OFFICIAL USE ONLY
R2017-0260/2

December 11, 2017

Closing Date: Wednesday, December 20, 2017 at 6 p.m.

FROM: Vice President and Corporate Secretary

Cameroon - First Fiscal Consolidation and Inclusive Growth Development Policy Financing

Program Document

Corrigendum

1. Attached is the revised Program Document regarding a proposed First Fiscal Consolidation and Inclusive Growth Development Policy Financing to Cameroon (R2017-0260), which is being processed on an absence-of-objection basis.

2. This version replaces the previous Program Document (R2017-0260/1) that was published on November 29, 2017, to correct page orientation on pages 40 to 44.

Distribution:
Executive Directors and Alternates
President
Bank Group Senior Management
Vice Presidents, Bank, IFC and MIGA
Directors and Department Heads, Bank, IFC and MIGA

Document of
the World Bank

FOR OFFICIAL USE ONLY

Report No. 116306-CM

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT

FOR A PROPOSED LOAN

IN THE AMOUNT OF EURO 172 MILLION
(EQUIVALENT TO US$200 MILLION)

TO

THE REPUBLIC OF CAMEROON

FOR THE

FIRST FISCAL CONSOLIDATION AND INCLUSIVE GROWTH DEVELOPMENT POLICY FINANCING

November 21, 2017

Macroeconomics and Fiscal Management Global Practice
Central Africa Country Management Unit
Africa Region

REPUBLIC OF CAMEROON - GOVERNMENT FISCAL YEAR

January, 1 – December, 31

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of October 31, 2017,)

Currency Unit	=	Central African CFA Franc
US$1.00	=	FCFA (556.53)
US$1.00	=	EURO (0.85980826)

ABBREVIATIONS AND ACRONYMS

AFD	French Development Agency *(Agence Française de Développement)*
AfDB	African Development Bank
BEAC	Regional Central Bank *(Banque des Etats d'Afrique Centrale)*
CEMAC	Central African Economic and Monetary Union *(Communauté Economique et Monétaire des Etats d'Afrique Centrale)*
CENAME	National Center for the Supply of Essential Medicines and Medical Consumables *(Centrale Nationale d'Approvissionnement en Medicaments et Consommables Medicaux Essentiels)*
CFA/XAF	Central African Franc
CNAMSMD	*(Conseil National d'Agrément des Manuels Scolaires et des Matériels Didactiques)*
COBAC	Bank Commission of Central Africa (*Commission Bancaire de l'Afrique Centrale*)
CONAFE	National Trade Facilitation Committee
CPF	Country Partnership Framework
DP	Development Partner
DPF	Development Policy Financing
DSA	Debt Sustainability Analysis
DSCE	Growth and Employment Strategy Paper (*Document de Stratégie pour la Croissance et l'Emploi)*
ECF	Extended Credit Facility
EDC	Electricity Development Corporation
ENEO	The Energy of Cameroon (Cameroonian Energy Company)
EPAs	Independent Public Agencies
EU	European Union
FDI	Foreign Direct Investment
FER	Road Fund
FY	Fiscal Year
GDP	Gross Domestic Product
GoC	Government of Cameroon
GRS	Grievance Redress Service
HR	Human Resources
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IMF	International Monetary Fund
MINEPAT	The Ministry of Economy, Planning and Regional Development (*Ministère de l'Economie, de la Planification et de l'Aménagement du Térritoire*)
MINFI	Ministry of Finance (*Ministère Des Finances*)
MINFOPRA	Ministry of Public Service and Administrative Reform (*Ministère de la Fonction Publique et de la Réforme Administrative*)
MINMAP	Ministry of Public Contracts (*Ministère des Marchés Publics*)
MINSANTE	Ministry of Public Health (*Ministère de la Santé Publique*)

MINTP	Ministry of Public Works (*Ministère des Travaux Publics*)
OHADA	Organization for the Harmonization of Business Law in Africa
OPBC	Output Performance Based Road contracts
PASEC	Analysis of Education Systems
PBF	Performance Based Financing
PEFA	Public Expenditure and Financial Assessment
PFM	Public Finance Management
PLANUT	Three-Year Emergency Plan for Growth Acceleration (*Plan d'Urgence Triennal*)
REER	Real Effective Exchange Rate
RF	Road Fund
SIGIPES II	Integrated Application to Manage Public Human Resources *(Système Informatique de Gestion Intégrés des Personnels de l'Etat et de la Solde)*
SCD	Systematic Country Diagnostic
SDR	Special Drawing Rights
SMEs	Small and Medium Enterprises
SOEs	State-Owned Enterprises
SONARA	National Refining Company (*Société National de Raffinage*)
SONATREL	National Electricity Transport Company (*Société Nationale de Transport de l'Electricité*)
TA	Technical Assistance
TADAT	Tax Administration Diagnostic Assessment Tool
TPA	Third-Party Access
US$	United State Dollars
VAT	Value Added Tax
WBG	World Bank Group

Regional Vice President:	Makhtar Diop
Country Director:	Elisabeth Huybens
Senior Global Practice Director:	Carlos Felipe Jaramillo
Practice Managers:	Lars Christian Moller
Task Team Leaders:	Sona Varma and Rick Emery Tsouck Ibounde

REPUBLIC OF CAMEROON

FIRST FISCAL CONSOLIDATION AND INCLUSIVE GROWTH DEVELOPMENT POLICY FINANCING

TABLE OF CONTENTS

The First Fiscal Consolidation and Inclusive Growth Development Policy Financing was prepared by an IBRD team led by Sona Varma (Lead Economist, GMF01) and Rick Emery Tsouck Ibounde (Senior Economist, GMF01) and comprising Emanuela Di Gropello (Program Leader, AFCC1), Shiho Nagaki (Senior Public Sector Specialist, GGO13), Leif Jensen (Senior Economist, GMF07), Alassane Agalassou (Senior Energy Specialist, GEE07), Peter Ngwa Taniform (Senior Transport. Specialist, GTI08), Paul Jacob Robyn (Senior Health Specialist, GHN13), Jean Claude Taptue Fotso (Health Specialist, GHN13), Vincent Perrot (Senior Education Specialist, GED13), Rebekka E. Grun (Senior Economist, GSP07), Cyrille Valence Ngouana Kengne (Senior Environmental Specialist, GEN07), Alvin Etang Ndip (Economist, GPV01), Abel Paul Basile Bove (Governance Specialist, GGO13), Celestin Adjalou Niamien (Senior Financial Management Specialist, GGO26), Kjetil Hansen (Senior Public Sector Specialist, GGO13), Kouami Hounsinou Messan (Senior Procurement Specialist, GGO07), Ibrah Rahamane Sanoussi (Senior Procurement Specialist, GGO07), Nicolas Jean Marie Sans (Senior Hydropower Specialist, GEE07), Carlo Del Ninno (Lead Economist, GSP07), Stephan Claude Frederic Garnier (Lead Energy Specialist, GEE07), Stephanie Gil (Lead Energy Specialist, GEE07), Dimitris Mavridis (Young Professional, GSP07), Nneoma Nwogu (Senior Counsel, LEGDF), Faly Diallo (Finance Officer, WFALA), Chimene Diane Djapou Fouthe (Consultant, GMF01), Olivier Maxime Nkounga Kouam (Consultant, GSU01), Silvia Gulino (Operations Analyst, GMF01) and Soule Sow (Consultant, GMF01). The operation benefited from the guidance of Elisabeth Huybens (Country Director, AFCC1), Mazen Bouri (Program Leader, AFCC1), Issa Diaw (Program Leader, AFCC1), Olivier P. Godron (Country Program Coordinator, AFCC1), Seynabou Sakho (Country Director, LCCC2) and Lars Christian Moller (Practice Manager, GMF08).

The peer reviewers are: Julio Revilla (Lead Economist, GMF11), Sandeep Mahajan (Lead Economist, GMF07), and Sunil Mathrani (Program Leader, AFCF2).

