046

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BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Cameroon	P166694	Second Fiscal Consolidation and Inclusive Growth DPO (P166694)	P163657
Region	**Estimated Board Date**	**Practice Area (Lead)**	**Financing Instrument**
AFRICA	30-Jul-2019	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 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

Total Financing	200.00

DETAILS

Total World Bank Group Financing	200.00
World Bank Lending	200.00

Decision
Other

Explanation
- The Chair authorized the team to appraise the operation, and to begin negotiations once all Prior Actions are completed.
- The Chair recommended that the proposed DPO amount be increased from US$ 100 million to US$150 million considering the current economic challenges faced by Cameroon and progress made on the supported reforms agenda.
- The Country Management Unit was advised to consider providing the additional amount as an IDA credit rather than an IBRD loan considering that the country is at a high risk of debt distress.

Note: As per Cameroon PLR CN Decision Note held on February 4, 2019, the team was authorized to proceed with the DPO series using only IDA resources rather than blending IBRD and IDA resources and to increase DPO2 to US$200 million.

B. Introduction and Context

Country Context

The proposed operation is part of a coordinated effort by development partners to assist the economic recovery of the member states of the Central African Economic and Monetary Community[1] (CEMAC). CEMAC countries, including Cameroon were hit hard by the 2014-2015 oil price shock. Between 2014 and 2015, oil export proceeds fell by 33 percent and oil revenue by two-thirds. Member countries made significant cuts to their budgets, which in turn, hurt non-oil growth. Regional growth slowed to - 1 percent in 2016, its lowest level in 20 years. Foreign-exchange reserves at the regional central bank (*Banque des Etats de l'Afrique Centrale*, BEAC) declined to two months of imports in December 2016. In a crisis meeting in Yaoundé on December 2016, CEMAC heads of state affirmed their commitment to safeguarding the CFA franc peg to the euro, to put in place a coordinated policy response[2], and to seek the International Monetary Fund (IMF), World Bank, African Development Bank (AfDB), and French Development Agency (*Agence Française de Développement*, AFD) support to implement this coordinated response. This commitment was reconfirmed at the October 2018 summit of heads of states in Ndjamena. The regional support strategy has helped to avert an immediate crisis but has not net yet fully delivered on its objectives, has not yet achieved its objectives, as little progress in economic diversification has been made, the financial sector remains weak and non-oil revenues remain low. Meanwhile, conflict and violence in Cameroon and elsewhere in the region further complicate an already fragile economic situation.

Restoring fiscal stability in Cameroon, the largest economy of the CEMAC region, is essential for a successful implementation of the regional adjustment strategy. Cameroon, a lower-middle-income country accounts for 41 percent of the CEMAC's gross domestic product (GDP) and contributes 57 percent of the Regional Central Bank (BEAC)'s reserves. Cameroon's public expenditures have increased faster than total revenues over the past decade, as tax expenditures have eroded the tax base and oil production has declined; this has weakened the fiscal position and threatens debt sustainability. The protracted slump in global oil prices has lowered revenue, while violence perpetrated by Boko Haram in the Far North Regions, and more recently by secessionists in the Anglophone regions has spurred a sharp rise in security spending. Authorities have taken some short and medium-term fiscal adjustment measures to improve fiscal sustainability, but restoring long-term fiscal stability presents an immediate challenge.

Economic diversification is critical to reducing Cameroon's vulnerability to commodity price shocks, this requiring greater competitiveness and an enhanced business environment. While Vision 2035 and the DSCE both stress the importance of a strong, diversified economy, Cameroon ranked 166th out of 190 countries in the 2019 Doing Business Index, with particularly weak indicators for trading across borders, registering property, and paying taxes. Cameroon also performed poorly on the 2017-18 Global Competitiveness Index, especially on indicators related to economic infrastructure. Bottlenecks in the transportation sector have prevented Cameroon from leveraging its geographic advantages as a potential hub for international trade in Central Africa. The 2016 Cameroon Systematic Country Diagnostic (SCD) detailed the economic costs imposed by unreliable electricity, high transportation costs, inadequate telecommunications services, and a poor overall business environment. To address some of Cameroon's most pressing challenges, the government has prioritized infrastructure investment. New ports were built in Kribi and Limbe, the 120MW Lom Pangar Hydropower Dam has been completed, and the construction of a 420-MW hydroelectric power plant in Nachtigal, on the Sanaga River, is expected to increase Cameroon's total installed electricity generation capacity by over 30 percent. While these investments are an important step, complementary policy and institutional reforms will be

[1] Communauté Économique et Monétaire de l'Afrique Centrale (CEMAC)
[2] A strategy was adopted with a focus on (a) significant fiscal adjustment; (b) a return to sound monetary policy; (c) initiation of substantial structural reforms to support economic diversification; and (d) strengthening of the financial sector. This engagement was subsequently formalized in a regional policy compact, the CEMAC Economic and Financial Reforms Program (PREF-CEMAC)

necessary to improve the provision of essential economic services and enhance the country's domestic and external competitiveness.