SUMMARY OF PROPOSED LOAN AND PROGRAM
REPUBLIC OF CAMEROON
FIRST FISCAL CONSOLIDATION AND INCLUSIVE GROWTH DEVELOPMENT POLICY FINANCING

Borrower	Republic of Cameroon.
Implementing Agency	Ministry of Economy, Planning and Regional Development.
Financing Data	IBRD Loan Terms: Fixed Spread Loan with a final maturity of 30 years including a grace period of seven years. Amount: EURO 172 million (equivalent to US$200 million).
Operation Type	First in a programmatic series of three development policy financings.
Pillars of the Operation and Program Development Objective(s)	The Program Development Objective (PDO) and pillars of the operation are to support the Government efforts to: (i) improve fiscal sustainability and public sector management; (ii) enhance competitiveness; and (iii) improve social services and scale up social protection.
Result Indicators	**Pillar 1: Improving fiscal sustainability and public sector management** **Result Indicator 1:** Tax expenditures as a percent of GDP Baseline (2016): 4.1; Target (2020): 3.1. **Result Indicator 2:** Average time between launch of bidding documents and signature of contract. For contracts under MINMAP threshold: Baseline (2016): 128 days, Target (2020): 90 days; For contracts outside MINMAP threshold: Baseline (2016): 225 days, Target (2020): 150 days. **Result Indicator 3:** Percentage of irregular/invalid HR and payment cases eliminated from the SIGIPES. Baseline (2016): 0; Target (2020): 80 **Result Indicator 4:** Percentage of SOEs publishing their audited annual financial reports. Baseline (2016): 0; Target (2020): 20. **Pillar 2: Enhancing Competitiveness** **Result Indicator 5:** Government's arrears to ENEO. Baseline (2017): XAF 54 billion as of August 2017; Target (2020): 0 **Result Indicator 6:** Period of payment of invoices by the Road Funds to companies. Baseline (2016): between 120 and 180 days; Target (2020): between 10 and 90 days. **Result Indicator 7:** Container dwell time at the Douala Port. Baseline (2017): 11 days; Target (2020): 7.5 days. **Pillar 3: Improving social services and scaling up social protection** **Result Indicator 8:** Percentage of births attended by skilled professionals in the three northern regions of Cameroon. Baseline (2016): 37.6; Target (2020): 42. **Result Indicator 9:** Proportion of health facilities under PBF contract with 100 percent of essential drugs in their checklist available during their quarterly evaluation in the 78 health districts already covered by PBF in October 2017. Baseline (2017): 13 percent, Target (2020): 40 percent. **Result Indicator 10:** Number of textbooks per student in primary school. Baseline (2016): 1/14; Target (2020): 1/2. **Result Indicator 11:** Number of textbooks per student in secondary school. Baseline (2016): 1/3; Target (2020): 1/1.5. **Result Indicator 12:** Number of households covered by the social safety net program. Baseline (2016): 40,000; Target (2020): 100,000.
Overall risk rating	High
Climate and disaster risks	There are no short or long term climate and disaster risks to this operation.
Operation ID	P163657

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (IBRD)

PROGRAM DOCUMENT FOR A PROPOSED LOAN

TO THE REPUBLIC OF CAMEROON

1. INTRODUCTION AND COUNTRY CONTEXT

1. **The proposed operation aims to support Cameroon's efforts to adjust to a substantial decline in oil prices which has precipitated a regional economic crisis and diminished the country's prospects for growth and poverty reduction.** Cameroon, a lower middle income country with a population of about 23 million, is the largest economy in the Central African Economic and Monetary Community (CEMAC).[1] The region is experiencing a difficult economic crisis precipitated by the steep fall in the price of oil, which comprised 76 percent of CEMAC's exports in 2014 (Box 1). The objective of the proposed operation is to support the Government of Cameroon (GoC) in implementing structural reforms to support fiscal adjustment as well as reforms to boost competitiveness and mitigate economic vulnerability. This operation, in the amount of US$200 million, is the first of three Development Policy Financing (DPF) in a programmatic series. The proposed program is aligned with the GoC's reform program and with the World Bank Group Country (WBG) Partnership Framework for FY17-FY21.

2. **Commodity driven growth in Cameroon has not translated into significant improvements in poverty or human development indicators**. As the 2016 Systematic Country Diagnostic (SCD) points out, despite its vast natural resources, a relatively educated work force and capable bureaucracy, and a steady track record of economic growth fueled largely by oil exports, Cameroon's social indicators are well below those of comparator countries. The maternal mortality rate has stagnated since the 1990s, about 30 percent of under-5 children are stunted, and primary school completion rates are below 30 percent. [2] Commodity dependence allowed the country to postpone reforms that would raise productivity, perpetuating a growth model that is dependent on factor accumulation and commodity rents. The state plays a large role in economic activity, reducing contestability of markets and hampering private sector led-growth. Easy access to rents help finance a political system in which decision making is centralized at the level of the President, who has been in power since 1982. The quality of service delivery and access to social services have been less than what can be expected in a middle-income country that was blessed with substantial oil wealth.

3. **Inequality has increased and progress on poverty reduction and shared prosperity has been modest despite recent solid growth (averaging 5.6 percent between 2013-2015).** Per capita income has stagnated in Cameroon and the Gini coefficient is high, at 44.0 in 2014, implying that the bottom 20 percent consumed less than 5 percent of all consumption, whereas the richest 20 percent consumed almost half of all consumption. [3] Poverty gains have been marginal, as the poverty rate declined from 40.2 percent in 2001 to 37.5 percent in 2014, while the number of absolute 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

[1] The CEMAC region comprises of the following six countries: Chad, Cameroon, Central African Republic, Equatorial Guinea, The Republic of Congo, and Gabon. Cameroon accounts for 44 percent of the region's GDP, and 39 percent of its exports.

[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.

[3] 2014 Household survey.

(Douala and Yaoundé, Littoral, West, South-West) saw their levels of consumption increase, and poverty decline.

4. **The recent deterioration in Cameroon's fiscal and external balances have negatively impacted macroeconomic stability and exposed 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 gross domestic product (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 region's central bank, *Banque des Etats de l'Afrique Centrale* (BEAC), 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.

5. **The current challenging economic outlook requires an upfront fiscal consolidation and progress on structural reforms to support competitiveness, reduce inequality in economic and social outcomes, and support the economy to perform at its potential capacity.** The economic slowdown presents a good opportunity to accelerate the reform agenda, especially if Cameroon is to achieve its own aspiration to be an upper-middle income country by 2035. The agenda is well known in Cameroon, and includes a rich set of reforms to improve public sector management, strengthen the business environment, ensure the sustainability of infrastructure financing, and strengthen governance. The agenda includes reforms in the health, education and social protection sectors, that address underlying elements that have increased inequality in economic and social outcomes and can protect the vulnerable through the fiscal consolidation, while supporting more efficient delivery of and equitable access to basic services.

6. **The GoC has played a leadership role to address the regional crisis, and taken initial steps to address the deteriorated economic situation at home.** President Biya of Cameroon convened the 2016 Head of States summit at which CEMAC members agreed to implement strong measures to accelerate fiscal consolidation and support diversification and to seek financing from the International Monetary Fund (IMF) and other development partners (DPs). Cameroon signed a three-year Extended Credit Facility (ECF) program with the IMF covering 2017-2020, which required implementation of upfront reforms to reduce the non-oil primary deficit, improve the budget process, and accelerate implementation of measures to improve business climate and safeguard financial sector stability. Spending was reduced drastically, as each ministry's budget was cut by 20 percent, and investment spending was cut. New taxes and duties were levied. These have helped curtail the deterioration in the fiscal balance.

7. **The proposed DPF series supports structural reforms that would restore fiscal stability while improving competitiveness and protecting the poor through fiscal adjustment**. Reforms would support increased productivity by removing bottlenecks in the infrastructure sector, and higher efficiency and more equitable access to social services, by improving service delivery in health, education and scaling up social protection. They would also address inefficient procurement practices and weak management of public enterprises. The proposed series is organized around three pillars: (1) Improving fiscal sustainability and public sector management; (2) improving financial sustainability and efficiency of key infrastructure to enhance competitiveness; and (3) Improving social services and scaling up social protection to reduce vulnerability among the poor. The policy areas to be addressed under the DPF include: (i) revenue mobilization; (ii) wage bill management; (iii) public procurement reforms; (iv) SOE governance; (v) energy

sector reforms; (vi) road maintenance; (vii) trade facilitation at the port of Douala; (viii) health services delivery; (viii) education sector reforms; and (ix) social protection.

8. **The macro framework is adequate for DPF.** The Government has taken upfront measures to reduce spending and rein in the public investment program, and articulated a feasible medium-term plan to achieve the fiscal adjustment envisaged under the IMF program. Structural reforms to raise competitiveness, and a well prioritized investment program could help growth recovery. Key downside risks include social pressures ahead of the 2018 Presidential elections, security concerns in the North, and increased unrest in the Anglophone regions, and may limit the country's ability to carry out ambitious reforms.[4]

9. **The World Bank's support will be part of a broader multilateral and bilateral effort to support Cameroon over the next three years.** DPs have come together to help stem the economic crisis in the CEMAC. The IMF ECF started in June 2017 and the first review was concluded on November 6, 2017. 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* (French Development Agency - AFD) is supporting the water and agriculture sectors, as well as Public Financial Management (PFM). European Union's (EU) support will come as grants to strengthen PFM, agriculture, livestock, rural development and rural road infrastructure. All DPs are working closely to coordinate their assistance. Together, the 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.

Box 1. Crisis in the CEMAC

CEMAC countries were hard hit by the oil price shock**.** Oil revenue fell by two-thirds from 2014 to 2016. Regional foreign exchange reserved fell to two months of imports by December 2016 and threatened the currency peg to the Euro. Member countries made significant cuts to their budgets, which in turn, hurt non-oil growth; regional growth in 2016 was its lowest in 20 years, at −1 percent. However, this adjustment was not sufficient to match the decline in revenue, and regional deficits and public debt stocks increased between 2014 and 2016. Monetary policy became accommodative as governments started facing liquidity constraints and growing financing needs. The regional central bank, the BEAC, started granting large statutory advances to member countries. The crisis, also affected the financial sector as evidenced by an increased level of nonperforming loans across the region. At the December 2016 Head of States meeting, CEMAC members agreed to protect the currency peg and undertake adjustment mainly through fiscal policy**.** The 1994 devaluation of the CFA Franc was perceived by regional policymakers as having had negative socioeconomic consequences. 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). Member countries began negotiating with the IMF, and Gabon and Cameroon entered programs in 2017, while the Republic of Congo and Equatorial Guinea are expected to follow in 2018.

2. MACROECONOMIC POLICY FRAMEWORK

2.1 RECENT ECONOMIC DEVELOPMENTS

10. **Cameroon was less hard hit by the oil price shock than its counterparts in the CEMAC as oil accounts for a relatively smaller share of exports and GDP.** [5] Nevertheless, while growth averaged almost

[4] The strong efforts at fiscal consolidation have been sustained. The IMF's recent staff visit indicated that the Government is on track to present a budget in 2018 that will meet program targets for 2018.

[5] The oil sector (measured as part of the secondary sector) comprised 28 percent of exports and 3.4 percent of GDP in 2016.

6 percent in 2014-2015, the economy slowed down in 2016 and 2017. Growth is estimated at 3.7 percent in 2017 due to continued decline in oil production (which dropped by 19 percent at end June 2017 compared to the same period last year) and the contraction in rubber and coffee production, affected by lower international prices and aging plantations (Table 2.1). On the supply side, growth was driven by many factors including improved energy supply, continued implementation of an emergency investment program, increased public investment related to the preparation of the 2019 African football cup and a dynamic domestic and regional agricultural sector. On the demand side, private consumption, at about 70 percent of GDP, has been the main driver of growth. Econometric analysis of long-term growth determinants indicates that between 2000 and 2015, Cameroon's annual average GDP per capita growth reached 1.2 percent, the bulk of which was explained by public infrastructure investment, favorable commodity prices, and financial deepening. Growth decomposition analysis indicates that growth has largely been led by factor accumulation, namely of capital and labor, while the contribution of total factor productivity has been negative. [6]

11. **The fiscal situation weakened, a result of multiple shocks and higher levels of borrowing.** The fiscal deficit increased from 4.4 percent of GDP in 2015 to 6.2 percent of GDP in 2016 (Table 2.2). [7] This deterioration resulted largely from continued high spending, especially on capital investment and security expenditure related to the war against Boko Haram. Revenues declined, mostly due to a fall in oil related revenue. The Government financed the deficit by drawing down on a US$750 million Eurobond, on statutory advances from the BEAC (though they remained below the allotted ceiling unlike other CEMAC partners, Gabon, Republic of Congo, and Equatorial Guinea, and by contracting higher levels of commercial bank financing. The Government used receipts of the bonds issued in 2015 to reduce arrears accumulated vis a vis the oil company *Société National de Raffinage* (National Refining Company - SONARA) which contributed to the decline of the stock of the Government's arrears from 2.1 percent of GDP to 1.3 percent of GDP in 2016.

12. **The fiscal position has improved over the first half of 2017 but remains fragile.** At end June 2017, partly due to upfront actions under the IMF program, the fiscal deficit was 0.8 percent of GDP, 0.4 percent of GDP below the IMF program's target for this period, as spending on current expenditure and domestically financed public investments was restrained. Total revenue was higher than budgeted during this period due to improved collection of Value Added Tax (VAT) revenues. Nevertheless, for the full year, total revenue is expected to be 0.6 percent of GDP less than the program target due to weaker oil revenue and a slowdown in non-oil growth. In response to lower than anticipated non-oil revenue, the authorities intend to adjust domestically financed investment and transfers and spending on subsidies to make up for the deficit in revenue collection.

13. **The current account deficit has improved, and regional foreign exchange reserves have rebounded**. The current account is expected to decline from 3.2 percent of GDP in 2016 to 2.8 percent of GDP in 2017, mainly due to weaker imports and strong agriculture and manufacturing exports. BEAC's pooled reserves that had significantly fallen from US$15.3 billion to US$4.2 billion between end-2014 and end-2016 stood at about US$4.7 billion in mid-September, reflecting an external adjustment through import compression and increase in some non-oil commodities prices. Cameroon's contribution to regional reserves increased by 7 percent in July 2017, after declining by 35 percent in 2016. The CEMAC currency is pegged to the euro, with the support of France's Treasury which ultimately guarantees the peg.

[6] Cameroon Country Economic Memorandum (2016), "Markets, Growth and Government".
[7] In Cameroon, the fiscal deficit is measured on a "payment order basis" rather than a commitment basis. This measures all payments made in the fiscal year, as opposed to commitments.

14. **A tight monetary policy and weakened economic activity contained inflation**. As a member of CEMAC, Cameroon's monetary policy is determined by the BEAC, which tightened monetary policy to limit capital flows out of the CEMAC region. This contributed to declining monetary aggregates in Cameroon. Following a 50 basis points in the policy rate to 2.95 percent in March 2017, domestic credit, money supply and deposits declined in June 2017 compared to the same period last year. Inflation, remained below the regional ceiling of 3 percent, and was 0.6 percent at end-June 2017.

15. **Financial sector risks persist, as banks are undercapitalized and some small banks remain insolvent.** Cameroon's banking system has remained resilient, despite deteriorating asset quality and continued insolvency of four small banks. [8] Capital adequacy remained satisfactory, though it declined from 11.4 percent to 8.9 percent over the past two years. The ratio of loans in arrears to total loans remained high at 13.9 percent at end April 2017 and deposits growth declined by 3.6 percent. Key risks included the high level of credit risk due to poor asset quality and concentration of the banking portfolio and high level of sovereign risk, including to other CEMAC countries. Private credit to GDP declined from 13.9 percent of GDP in December 2016 to 13.6 percent of GDP at end June 2017. The low level of credit relative to bank resources reflects: (i) weak economic activity in the non-oil sector, which limits lending opportunities; (ii) high cost of credit stemming, in part, from limited competition among banks; and (iii) unfavorable legal and judiciary procedures, which make it hard for banks to recover delinquent loans and foreclose on collateral. Such conditions make banks reluctant to extend long-term loans; not surprisingly, short-term loans account for the bulk of their lending. Microfinance institutions play an important role in supporting financial inclusion. Over 400 micro finance institutions are present in Cameroon, accounting for about 16 percent of banks' total assets. Mobile financial services were launched recently, and are expanding rapidly, though their continued growth will depend in part on an enabling regulatory framework that balances financial sustainability and access.

16. **Public debt levels continued to rise.** The 2017 annual ceiling on contracting new non-concessional loans (XAF 1200 billion) was almost reached by end-September and the 2018 pipeline of new non-concessional borrowing already exceeds XAF 1,000 billion for a XAF 500 billion ceiling. The public debt to GDP ratio, though relatively low, has climbed quickly from 21.5 percent in 2014 to 33.7 percent of GDP expected at end-2017. Debt accumulation has been fueled by large borrowing for infrastructure projects, some of which was on non-concessional terms. Slow implementation of projects resulted in a large volume of contracted but non-disbursed debt (at 20 percent of GDP at end-2016), and high commitment fees. The most recent Debt Sustainability Analysis (DSA) prepared in the context of the IMF program rated Cameroon's risk of debt distress as high, citing continued weakness in export growth, vulnerability to exchange rate depreciation, and continued fiscal spending, should the country miss the fiscal targets in the IMF program.

17. **Recent policy developments at the regional level bode well for broader regional stability.** The regional institutions (BEAC, COBAC, and the CEMAC Commission) have implemented policy measures to support member countries' adjustment programs and restore the monetary union's external sustainability. These include: (a) the elimination of statutory advances; (b) the reduction of the refinancing ceilings by the BEAC; (c) the implementation of regulatory compliance by commercial banks by the *Commission Bancaire de l'Afrique Centrale* (COBAC); and (d) the enhancement of the regional surveillance framework by the CEMAC Commission. Specifically, the BEAC has frozen the ceilings of statutory advances based on 2014 fiscal revenue and plans to agree with each member country on a schedule for gradual reduction in statutory advances ceilings until full elimination by 2027. The BEAC has also committed to the strict compliance of prudential ceilings on refinancing supported by government securities used as collateral. The new regional

[8] IMF Staff report 2017, Annex 4. Three of the four banks are privately owned. There are some emerging problems in another small public bank. The IMF estimates the fiscal costs of any resolution efforts to be manageable at around 0.7 percent of GDP.

macro surveillance framework includes four multilateral surveillance criteria (a floor on the overall budget balance augmented by oil revenue savings and ceilings on average annual inflation, total public and publicly guaranteed debt, and arrears accumulation). Reforms to address weaknesses in the banking sector, and improve resolution of NPLs have not yet gained momentum.