Low human development outcomes and high levels of inequality require greater efficiency in social service delivery and safeguarding the poor and vulnerable from fiscal adjustment. Cameroon ranked 133rd out of 157 countries on the 2018 Human Capital Index (HCI), and the country's aggregate HCI score declined from 0.41 in 2012 to 0.39 in 2017. While Cameroon is classified as a lower-middle-income country, its health and education indicators are closer to those of low-income countries, with deep regional and rural-urban disparities. Educational outcomes among students in the three northern regions and in public schools in the Anglophone regions are below the national average. Life expectancy is low by the standards of comparable countries, and while infant and maternal mortality rates have declined over the past 10 years, both remain extremely high. The poverty headcount rate fell marginally from 40.2 percent in 2001 to 37.5 percent in 2014. Approximately 90 percent of the poor live in rural areas, and 56 percent live in the Far North and North Regions. Due to rapid population growth, 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 people to 4.5 million. The Gini coefficient was high at 44.0 in 2014, the latest year for which data are available. The unemployment rate rose from 3.8 percent in 2007 to 4.3 percent in 2014, driven by rising unemployment among young people and rural workers, while the underemployment rate increased from 68.7 percent in 2010 to 77 percent in 2014. About 90 percent of employed workers are in the informal sector.

Cameroon is increasingly vulnerable to instability and violence with. In 2014, a jihadist terrorist group known as Boko Haram began waging a low-intensity war in the Far North Region, and this conflict has displaced at least 227,581 people. While the security situation in the Far North Region has improved considerably, risks remain elevated due to the continued presence of several Boko Haram factions, combined with persistently high poverty rates and a weak economic recovery in neighboring Nigeria. Piracy in the Gulf of Guinea also poses a serious security challenge, as does the ongoing crisis in Central African Republic (CAR), and the Adamawa and East Regions continue to host about 234,000 Central African refugees. In late 2016, a violent secessionist conflict broke out in the Anglophone South-West and North-West Regions, affecting about 17 percent of the population. According to the Office of the United Nations Hight Commissioner for Refugees (UNHCR), at least 500,000 people have been internally displaced, while over 32,000 have been registered as refugees in Nigeria since the beginning of the crisis.

Cameroon is particularly exposed to the effects of climate change. The Sodano Sahelian zones are at highest risk for drought mortality rates and were the hardest hit provinces during the 2012 drought. Floods are the recurring natural hazard in Cameroon and the coastal regions have the highest risk of flood mortality especially in the city of Douala. Sea level rise poses great risks and increases the vulnerability of Cameroonians living along the coast. 580,300 people could be displaced, and 39,000 homes destroyed from sea level rise by the year 2100. A decrease in water availability, combined with increased water demand, would further exacerbate the ongoing water crisis in many rural areas of the north. Cameroon has outlined its priorities to reduce greenhouse gas emissions and build resilience to climate risks. In its Nationally Determined Contribution (NDC) which stipulates that with international support, the country commits to reducing greenhouse gas emissions by 32 percent by 2035. Cameroon's National Adaptation Plan (NAP) aims at: "reducing its vulnerability, and even turning the climate change problem into a solution/opportunity for development.

Policy reforms supported by the first operation (DPO1) have contributed to better Governance in Cameroon. The policy dialogue initiated under the DPO1 has catalyzed advances in macro-fiscal management and accelerated institutional reforms designed to enhance the efficiency of social services. The DPO1 supported reforms to increase transparency in tax administration and the development of an action plan to rationalize tax expenditures. The DPO1 also supported the adoption of a new legal and regulatory framework that streamlined procurement procedures for SOEs, enhancing their

financial and operational efficiency. The education reforms supported in DPO1, which included the official adoption of new guiding principles for the national textbook policy, catalyzed a politically sensitive reform effort that had been pursued with limited success for over a decade. The supported reforms decreased textbook prices and improved both their quality and distributional equity. Health sector reforms supported by the DPO1 facilitated a transition from input-based to performance-based budgeting in health facilities while helping policymakers dismantle a public monopoly on the distribution of generic drugs in health facilities. Across sectors, the reforms supported by the DPO1 enhanced the efficiency of public spending and improved the effectiveness of the public administration.