Table 2.1. Key Macroeconomic Indicators, 2014-2020

	2014	2015	2016e	2017p	2018p	2019p	2020p
Real economy	(Annual percentage change, unless otherwise indicated)						
Nominal GDP (CFAF, billion)	17,276	18,285	19,105	19,810	20,758	21,941	23,392
Real GDP	5.9	5.7	4.5	3.7	4.2	4.8	5.0
Per Capita GDP (in US$, Constant prices)	1293.6	1335.0	1361.7	1378.0	1401.5	1433.7	1469.5
per Capita GDP	3.4	3.2	2.0	1.2	1.7	2.3	2.5
Contributions to Growth							
Demand side							
Consumption	*4.2*	*4.2*	*2.9*	*3.1*	*3.4*	*3.8*	*4.0*
Investment	*3.1*	*-0.1*	*1.9*	*0.2*	*1.0*	*1.2*	*1.2*
Net exports	*-1.4*	*1.5*	*-0.4*	*0.5*	*-0.2*	*-0.2*	*-0.2*
Supply side							
Agriculture	*0.8*	*0.7*	*0.9*	*0.5*	*0.6*	*0.7*	*0.7*
Industry	*1.5*	*2.5*	*0.9*	*1.0*	*1.1*	*1.3*	*1.3*
Services	*2.6*	*1.9*	*2.3*	*1.9*	*2.2*	*2.5*	*2.6*
Net Taxes on Products	*1.0*	*0.6*	*0.3*	*0.3*	*0.3*	*0.3*	*0.4*
Imports	15	-5	-5.9	-1.4	3.2	4.4	4.4
Exports	20.9	14.6	1.0	0.7	3.2	6.1	7.7
GDP deflator	2.6	0.3	0.0	0	0.6	0.9	1.5
CPI (eop)	2.6	1.5	0.3	1.0	1.0	1.2	2.0
Oil price (US$/bbl)[1]	96.2	50.8	42.8	53	56	59	60
Fiscal Accounts	(As a percentage of GDP)						
Total expenditure	20.8	20.9	21.2	17.7	17.5	17.3	17.2
Total revenue	16.6	16.5	15.0	14.6	15.1	15.5	15.8
General Government Balance	-4.2	-4.4	-6.2	-3.1	-2.3	-1.8	-1.4
Public and Publicly guaranteed debt (eop)	21.5	30.9	31.6	33.7	34.3	34.5	34
Selected monetary accounts	(Annual percentage change, unless otherwise indicated)						
Credit to the economy	14.4	11.4	7.2	5.6	8.2	11.1	11.5
Broad money	10.8	9.2	5.5	5	5.3	5.9	7.1
External accounts	*(*Percentage of GDP, unless otherwise indicated)						
Current account balance	-4.0	-3.8	-3.2	-2.6	-2.5	-2.3	-1.7
Imports of goods and services	-27.7	-25.2	-22.0	-19.8	-18.9	-20.1	-19.4
Exports of goods and services	17.0	14.7	16.1	12.2	11.6	11.6	11.7
Foreign direct investment	2.6	1.9	1.7	1.6	1.6	1.7	1.7
Gross official reserves imputed to Cameroon (US$, billions, eop)	3.2	3.5	2.3	2.9	3.1	3.2	3.3
External Debt	14.6	19.8	21.1	23.4	25.8	27.3	27.4
Terms of Trade	-9.9	-11.4	-4.7	-5.1	-3.2	-2.2	-2.6

Source: National authorities, IMF, World Bank

[1] Crude oil, average price of Brent, Dubai and West Texas Intermediate, World Bank Commodities Price Forecast (nominal US dollars) Released: October 26, 2017.

Table 2.2 Key Fiscal Indicators, 2014-2020

(in percentage of GDP)	2014	2015	2016e	2017p	2018p	2019p	2020p
Overall Balance	**-4.2**	**-4.4**	**-6.2**	**-3.1**	**-2.3**	**-1.8**	**-1.4**
Primary balance	-3.8	-4.0	-5.4	-2.1	-1.5	-1.3	-1.1
Total Revenue and grants	16.6	16.5	15.0	14.6	15.1	15.5	15.8
Oil revenue	3.9	3.0	2.2	1.9	1.8	1.8	1.8
Non-oil revenue	12.4	13.4	12.5	12.4	13.0	13.5	13.8
Tax revenues							
Direct taxes	3.6	3.7	3.3	3.2	3.2	3.2	3.2
Taxes on goods and services	6.1	6.2	6.6	6.5	7.0	7.2	7.4
Taxes on international trade	2.1	1.8	1.8	1.9	2	2	2.1
Non-Tax revenues	0.7	0.8	0.8	0.8	0.8	0.8	0.8
Exceptional revenue		0.8					
Grants	0.3	0.1	0.2	0.2	0.2	0.2	0.2
Total expenditure	20.8	20.9	21.2	17.7	17.5	17.3	17.2
Current expenditure	13.2	13.3	12.6	11.2	11.2	11.2	11.2
Wages and salaries	4.9	5.0	5.0	4.9	4.9	5.0	5.1
Goods and services	4.4	4.6	4.3	3.4	3.7	3.6	3.6
Interest payments	0.4	0.4	1.3	0.8	1.00	0.8	0.8
Transfers and subsidies	3.5	3.3	2.5	1.9	1.8	1.8	1.8
Capital expenditure	7.6	7.6	8.4	6.5	6.2	6.1	6.2
Foreign financed	3.8	2.9	2.6	3.2	2.9	2.8	2.7
Domestically financed	3.6	4.4	5.6	3.2	3.2	3.2	3.3
General Government Financing	4.3	2.5	5.1	0.8	1.7	1.3	2.2
Foreign borrowing (net)	3.4	4.8	1.8	2.3	1.7	1.6	1.6
Domestic borrowing (net)	0.8	-2.3	3.0	-1.9	0.1	-0.2	0.6

Source: National authorities, IMF, World Bank.

2.2 MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

18. **Medium term growth prospects are favorable, driven by supply and demand side effects that will outweigh the negative impact of fiscal consolidation and low oil prices.** The medium-term outlook is positive and a gradual rebound is expected as growth recovers to 5.0 percent by 2020. However, per capita growth will remain modest, averaging 1.9 percent over 2017-2020, below what was observed before the oil and security crises that started in 2014. Supply side factors include increased gas production starting in 2018, government's efforts to boost productivity in agriculture and continued growth in the services sector, notably transport and telecommunications. Recent progress on regional integration, such as the decision to merge the two stock markets in the CEMAC and fully implement free movement of goods and people, would support growth. These factors would mitigate the decline in oil prices and production. Demand side factors include sustained public investment and the lagged impact of past investments which, in turn, support a

rebound in private investment. Fiscal consolidation will hold back some growth though fiscal multipliers appear to be low, according to the IMF staff analysis. [9]

19. **The authorities are implementing an ambitious fiscal adjustment of 5 percent of GDP over four years, of which about 3 percent will be achieved in 2017.** The Government has planned to narrow its fiscal deficit through contraction in capital and recurrent spending, and increase in non-oil revenue. Much of this likely to be achieved in 2017, by tightening spending on domestically financed investment, and transfers and subsidies. Over the medium term, spending reductions will be achieved by better prioritizing public investment, which should reduce the adverse impact on growth, while a gradual expansion in non-oil tax revenues will support higher revenue mobilization. This will be accompanied by greater transparency on contingent liabilities, as the Government discloses these liabilities in a systematic manner in an annex to the 2018 Finance Law. The Government is also targeting a clearance of domestic arrears of 3.5 percent of GDP by 2020. In this context, the Government will adopt by December 2017, a plan to gradually clear outstanding balances and arrears from previous fiscal years. The fiscal retrenchment together with restrictive monetary policy will help build domestic deposits to about 2.4 percent of expenditures by 2020 (these were at 0.5 months in 2016). [10]

20. **Measures to raise revenue, especially from non-oil sources, are critical to the success of the fiscal adjustment.** Specific revenue measures that were implemented include: an increase in the excise tax on petroleum products (TSPP); the introduction of a tourist tax on overnight stays in hotels and other accommodation; a new tax on furnished rental accommodation and the levy of excise duties on vehicles over 10 years old; reinstatement of a 10 percent customs duty on imports of cement and of 5 percent on fish and improvement in property tax collections by linking them to electricity bills.[11] Additional measures, such as reduction of tax exemptions and greater effectiveness of tax administration, will be critical to raise revenue to GDP from 14.7 percent in 2017 to almost 16 percent by 2020. The draft Finance Law 2018 is expected to incorporate new revenue raising measures, and its overall fiscal deficit target is expected to be in line with the IMF program target.

21. **The current account deficit is expected to fall, and remain below pre-crisis levels.** The current account deficit will fall over the program period, from 3.2 percent of GDP in 2016 to 1.7. percent of GDP in 2020 due to reduced imports, in part due to lower public investment, and higher growth. Exports will pick up gradually, but stay below pre-crisis levels when higher oil prices translated into a larger share of oil exports. Preferential entry into the EU market under trade agreements is also expected to increase other commodity exports, including cocoa, coffee, timber, cotton and aluminum.

22. **Monetary policies will remain tight, as the BEAC attempts to support regional stability and rebuild reserves.** Strong upfront measures and a strict control of statutory advances (paragraph 17) will help restore stability. While foreign exchange reserves at the BEAC have improved, to the extent that these are due to one-off factors, it is possible that that a further tightening of the policy rate would be warranted to help ensure the adequacy of foreign exchange reserves.

---

[9] The IMF Staff Report used the Bucket Approach proposed by the IMF Fiscal Affairs Department (FAD) to estimate Cameroon's fiscal multiplier. It consists of assigning scores on several structural dimensions: trade openness, labor market rigidity, the size of automatic stabilizers, the exchange rate regime, the debt level, and public expenditure management and revenue administration. Scores are added and the economy is assigned a multiplier value within one of three ranges: low, medium, or high. While the data is sparse, based on this approach, Cameroon's multiplier is between low (0.1 to 0.3) and medium (0.4 to 0.6).

[10] IMF Staff report paras 12 and 16. The fiscal adjustment is stated on a commitment basis. On a cash basis, it is 3 percent.

[11] This was an IMF Structural Benchmark and was achieved.

23. **The exchange rate does not appear to be substantially misaligned, especially under an adjustment scenario.** The IMF's assessment in its Staff Report for the ongoing ECF highlighted that despite a 30 percent deterioration in Cameroon's terms of trade over the past two years (driven largely by the oil price fall), the real effective exchange rate (REER) appreciated by 2 percent, and the nominal effective exchange rate by 3.6 percent.[12] This is largely attributable to the pegged exchange rate. The IMF estimates that the exchange rate was overvalued over a broad range (between 0.1-11.5 percent) depending on the model used for estimation, and concludes that on balance, the REER does not indicate a substantial misalignment under the adjustment scenario in the forthcoming program, where fiscal policies would play an important role in implementing the adjustment.

24. **The fiscal adjustment will be financed by substantial resources from the DPs.** Under the IMF's baseline program, Cameroon will have total external financing requirements of about XAF 3.2 trillion between 2017 and 2020 (Table 2.3). While a large share of this financing will be met by foreign direct investment (FDI) and other debt sources, Cameroon will still be left with a balance of payments (BOP) financing need of CFAF 1224. 9 billion over the program period which is expected to be fully covered by IMF financing as well as budget support operations from multilateral and bilateral donors (including the proposed DPF).

Table 2.3: Balance of Payments financing requirements and sources, 2016-2020

(XAF Billion)	2016	2017 e	2018 p	2019 p	2020 p
Financing requirements	**-79.2**	**854.8**	**779.3**	**856.5**	**745.3**
Current account balance	-622.4	-565	-517	-508	-416
Debt amortization	122.7	174.9	195.2	228.4	229.4
Repayment to the Fund	17.7	17.2	16	15.1	0.6
Change in gross reserves	-842	97.3	50.6	105.4	99.5
Financing sources	**-79.2**	**854.8**	**779.3**	**856.7**	**745.3**
FDI and portfolio investments (net)	337	322.5	344.4	382.7	421.8
Capital grants	60	36.3	36.3	36.3	36.3
IMF ECF Financing		167.3	85.6	85.2	42.5
Expected budget support		321.9	261.3	261.1	0
Other Debt Financing	-452.5	6.8	51.7	91.4	244.7
Errors and Omissions	-23.7	0	0	0	0
Memorandum item:					
Financing for Adjustment Program (US$ million)					
IMF financing		283.6	145.1	144.4	72
Other Development Partners		545.6	442.9	442.5	0

Source: National authorities, IMF, World Bank.

25. **Debt sustainability will depend heavily on the Government's ability to achieve fiscal targets and rein in additional borrowing, especially on non-concessional terms, while continuing to implement growth enhancing investments.** Cameroon's high risk of debt distress (despite relatively low debt levels) is largely because the debt to exports ratio breaches the applicable threshold, and is expected to remain at the threshold over the forecast period. High levels of non-concessional debt and exchange rate risks also contribute to the high-risk outcome. While Cameroon contracted high levels of non-concessional debt in the

[12] IMF Staff Report 2017, Annex 1.

past to fund its investment program, new borrowing would need to be at a higher level of concessionality.[13] As the DSA explains, a zero limit on non-concessional debt, would not be appropriate despite high debt risks. With Cameroon's income being above the International Development Association (IDA) cutoff, access to concessional resources are limited, and concessional financing will not be available to fund large infrastructure projects. If the authorities are successful in limiting non-concessional borrowing and directing non-concessional loans only to high-return projects, new borrowing would support debt sustainability as the growth dividends from these projects generate resources to service debt. To avoid risks of over indebtedness, the Government set the ceiling on external debt at CFAF 1,700 billion for 2017. According to the DSA, under an adjustment scenario, public debt to GDP should decline (in present value terms) from 29 percent of GDP in 2016 to 20 percent of GDP in the long term, below the DSF benchmark level of 38 percent of GDP applicable to weak performers. Consistent efforts to improve the CPIA rating would also support debt sustainability. (Figure 2.1).

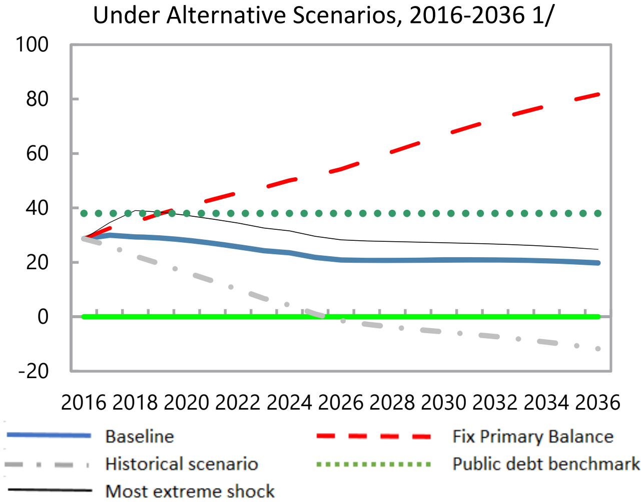
Table 2.4. Composition of Gross Public Debt, June 2017

	(billions XAF)	(Percent of GDP)
Public Debt and publicly guaranteed debt	**5463**	**27.5**
External debt	4002	20.2
Domestic debt	1110	5.6
BEAC Statutory advance	281	1.4
Public guaranteed debt	71	0.4
SONARA debt (oil refinery) debt[1]	**65**	**0.3**
Domestic arrears	**603**	**3.0**
Public debt IMF definition[2]	**6131**	**30.9**
Memorandum item		
Stock of contracted but undisbursed debt	5142	25.9

1/ Suppliers 'arrears associated with unfunded fuel subsidies
2/ Total public debt (disbursed) and publicly-guaranteed debt
Sources: Cameroonian authorities, IMF.

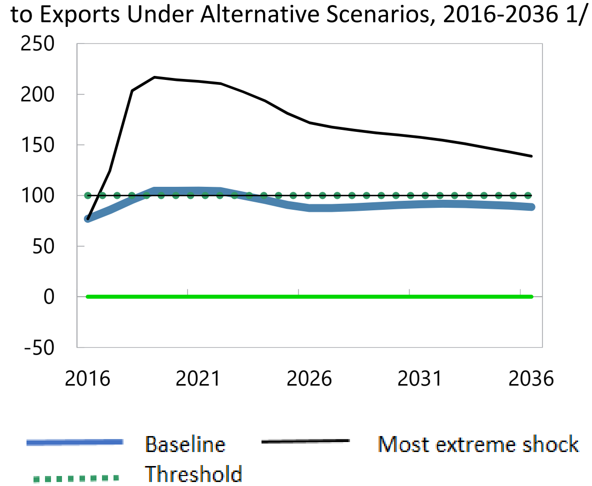
Figure 2.1 Debt Sustainability Analysis

a. Cameroon: Present Value of Total Public Debt to GDP Under Alternative Scenarios, 2016-2036 1/



Source: IMF and World Bank staff calculations

b. Cameroon: Present Value of External Public Debt to Exports Under Alternative Scenarios, 2016-2036 1/



Source: IMF and World Bank staff calculations

[13] In 2015, over 70 percent of new borrowing was on non-concessional terms.

26. **Cameroon's macroeconomic policy framework for 2017-2019 is adequate for a development policy financing.** In the face of a difficult economic situation, the authorities have taken upfront steps to reduce spending and boost revenues. Structural reforms to tighten budget processes and raise the efficiency of expenditures will help institutionalize changes to support fiscal sustainability. The infrastructure program, which could bear fruit in terms of improved infrastructure and better connectivity, would have growth dividends that could support growth recovery. The program negotiated with the IMF and other DPs including the World Bank, should provide adequate financing to meet Cameroon's needs over 2017-2019.

27. **Nevertheless, downside risks can affect macro adequacy and will need to be monitored and mitigated carefully as the DPF program unfolds**. Key downside risks to this assessment include the upcoming presidential elections in 2018 and continued deterioration in the security situation in the North, Far North and East regions as well as in the Anglophone regions, which could put renewed stress on public finances and challenge the ambitious fiscal consolidation. Disruption to economic activity in the Anglophone region, which has historically contributed strongly to growth in Cameroon, would negatively impact the growth outlook. The need to prepare for the African Cup of Nations games, while providing a temporary boost, will also stress public spending. If Cameroon continues to pursue its public investment program without adequate prioritization and financed by non-concessional resources, or if structural reforms stall due to upcoming elections or other factors, growth outcomes will disappoint and debt risks will persist. It is unclear how sustained fiscal consolidation will impact growth multipliers. In 2017, the impact of a 2.5 percent of GDP reduction in spending on growth was visible. Over the rest of the program period, if the Government is successful in effecting fiscal consolidation through revenue increases and efficiency measures, the negative impact of fiscal consolidation on growth would be less severe.