Cameroon's medium-term economic prospects are favorable, as GDP growth rate is expected to reach an average of 4.6 percent over 2019-2020. The coming on stream of major public infrastructure, including the Kribi deep water port, the Memve'ele hydroelectric dam and several road projects are expected to increase private investment and mitigate the reduction in public capital expenditure. The launch of the construction of a dam and a 420-MW hydroelectric power plant in Nachtigal, on the Sanaga river by the private sector is also expected to boost private investment. Overall, private investment is expected to rebound from 19.5 percent of GDP in 2017 to 22.7 percent in 2021. Meanwhile, the continued construction of public works in preparation for the 2021 CAN should help stabilize public investment at about 6.3 percent of GDP in 2020–2021.

Overall, Cameroon's macroeconomic framework is assessed as adequate for the proposed operation. Growth accelerated in 2018, and medium-term growth prospects are favorable. The GDP growth rate is expected to reach 4.2 percent in 2019 and 4.5 percent in 2020, boosted by major public infrastructure investments, including the Port of Kribi and other energy and road projects. Rising natural gas production is expected to enhance the electricity supply, which should benefit the manufacturing, agribusiness, and construction sectors. The 2019 budget is in line with the objectives of the medium-term fiscal adjustment; it targets a reduction in the fiscal deficit from 2.5 percent of GDP in 2018 to 2 percent in 2019, and the fiscal deficit is expected to narrow further to 1.5 percent of GDP in 2020. The program negotiated with the IMF and Cameroon's other development partners, including the World Bank, will provide adequate financing to meet the government's needs for 2019.

Relationship to CPF

The proposed DPF is fully consistent with the World Bank Group FY2017–2021 CPF for Cameroon[3]. The CPF draws on a comprehensive SCD completed during FY16, which identified constraints to achieving the World Bank Group's twin goals (eliminating poverty and fostering shared prosperity in a socially and environmentally sustainable manner). The three main areas of constraints and opportunities identified in the SCD were (a) low rural productivity, particularly in northern regions; (b) a business environment non-conducive to formal and informal private sector activity; and (c) fragility and poor governance of the private and public sectors. The CPF is, accordingly, structured around three focus areas which the proposed operations' pillars and supported reforms also cover (a) addressing poverty traps in rural areas (with focus on northern regions); (b) fostering infrastructure and private sector development; and (c) improving governance. The CPF and the proposed operation are also in line with the GOC's development objectives, especially objectives articulated in Vision 2035, the PLANUT, and the DSCEs such as improved public sector management, infrastructure development, regional integration and trade, and lower poverty rates.

C. Proposed Development Objective(s)

[3] Report number 107896-CM

The proposed Development Policy Financing (DPF) series supports the Government of Cameroon (GOC) in the implementation of structural reforms for long-term fiscal sustainability, competitiveness and economic stability. it maintains the development objectives of the first operation and all the measures supported by the operation aims at improving governance mechanisms. The operation is organized around three pillars**:** (i) *improve fiscal sustainability and public-sector management* by rationalizing and reducing tax expenditures and broadening the non-oil tax base, increasing the efficiency of the institutional framework for public procurement, improving the civil service pay and Human Resources Management (HRM) system and strengthening the management and oversight of SOEs; (ii) *enhance competitiveness* with a focus on achieving financial sustainability in the energy sector, Improving road maintenance, and strengthening the road network's resilience to climate change, and improving the efficiency of the Port of Douala; and (iii) *improve social services and scale up social protection* by improving the quality of healthcare services, increasing access to textbooks in primary and secondary schools and expanding the social safety net program.

Key Results

Pillar 1: Improving fiscal sustainability and public sector management

- Specific expected results by the end of the DPF series (by the end of 2020, that is one year after this operation) revolve around the following:
- Broadening the tax base and reducing tax expenditures increase revenue mobilization. (in CFAF Billion). Baseline: (2016): 0 CFAF. Target: (2020): FCFA 130 billion
- Average time between the issuance of tender documents and the signing of the respective contracts. Baseline: For contracts under the MINMAP threshold (2016): 128 days; For contracts outside the MINMAP threshold (2016): 225 days. Target: (2020): 90 days; (2020): 150 days.
- Percentage of irregular/invalid human resource and payment cases eliminated from the SIGIPES. Baseline: (2018): 0 %. Target: (2020): 100 %
- Number of SOEs publishing their audited annual financial reports within the prescribed deadlines. Baseline: (2016): 0. Target: (2020): the 10 largest public enterprises and the 10 largest public institutions

Pillar 2: Enhancing Competitiveness

- Elimination of arrears owed by the state and public companies (CAMTEL, CDE, CAMWATER) to ENEO. Baseline: CFAF 54 billion in central-government arrears (September 2017) and 11.25 billion in SOE arrears (March 2018). Target (2020): CFAF 0 in both central-government and SOE arrears (2020)
- Average time required for the Road Fund to pay invoices to service providers. Baseline: (2016): between 120 and 150 days. Target: (2020): between 40 days
- The government publishes the audit of the axle-load system and the associated action plan. Baseline: (2016): No. Target: 2020: Yes.
- The operationalization of the electronic payment platform at the GUCE reduces the average length of stay for a container at the Port of Douala. Baseline: (2017): 19 days. Target: (2020): 11 days

Pillar 3: Improving social services and scaling-up social protection

- The expansion of the PBF model increases the share of births attended by skilled health care professionals in the three northern regions. Baseline: (2016): 37.6%. Target: (2020): 42%
- The new textbook policy increases the number of textbooks per student in primary school. Baseline: (2016): 1/14. Target: (2020): 1/2
- The new textbook policy increases the number of textbooks per student in high school. Baseline: (2016): 1/3. Target: (2020): 1/1.5

- Increased funding boosts the number of households covered by poverty-targeted social protection programs. Baseline: (2016): 40,000. Target: (2020): 100,000

D. Project Description

This proposed second operation will maintain the development objectives and policy areas of the first operation. The operation supports the implementation by the Government of Cameroon (GOC) of structural reforms for long-term fiscal sustainability, to boost competitiveness and to mitigate economic vulnerability. Improved governance is front and center in the proposed operation. The three pillars address the most pressing challenges the country faces**.**

The first pillar supports the GOC's efforts to build a strong foundation for long-term fiscal sustainability and enhanced public sector management. The pillar focuses on reforms in support of (a) increasing revenue mobilization through the rationalizing of tax expenditures and specific measures to broaden the tax base, and strengthening tax administration, (b) improving public investment management and reducing procurement delays by implementing a more efficient institutional framework for public procurement, (c) tightening control over the wage bill and improving Human Resource Management, and (d) strengthening the management and oversight of SOEs.

Building on the ongoing World Bank program and dialogue, the second pillar focuses on reforms that help improve the quality of infrastructure, address the most significant bottlenecks, to bolster the country's competitiveness, and foster private sector development. These include (a) achieving financial sustainability in the energy sector; (b) improving and expediting road maintenance and strengthening the road network's resilience to climate change; and (c) improving the efficiency of the Port of Douala and strengthening the performance of logistics platforms and supply chains. A key objective of these reforms is to improve the viability Cameroon's infrastructure sectors, paving the way for increased private financing.

The third pillar aims at improving social services and scaling up social protection, by (a) improving the performance of public health facilities and the quality of health care services; (b) increasing access to and availability of textbooks in primary and secondary schools, which research has shown to be a critical determinant of educational outcomes in Cameroon; and (c) expanding the social safety net program.

E. Implementation

Institutional and Implementation Arrangements

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 DPF program 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 with regular monitoring of the operation. Most program indicator values are already regularly estimated by the relevant Government agencies, reflected in administrative data releases, and included ministries' sector plans and budget programs. The evolution of other indicator values will be monitored and reported through the multisectoral steering committee which will help coordinate DPO2 team data requests across the various sectors involved in this operation. The full results matrix and program implementation progress will be discussed in committee sessions and remedial actions agreed with the World Bank DPO2 team.

F. Poverty and Social Impacts and Environmental Aspects

Poverty and Social Impacts

1. **The proposed DPO is expected to have a positive social impact and contribute to poverty reduction.** While most of its effects on poverty reduction will likely be indirect through the development of markets and an increase in private investment, direct effects on poverty alleviation will come from improving social services and expanding social protection programs.