28. **Regional and global risks can also jeopardize macroeconomic stability, even if Cameroon performs well and stays on track with its fiscal adjustment.** If the economic situation deteriorates, for example due to deeper crisis in other countries, or the inability of Republic of Congo and Equatorial Guinea to secure IMF programs, or worsening regional security and displacement of affected persons, this would put additional pressure on Cameroon's fragile fiscal position and potentially derail its recovery. This risk is hard to mitigate, and requires sustained coordination among CEMAC members and support from the international community. Finally, macro adequacy would be weakened if global risks materialize, especially in terms of weaker global growth, sustained low oil prices, and tighter global financial conditions. This would increase vulnerability in terms of higher fiscal deficits and fewer options for contingency financing in a situation of tighter domestic liquidity. These risks could be mitigated by sustained efforts at structural reforms to increase resilience and improve creditworthiness.

2.3 IMF RELATIONS

29. **Cameroon has an ongoing ECF with the IMF, which is on track.** On June 26, 2017, the Executive Board of the IMF approved a US$666.2 million package under the Extended Credit facility for 2017-2020. The program includes three pillars: i) frontloaded fiscal consolidation to strengthen fiscal and external buffers, while protecting social spending; ii) structural fiscal reforms to expand the non-oil revenue base, improve the efficiency of public investment and the quality of budgetary system, and mitigate fiscal risks from contingent liabilities; and iii) reforms to accelerate private sector-led economic diversification and to boost the resilience of the financial sector. At the first review of the program, which concluded on November 6, 2017, Cameroonian authorities and IMF staff reached agreement on measures to allow the IMF to take the review to its Board by mid-December 2017. The IMF program is well coordinated with the proposed World Bank DPF and other DP programs, with a high degree of collaboration among DPs.

3. THE GOVERNMENT'S PROGRAM

30. **The Government's economic program is anchored on the objectives of the long term "Vision 2035" strategy, with the goal of making Cameroon an emerging economy by 2035**. Vision 2035 includes medium-term objectives, with a focus on alleviating poverty, becoming a middle-income country, becoming a newly industrialized country, and consolidating democracy and national unity while respecting the country's diversity. In 2009, Cameroon adopted the Strategy for Growth and Employment (*Document de Stratégie pour la Croissance et l'Emploi)* (Growth and Employment Strategy Paper - DSCE), which established the framework for the first implementation phase (2010–2020) of the "Vision 2035''. The DSCE identifies many constraints that need to be overcome to achieve Vision 2035's goal. Key constraints include inadequate infrastructure and human capital, and an unfavorable business environment. The main objectives of the DSCE are: (i) Increase annual average economic growth to 5.5 percent between 2010 and 2020; (ii) reduce underemployment by approximately one third, from 75.4 percent in 2005 to less than 50 percent in 2020; and, (iii) reduce the poverty rate from 39.9 percent in 2007 to less than 28 percent in 2020.

31. **The mid-term assessment of the DSCE (2010-2015) indicated that Cameroon's economic and social performance were below the targets set in 2009.** Growth rate for the period 2010–2015 was 4.9 percent, more than one percentage point below the target of 6.1 percent projected in the GESP. The underemployment rate deteriorated to 79.0, 7.9 percent below the level of 2004. The poverty rate declined to 37.5 percent in 2014 from 40 percent in 2011, but the disparities in the standard of living between urban and rural areas have widened over the same period. To accelerate growth, the Government has developed a three-year emergency program (PLANUT) (2015-2017) with investments totalling CFAF 925 billion (US$1.85 billion) in 2015, to boost some sectors such as agriculture, electricity, health, road infrastructure and water. It also launched a program for the youth for about CFAF 102 billion (about US$170 million) that is expected to support one and a half million young people aged between 15 years and 35 years and boost employment in sectors such as agriculture and the digital economy.

32. **More recently, to support the regional effort to rebuild the pooled external foreign exchange reserves, the GoC adopted a 2017–2020 economic and financial program.** The program is aligned with the regional framework defined by the CEMAC heads of States in 2016 as a response to the oil price shock of 2014-15. The objective of the program is to consolidate the achievements made to date and to strengthen the conditions enabling the private sector to take over from public investment in driving growth. The structural reforms of the program include measures to consolidate the macro fiscal position and to enable the national economy to be integrated more effectively into the global value chains and reduce poverty.

4. THE PROPOSED OPERATION

4.1 LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

Link to Government Program

33. **The proposed program is closely aligned with the objectives of the DSCE.** It is designed to address the challenges associated with the implementation of infrastructure development, human development and financing of the economy areas of the growth strategy.

Operation Description

34. **The objective of the proposed programmatic DPF is to support 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 to reduce vulnerability among the poor.** 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.

35. **The program is ambitious, commensurate with the Government's ambitious goals and the World Bank's deep engagement across a wide range of sectors.** Given the breadth of the World Bank's engagement in Cameroon, and the ambitious development agenda adopted by the Government, there are many areas where the World Bank could consider potential reforms to be supported by the operation, and indeed the breadth of the operation reflects both the World Bank's close engagement as well as the possibility to achieve progress across a wide range of reforms. The following interdependent filters were applied to guide the choice of sectors and operations: (i) criticality or robustness of reform efforts; (ii) strong analytical underpinnings and a good knowledge base to inform the choice of actions; (iii) implementation arrangements to support reforms and achievement of program results; and (iv) feasibility and Government willingness to implement reforms in the timeframe of the operation (keeping in mind that the next presidential election is in 2018). These filters reflect not only the World Bank's collective learning from a long experience in preparing DPFs but also the lessons learned from years of engagement with Cameroon. Many measures supported by the DPF address issues related to governance, through actions on procurement, HR reforms, tax policy, and budget management. Measures in the health and education sectors, such as the introduction of accredited, non-government suppliers of pharmaceuticals to public health facilities, the reform of the textbook policy in public primary and secondary schools, deal with deep seated vested interests and are strong governance related measures supported by the operation.

36. **The program is also consistent with the World Bank Group's approach to Maximizing Financing for Development (MFD)**[14]. It is classified as an "MFD-enabling" project on the basis that it strengthens the financial viability of the energy distribution utility in Cameroon, which is critical to ensure private sector interest in IPP development, and thus is expected to facilitate additional sustainable private sector solutions in the country's energy sector within three years of the project's closing date.

Lessons Learned

37. **The design of the proposed series is informed by lessons learned from the SCD and Country Partnership Framework (CPF) for 2017-2021 as well as by ongoing operations and policy dialogue with the authorities.** This is the first World Bank DPF in Cameroon. Among the key lessons used to inform the DPF is that as in many countries, in Cameroon, the WBG can make the greatest difference when it: (i) supports reforms by leveraging the strengths of the entire WBG and collaborating closely with other DPs; (ii) builds on its comparative advantage, as understood from the lessons of our past experience and from client feedback; (iii) aligns closely with the Government's own development program and requests for WGB support; (iv) uses the knowledge and the support of ongoing investment projects to ensure sustainability

[14] DEVELOPMENT COMMITTEE Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries https://worldbankgroup.sharepoint.com/sites/MFD/Document/MFD%20Approach/Maximizing%20Finance%20for%20Development%20-%20Leveraging%20the%20Private%20Sector%20for%20Growth%20and%20Sustainable%20Development.pdf?source=https://worldbankgroup.sharepoint.com/sites/MFD/

and success of reform efforts; and, (v) provides integrated multi-sector solutions to address development challenges.

4.2 PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

Pillar 1: Improving fiscal sustainability and public sector management

38. **An immediate priority is to support the ongoing fiscal adjustment through fiscal consolidation measures and improved management of the public sector**. The first pillar supports fiscal sustainability and public sector management through the following actions across four policy areas: (a) increased revenue mobilization by rationalizing tax expenditures and strengthening tax administration; (b) reduced delays in public procurement through the implementation of a more efficient institutional framework; (c) control of the wage bill and strengthened human resources (HR) management; and (d) strengthened management and oversight of State-Owned Enterprises (SOEs).

Increase revenue mobilization

39. **Low revenue mobilization is a key challenge facing Cameroon, especially if it wants to sustain ambitious expenditures without resorting to higher borrowing.** Oil related revenue is projected to decline as Cameroon's oil reserves dry up. Moreover, the economic impact of the European Partnership Agreement between Cameroon and the EU will result in downward pressure on customs revenues. To strengthen fiscal sustainability, the GoC will need to increase revenues, especially those from non-oil sources (which were 13.0 percent of GDP in 2016, below the comparator for other countries with higher levels of oil dependence). Reforms under the DPF aim to increase non-oil revenue mobilization, primarily by reducing tax expenditures. Specifically, the reforms will: (i) improve fiscal oversight of tax expenditures; and (ii) support the implementation of specific measures to rationalize tax expenditures. The first operation will also support steps to strengthen tax administration.

40. **The Government has embarked on a strategy to increase non-oil tax revenues.** This includes getting a good understanding of the extent of tax expenditures, undertaking a systematic assessment of areas of redundancy and inefficiency in these expenditures, and reducing tax exemptions. These reforms, complemented by tax administration reforms to broaden the tax base and increase efficiency, will help, over the medium term to increase tax revenue as a share of GDP. These policy issues were highlighted in a recent Tax Administration Diagnostic Assessment Tool (TADAT) evaluation and a recent IMF review of tax policy in Cameroon.