2. **The prior actions focusing on improving fiscal sustainability and public sector management are expected to have both direct and indirect effects on poverty.** The expected increase in public revenue would 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). However, the poverty-reducing effects of revenue-mobilization reforms may be tempered by various challenges facing policymakers in Cameroon. For example, the country's public administration suffers from poor governance, which can be mitigated by the successful implementation of prior actions aimed at improving transparency and efficiency through public procurement and civil service reforms, as well as by improving the performance of SOEs that manage public utilities.

3. **Some prior actions aimed at enhancing economic competitiveness are also expected to have an overall positive social impact and contribute to poverty reduction, as they can lead to job creation and improved earnings.** Competitiveness and economic growth are often positively correlated. Increasing competitiveness, through the development of infrastructure services (including energy), may accelerate private sector development, economic growth, job creation, and possibly poverty reduction. However, energy sector reforms in African countries often lead to an increase in utility prices, which may negatively affect poor households. This can be offset by improving the efficiency and financial soundness of the energy sector by using additional public revenue from tariff increases to develop and expand electricity networks, which would benefit the poor. The successful implementation of this DPO's proposed energy reforms would improve access to and the quality of electricity, which would benefit Cameroonians across the country, including poor households. For instance, better access to electricity would result in the increased performance and earnings of home-based enterprises and small businesses, which would also benefit the poor. Additionally, efforts to improve road maintenance and resilience to climate change are expected to reduce travel times and transport costs, potentially contributing to poverty reduction through increased job creation. For example, an improved road network would reduce the transport costs of agricultural products, increasing the income of farmers. Lastly, reforms aimed at improving the clearance process at the country's ports are expected to result in cheaper imported products, which would benefit consumers from poor households.

4. **Finally, prior actions to improve social services and expand the country's social programs are expected to have a significant positive social impact**. These reforms aim to directly benefit the country's most disadvantaged population groups. They are estimated to increase the number of beneficiary households covered by social protection programs by 150 percent, from 40,000 households in 2016 to 100,000 households by 2020. However, this will require a better method to target beneficiaries. Authorities also need to prioritize efforts to reduce the price of textbooks in the education sector, as their cost is high in Cameroon, ranging between US$5.5 and US$9 per book in primary schools, compared to an average of US$1-3 in most other countries. This places a burden on especially poor Cameroonian families. The implementation of the government's new textbook policy is expected to reduce the cost of textbooks and improve educational outcomes for students from low-income households. Moreover, improving the performance and the quality of public health facilities will directly impact the poor, given the importance of health in human capital development, labor productivity, and overall wellbeing. For instance, the expected increase in births attended by skilled professionals in the three northern regions will reduce inequality in access to quality health services and child mortality, especially among poor households.

5. **Reforms supported under the DPO series' third pillar are expected to reduce gender disparities in Cameroon.** For example, 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. Similarly, the expansion of the government's social safety net program that provides cash transfers to women will contribute to the economic empowerment of women. The reforms supported under the other two pillars of the DPO series are not expected to have significant positive or negative gender impacts. However, a significant gender gap remains in Cameroon, despite government efforts to promote gender equality. The Gender Development Index (GDI) ratio in Cameroon (0.866) in the same as the average of least developed countries (0.868) but lower than the average of countries in Sub-Sahara Africa (0.893). Additionally, Cameroon ranked 141st out of 160 countries on the Gender Inequality Index in 2017 (with a score of 0.569). Only 32.5 percent of adult women in Cameroon have at least a secondary level education, compared to 39.2 percent of their male counterparts. Furthermore, the country's maternal mortality rate has been increasing, from 511 women dying from pregnancy-related causes for every 100,000 live births to 782 deaths in 2011. Also, the adolescent birth rate is 105.8 births per 1,000 women aged 15-19, and the female participation rate in the labor market is 71.2 percent, compared to 81.2 percent for men. Women and men are equally protected by the country's constitution and laws, although the enforcement of rights remains a challenge. The Convention on the Elimination of All Forms of Discrimination Against Women, which Cameroon ratified in 1994, allows women to request a divorce and obtain a national identity card or passport. Moreover, Cameroon's new penal code was promulgated on July 12th, 2016 and improved the rights of women. For instance, it made sexual harassment prohibited by law, traditional marriage ceremonies legal, and the punishment for adultery the same for men and women. There is also more equal representation in the new Parliament, with 27.1 percent of seats held by women—up from 13.8 percent in the previous Parliament and almost twice the average of 14.8 percent in low-income countries. The World Bank supports Cameroon's efforts to reduce the country's gender gap through its Strengthening the Capacity of Regional Financial Institutions in the CEMAC Region Project (P161368), which includes a gender subcomponent to track the credit registry's coverage of the female population. Future World bank assistance could include the completion of a comprehensive gender profile that would help identify policy actions to be included in future DPOs and/or Investment projects.

Environmental Aspects

6. **Cameroon has an elaborate superstructure of constitutional rights; sectoral laws with environmental provisions; environmental policies; and various other regulations and laws that should mitigate any negative impact from the DPO2.** However, there is limited regulatory oversight and enforcement in the country, and operating procedures do not typically meet international environmental, social, health, and safety standards. Therefore, this DPO analyzed the potential environmental effects of its prior actions, along with their proposed management measures, to ensure these challenges were addressed (annex 4). The government is currently strengthening its capacity to mitigate environmental risks. For example, it has created a regional brigade for environmental inspection and control in each region, and on August 8, 2018, the Ministry of Environment sanctioned and publicized a list of 395 companies that were violating environmental laws and regulations. In addition, Ministerial Order No 0010/MINEP of April 3, 2013, provided each divisional administrative unit with a committee for the technical and administrative supervision of an environmental and social management plan. These committees supervise and enforce the environmental and social aspects of initiatives subject to environmental assessments. Furthermore, environmental and social safeguards at the project implementation units are adequate to ensure adherence to environmental and social policies.

7. **Prior Action #1 involving the differentiation of vehicle tariffs to encourage the importation of cleaner vehicles will entail a positive climate co-benefit.** Cameroon adopted the World Health Organization's air quality standards, Section 1, Chapter III of Law No. 96/12 of August 5, 1996, on the Framework Law on the Environmental Management deals entirely on atmospheric pollution and Decree No. 2011/2582/PM of August 23, 2011, Laying down conditions for protection of the atmosphere in Cameroon equally spells out clearly the necessary measures that must be taken to ensure good air quality

in Cameroon. In addition, Cameroon launched its Compliance Inspection Before Shipment Program on August 31, 2016, and a consortium of Swiss Outfit SGS and British Intertek International was contracted to implement the program. SGS uses high throughput scanning equipment to ensure all imports, exports, and transits at Douala International Terminal (DIT) are fully inspected.

8. **Prior Action #6 and Trigger #6 relate to climate-resilient road designs and maintenance standards.** Authorities need to not only evaluate the impact of road investment projects on infrastructure, economic growth, and fuel consumption, but also their effect on the environment and climate resilience. Road designs and maintenance plans should include climate-risk screening to ensure they do not contribute to climate change. However, these provisions typically increase the costs of new construction projects, which is a challenge for Cameroon's limited public resources. At a minimum, output- and performance-based road contracts (OPBCs) and public bidding documents in the construction industry should include provisions and guidelines pertinent to environmental and social due diligence requirements.

9. **Nevertheless, there are potentially negative environmental effects associated with improving social services and expanding health and education programs.** For example, reforms in the health sector are likely to lead to an increase in healthcare waste. To ensure that the authorities continuously monitor and encourage the adoption of efficient waste-management practices, waste management will be included and enforced in the PBF and quality-of-care checklist, and the World Bank's Health System Performance Reinforcement Project (P156679) in Cameroon is recruiting two environmental and social safeguard specialists. Moreover, the increased availability of textbooks could have a small negative environmental impact by increasing the number of books produced, and the government's new textbook policy will include a nonmandatory quality assurance mechanism for potential vendors (that is, publishers, printers, pulp, and paper product importers). In addition, prior actions related to improving fiscal sustainability and public sector management are expected to lead to an increase in investment projects, with their associated environmental impacts and occupational safety risks. To mitigate these risks, this DPO has adopted an approach that integrates general environmental requirements into the procurement process. Finally, new vehicle tariffs will be based on the age and size of vehicles' engines, which could have a positive effect on climate change if it results in a rise in the import of less polluting vehicles.