41. **The DPF will support the Government in advancing its capacity in fiscal oversight and transparency.** The Ministry of Finance has set up a committee between the tax and customs departments to oversee tax expenditures. The unit is responsible for preparing comprehensive reports on tax expenditures across all tax sources, including quantification of revenue loss and elaboration of actions plans to reduce the said loss. As an initial step, tax expenditure on VAT was assessed in 2016. In 2017, the unit prepared a report covering the revenue loss in all indirect tax sources due to tax exemptions. The report, including an action plan on rationalization of tax exemptions will be annexed to the 2018 Finance Law (Prior Action 1a), in line with international practice on fiscal transparency. In the second year of the Program, tax expenditures, and related revenue loss will be estimated on direct tax sources (DPF2, Trigger 1), and in year three, a comprehensive platform for fiscal oversight and options in further reducing loss and enhancing efficient use of tax expenditures will be available covering updated information on all tax sources (DPF 3, Trigger 1).

42. **With the fiscal oversight and reporting becoming available, the DPF series will support informed implementation of specific measures to suppress inefficient and redundant tax expenditures.** The revenue authorities have prepared a draft action plan on indirect taxes as a follow-up on the 2017 assessment report. The revenue forgone on indirect taxes in 2016 stands at 2.5 percent of GDP, and the government's draft action plan points to potential revenue improvement of between 0.8 and 1.6 percent of GDP, by suppression or improvement in terms of enhanced efficiency. Once the action plan is implemented, between 50 and 70 percent of current tax expenditures related to indirect taxes could be eliminated. Given the time needed to build support and consult with stakeholders, the bulk of the action plan will be implemented in 2019-20, with full revenue impact in 2020.

43. **To support revenue mobilization in 2017-2018, the DPF supports joint actions by the tax and customs departments to combat tax evasion**. The main actions of the program, which was launched in February 2017, include the use of a single database of taxpayers, the adoption of a list of specific areas for exchange of information between tax and customs authorities, and a plan of joint audit control in 2017, focusing on 56 large enterprises in three economic sectors (Prior Action 1b). Collaboration actions also include: (i) the exchange of information on tax payers between the customs and tax departments; and (ii) the establishment of a joint committee to examine applications for the tax incentives planned on the 2013 Investment Promotion Act 2013 and the introduction of joint auditing of companies benefiting of these taxes. Between June and August 2017, joint controls were conducted on 11 large companies which have yielded XAF 19 billion in additional tax revenue. In addition, the collaboration has resulted in the suspension of customs clearance since September 15, 2017, for taxpayers that were active in ASYCUDA and not in the file of the Tax Department.

44. **DPF2 and DPF3 support further measures to reduce tax expenditures.** As the inventories and quantification of revenue forgone is completed on direct taxation, measures on down-sizing will be included in the respective Finance Laws (DPF2, Trigger 1 and DPF3, Trigger 1). Currently, the Government does not possess a valid estimate of revenue forgone on direct taxes. However, the combined impact of reduction in tax exemptions on direct and indirect taxes over 2016-2020 may be targeted at 1.0 percent of GDP.

45. **As a separate area of major importance to improved targeting of tax incentives, the current law on investment incentives (from April 2013), will be reviewed and revised for efficiency, supporting efforts to improve revenues.** Access to tax exemptions in the 2013 Law is so broad that most investments easily qualify. The efficiency in terms of supporting specific development objectives is weakened by the law covering all 14 economic sectors, setting no lower limit for size of the investment, including corporate as well as non-corporate tax payers, include new and reinvestments, as well as provide very generous exemptions, such as tax holidays for a period of ten years. The Government has launched a review of the law, reviewing areas as outlined, and the suggested actions to focus and rationalize the law are included as triggers in DPF2. In the meantime, the Government is issuing decrees to tighten the framework and conditions for granting tax incentives schemes under the 2013 Law. These include the clarification of the roles of agencies intervening in the contract preparation for tax incentives.

46. **Alignment with programs of the IMF and other DPs is being ensured**. The IMF support includes work on improved tax design and enhanced tax administrative capacity (VAT, excises, and property taxation). The AfDB is supporting property taxation as well. The authorities have requested analytical support from the World Bank to implement the tax expenditure reforms, which will be closely coordinated with the IMF.

Prior Action 1

To improve revenue mobilization, the Ministry of Finance has: (i) included an assessment of tax expenditures from indirect taxes as an annex to the draft 2018 Finance Law, submitted for Parliamentary approval; and (ii) implemented the first phase of a program of joint audits between tax and customs authorities of the cement, forestry and telecommunications sectors.

DPF2, Trigger 1

To improve revenue mobilization, the Government has: (i) Prepared an assessment of tax expenditures in direct taxes, annexed to the 2019 Finance Law, including specific measures to reduce tax expenditures by 0.2-0.3 to GDP for 2019; (ii) Implemented action plan on reducing tax expenditures on indirect taxation by 0.8 percent to GDP for 2019; and (iii) Completed an evaluation of the 2013 Investment Law on incentives for private investment, with specific measures on rationalizing tax incentives over 2019-2020.

DPF3, Trigger 1

To improve revenue mobilization, the Government has: (i) Implemented action plan on reducing tax expenditures on indirect taxation by 0.8 percent to GDP for 2020; (ii) Prepared a specific action plan for the period 2020-2021 on the rationalization and simplification of all tax expenditures; and, (iii) Updated in the Finance Law for 2020 the annual reporting on revenue forgone due to tax expenditures, covering all tax sources.

Expected Result: The reforms should result in higher revenue mobilization, especially from non-oil sources, through a reduction in tax expenditures from 4.1 percent of GDP in 2016 to 3.1 percent in 2020.

Reduce delays in public procurement

47. **Long delays in completing public procurement are a significant cause for the low execution rate of capital expenditure and the high single source contracting rate**. The creation of the Ministry of Public Procurement (MINMAP) in 2011 was intended remove weaknesses such as limited capacity in prioritizing projects and lack of transparency. However, it led to institutional confusion and tension due to lack of clear accountability and overlapping mandates and did little to reduce delays in procurement. As of 2015, the procurement process (from the issuing of bid documents to the signature of a contract) was estimated to last an average of 128 days for procurement for smaller projects (below the threshold dealt by MINMAP) and 225 days for larger projects within the threshold processed by MINMAP. To cope with low capital budget execution rates (estimated at 40 percent in 2016), the Government resorted to exceptional procedures which increased the share of projects where procurement was done by single-sourcing, further reducing transparency in the procurement process.

48. **Current tools for comprehensive tracking of procurement procedures are weak.** The lack of tracking mechanisms prevents effective performance monitoring and accountability. The 2004 Procurement code was updated in 2011 but a continued lack of clarity leaves room for different interpretations as well as institutional confusion as there are some overlaps in the roles of responsibilities between different actors. A further update of the Procurement Code has been drafted but has neither been publicly reviewed nor approved by authorities.

49. **The proposed operation will focus on improving the speed of the procurement process.** The operation will support the adoption of a new procurement code (DPF2, trigger 2), which should reduce much of the current confusion by clearly determining institutional responsibilities. DPs will work with the Government to review the new code and help ensure that it meets international standards. DPF2 will also support the rationalization of the tender board and introduction of performance-based pay with a focus on reduction in processing time (DPF2, Trigger 2). DPF3 will support the introduction of an e-tracking system (DPF3, Trigger 2).

50. **Procurement reforms will be supported by World Bank technical assistance (TA) in coordination with other donors.** TA will be provided to MINMAP to support: (i) setting up an e-tracking system for monitoring the procurement processes; (ii) piloting a performance incentive system for the tender board

and the procurement commissions; and (iii) strengthening the capacities of different stakeholders. The TA will also support the revision of the procurement code. The AfDB is providing complementary support to improve the quality of appraisal and readiness for public investment projects, which is the pre-requisite for the procurement process. Coordinated efforts by DPs, and a renewed urgency on the part of Government to reduce the lengthy delays in implementing much needed capital investment projects provides a new impetus for the successful implementation of these difficult reforms.

DPF2, Trigger 2
To improve the effectiveness of the public procurement process: (i) the President has issued a new procurement code in the form of decree, which clarifies, inter alia, responsibilities of the stakeholders, the independence of the complaint mechanism, and the separation of three roles in public procurement: the regulatory, the control and the process; and (ii) MINEPAT and MINMAP have issued a joint *arrêté* stipulating the new performance pay based on the completion of review process at the tender board/procurement sub-commissions, and repealing the current *arrêté* on remuneration based on payment for attendance.
DPF3, Trigger 2
To improve the effectiveness of public procurement, the Ministry of Public Procurement has set up the e-tracking system for dematerialization of public procurement documents and awarded contracts.
Expected Results: The reforms should result in the reduction in the average time taken to complete the procurement process for public investment projects, measured as the time between the issuance of bid documents and the signing of contracts. For projects under the purview of MINMAP, the average time should be reduced from 128 days in 2016 to 90 days by 2020. For projects outside the purview of MINMAP, the average time should be reduced from 225 days in 2016 to 150 days by 2020.