10. **The process of acquiring goods, works, and services will also affect the environment.** Improving fiscal sustainability and enhancing the efficiency of the public procurement process will likely lead to more waste and the emission of carbon dioxide and other greenhouse gases; have a negative impact on labor conditions and biodiversity; and result in more water and energy consumption and pollution. Since the value-for-money provision in the World Bank's procurement rules does not exclude environmental considerations, the new procurement code issued on June 20, 2018 dedicates its sub-section III to general environmental, social, and occupational health and safety requirements. Still, Cameroon's Ministry of Public Contracts and its Ministry of Environment need to adopt robust measures to ensure that environmental and social due-diligence requirements are enforced, especially in relation to large-scale public and private investment projects (for example, transport and hydropower projects). Stakeholder consultations at different stages of the project cycle will also be critical for the overall sustainability of investment spending.

G. Risks and Mitigation

11. **The DPO's overall risk rating is High.** The rating reflects political and governance, macroeconomic, institutional, and fiduciary risks that may impact the government's capacity to successfully implement the proposed operation.

12. **Political and governance risks are rated High.** There are several significant risks to peace and political stability in Cameroon. These include (a) the violent secessionist conflict in the two Anglophone regions of South West and North West; (b) continued attacks by Boko Haram in the Far-North region; (c) worsening regional security and displacement of

affected persons, which could put additional pressure on Cameroon's fragile fiscal position and potentially derail its recovery; and (d) the upcoming legislative and municipals elections, which also pose a serious fiscal risk and may exacerbate secessionist tensions. These risks are mitigated by the implementation of practical measures and reforms that address the critical needs of the population, including road connectivity, the availability of textbooks, and access to medicines.

13. **Macroeconomic risks are also rated High.** External macroeconomic risks that could affect the proposed reform program include weaker global economic growth, a sustained decline in oil prices, and tighter global financial conditions. These risks could generate additional fiscal pressure and divert government fiscal consolidation efforts. Domestic risks include continued conflict and violence in Anglophone regions and Far North, the failure to prioritize the public investment program, an excessive reliance on non-concessional resources, and delayed implementation of structural reforms due to the upcoming legislative and municipals elections. While these risks cannot be fully mitigated, fiscal risks have been partially mitigated by the issuance of a Circular that limits derogatory spending, as well as the transposition of CEMAC Directives on SOE governance and PFM into national law. Other mitigating measures include fiscal consolidation under the IMF's ECF-supported reforms, budget support from the World Bank and other donors, and the effective implementation of the regional adjustment strategy.

14. **Institutional capacity risks are rated Substantial.** There is often too much time between program decision and execution. Executive power is highly centralized in the presidency, which delays the decision-making process, as decisions need to go through the prime minister's office before reaching the president or an appropriate representative. Cabinet decisions or ministerial policy announcements are also often dropped, not implemented, or reversed because of a lack of follow-up or resources. To mitigate these risks, the DPO2 team engaged high-level authorities, including the prime minister, key ministers, and the Office of the President, at the beginning of the project and plans to keep them regularly informed on the program's development to ensure their buy-in and willingness to champion DPO2-supported measures.

15. **Finally, fiduciary risks are rated High**. The BEAC has strong and transparent accounting, risk-management, and information systems, and recent audits have confirmed that there are no major foreign-exchange risks within the CEMAC region. With technical support from the World bank, the BEAC plans to improve its reporting system and transition to IFRS in 2019. At the national government level, significant progress has recently been made to lower fiduciary risks, although there are still institutional weaknesses that could adversely affect the program. In 2018, the government issued a new Circular to limit derogatory spending and transposed two CEMAC's directives (one on the financial regime of SOEs and another on the transparency and governance in PFM) into national legislation—measures that are expected to strengthen fiscal discipline and improve the appropriation of funds. Also, more coordination between the Treasury and the General Directorate of Budget in the monitoring of cash advances is likely to significantly reduce blind allocations at the end of year. Moreover, the adoption of a New Procurement Code that clarifies roles and responsibilities in public procurement (that is, between the contracting authority, the supervisory body, and the regulatory body) is expected to improve the effectiveness of public investment spending. However, despite progress, the management of fiscal risks is still weak due to a lack of supervision and follow-up from central, local, and regional authorities. Persistent weaknesses in internal control, budget execution, and reporting systems, as well as the weak link between the MTEF and ministries' program budgets, lead to expenditure overruns. Fiduciary risks will be addressed through the implementation of the World Bank's Strengthening Public Sector Effectiveness and Statistical Capacity Project.

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