Control the Wage Bill and Strengthen HR Management

51. **A distorted wage and HR structure has adversely impacted public sector performance.** While Cameroon's public wage bill, at 5.4 percent of GDP, is relatively low compared to the Sub-Saharan Africa average of 10 percent, the authorities have attempted to respond to the challenge of low wages by introducing a complex allowance and *per diem* system, where *per diems* in some cases exceed monthly base salary. Moreover, in the wake of structural adjustment that limited and/or froze new staff hiring, many technical staff, mainly teachers were hired as contractual workers in late 80's and 90's, who constitute a third of the work force. This has led to a situation in which the number of managerial positions (Grade A) is almost as high as that in technical positons (Grades B and C) in the civil service structure today. Hence, low base wages, an inverted civil service structure and the high reliance on poorly paid contract workers without clear career prospects, explain low morale and ineffectiveness. The authorities have attempted to respond to the challenge of low wages by creating many ad-hoc and special committees, and introducing the allowances and per diem system. This has led to the unintended consequence of exacerbating the proliferation of committees, unduly bloated public institutions and worsened the problem of overlapping of institutional mandates. These challenges have affected the performance of civil servants and service delivery, and contributed to the growing wage bill.

52. **The Government has taken initial steps to address these challenges.** Due to an unavailability of the precise HR and payroll records, the Government: (i) completed the census of civil servants in early 2016 which identified a large number of irregular and invalid HR and payroll cases; (ii) initiated the administrative process of revocation of these cases; (iii) started the merger of the HR databases (SIGIPES) in the Ministry of Civil Service (MINFOPRA) and the payroll system (ANTILOPE) in the Ministry of Finance (MINFI) into a HR Management Information System (HRMIS/SIGIPES II) and its deployment across the Government); and (iv) rolled-out a new individual performance evaluation system for civil servants in the MINFOPRA and Ministry of Public Health (MINSANTE).

53. **The goal of the reforms in this area is to control the wage bill and improve HR management through the HR and payroll reform.** Prior Action 2 will support the implementation of disciplinary proceedings of about 1,800 irregular cases identified through the census in 2016, which is expected to be completed by March 2018. MINFOPRA initially identified about 3,000 irregular cases at the time of census, from which 1,200 were confirmed later as legitimate cases. The operation will support: (i) the deployment of the SIGIPES II across the Government; (ii) the legal framework defining criteria for creation of commissions/committees, its operational practice and remuneration policy; and (iii) the development of the new civil service organizational framework (*Cadre Organic*) that will determine the number of posts established for the functions of each Ministry to strengthen the hiring control and allocation of HR. The World Bank PFM reform project as well as an ongoing AAA on HR reform will provide technical support for the reforms.

Prior Action 2 To improve the payroll and human resources management, the Ministry of Public Service and Administrative Reform has initiated disciplinary proceedings before the Permanent Disciplinary Council of the Civil Service of irregular public officials identified through the 2016 civil service census. **DPF2, Trigger 3** To improve payroll management and control the wage bill, the Prime Minister has issued a decree defining criteria for creation of committees, its operational practice including limitation of the number of sessions, members, and remuneration policy. **DPF3, Trigger 3** To improve transparency and efficiency in payroll management and control the wage bill, MINIFI and MINEFOPRA have operationalized SIGIPES II in all ministries and integrated the new organizational framework in the SIGIPES II. **Expected Results:** The reforms will help control the wage bill while the introduction of SIGIPES II will strengthen human resources management. The results will be measured by the number of irregular/invalid HR and payment cases that were identified in the 2016 census and have been eliminated from the SIGIPES II. The target is to have at least 80 percent of such cases eliminated by 2020, keeping in mind that some cases may need a more protracted resolution.

Improve fiscal performance and corporate governance in SOEs

54. **Cameroon's large public sector plays an important role in the economy, but its poor performance despite state support creates significant fiscal risk**. Cameroon's 54 commercial SOEs had a combined revenue of 17 percent of GDP on average between 2011-2015, they held assets worth 21 percent of GDP, and employed nearly 60,000 staff. Transfers and subsidies to SOEs and Public Agencies averaged 2.1 percent of GDP over the last few years. Very few SOEs paid dividends to the state in recent years, and the total cost of SOEs and public agencies is around 11 percent of state revenues on average when counting all transfers and arrears between SOEs and the state. In addition to the fiscal impact, large SOEs dominate some productive sectors, crowding out private investment and reducing competition, lowering service standards and increasing prices to the consumer.

55. **While performance varies greatly, most SOEs perform poorly despite significant state support**. Debts and arrears are high (averaging 12 percent of GDP) and many companies have negative asset values. Most SOEs are unable to access capital without state guarantees, and many companies have high debt/equity ratios. Corporate governance standards remain low: boards are staffed with mainly public sector personnel, many occupying positions in breach of national regulations, beyond their term limits and accumulating several positions. Transparency and external control is limited, with little or no information published on company financial and operational performance. The result is a large and underperforming SOE sector which is in urgent need for repositioning/reform to consolidate state ownership where necessary and to increase private sector participation in competitive sectors.

56. **The Government has taken some meaningful steps to improve SOE sector monitoring and strengthen state oversight.** First, to improve the availability of data, a working group was established in April 2017 with a mandate to centralize the collection and analysis of financial data on SOEs. The platform is chaired by the Division of State Participation within the Ministry of Finance, and includes all institutions responsible for the management and the monitoring of SOEs. The working group has prepared a comprehensive report and reform proposal for SOE sector to be included with the 2018 Finance Law. Second, to normalize the financial relations between the state and SOEs, some companies (six as of May, 2017) have started the technical work of calculating the costs of their service obligations. It is foreseen that future transfers to SOEs will be based on these estimates. Finally, the treasury has increased its monitoring of the financial management of independent public agencies (EPAs) through increasing compliance with reporting requirements of the public accountants who oversee certifying EPAs financial statements and who are also required to sign off on their payment requests. Over the last two years, reporting compliance has increased from 20 to near 100 percent and treasury now has a monthly overview of payments. However, significant structural issues continue to hamper the financial and operational performance of SOEs, which has serious implications for public finances due to their continued dependence on transfers and subsidies and government guarantees for accessing capital.

57. **The goal of the reforms under this policy area is to strengthen management and oversight of SOEs by increasing transparency, reporting and disclosure.** The proposed operation will focus on two areas: improve disclosure and transparency of SOEs and strengthen the governance and oversight of SOEs through the implementation of an effective corporate governance framework for SOEs in line with the Organization for the Harmonization of Business Law in Africa (OHADA) standards. The first operation supports the adoption of two new framework laws with a view to increase compliance with good international practice and the OHADA corporate governance standards (Prior Action 3). The second operation will support the preparation of implementing regulations to this law (DPF2, Trigger 4). The new framework laws for SOEs and Public Agencies (1008/PJL/AN and 1009/PJL/AN) were adopted by the National Assembly in June 2017**.** All companies and agencies have one year to comply with the new laws. A major improvement from the previous SOE law is that commercially viable SOEs are no longer required to follow public procurement rules, which was stifling their competitiveness. Other changes include a reduction in the duration of board membership to a maximum of two terms (six years), and a clearer categorization of public agencies into various sub-categories.

58. **The challenge going forward is to operationalize the framework legislation through the preparation of implementing regulations.** Regulations and guidelines are needed on several issues, including on board and management selection, evaluation and remuneration, SOE transparency and reporting, controls and audits. The authorities have requested support from the World Bank on the legal review and drafting, and provisions have been made in the upcoming public sector capacity building operation to support this work, as well as overall capacity building support for SOE monitoring and oversight, including the preparation of an SOE sector reform action plan and sector or company specific reviews.

Prior Action 3

To improve corporate governance and management of public enterprises, the President of Cameroon has promulgated two laws detailing the responsibilities, monitoring and control of public enterprises and agencies in compliance with OHADA.

DPF2, Trigger 4

To improve corporate governance and management of public enterprises, the Government has issued an implementing decree to operationalize the new framework laws detailing: (i) presentation and publication of financial and operational data; (ii) criteria for selection, remuneration, evaluation and replacement of managers and board members

(iii) financial audits; and (iv) level of approval on operational and strategic issues of the enterprise and government oversight arrangements.
Expected results: It is expected that 20 percent of SOEs will be publishing their annual audited financial reports by 2020.

Pillar 2: Enhancing competitiveness

59. **Cameroon's continued vulnerability to shocks has re-established the urgency of efforts to improve competitiveness and enhance prospects for investment and growth.** While policy documents stress the importance of a strong, diversified economy and the policy agenda has prioritized a rapid acceleration in infrastructure spending, the reality on the ground is different. The 2016 Global Competitiveness Index ranked Cameroon 118 out of 138 and the infrastructure pillar had the lowest ranking of 131. A long list of reforms remains to be implemented, including in energy, transport, information communication technology (ICT), business environment, water, agriculture and other sectors. Building on the ongoing World Bank program and dialogue, the DPF focuses on reforms in three policy areas: (i) achieving financial sustainability in energy; (ii) expediting road maintenance activity; and (iii) improving trade facilitation at the Port of Douala. As a pilot country for the World Bank's "cascade" initiative, a key objective of these reforms is to improve the viability Cameroon's infrastructure sectors, thus paving the way for higher shares of private financing. [15]

Improving the financial sustainability of the energy sector

60. **Weak financial viability of the energy utility, the Cameroonian Energy Company ENEO, is a big challenge in the energy sector, and an important constraint to attract much needed private investment.** The energy sector continues to face challenges. The Government is in arrears to ENEO, and this is threatening the sustainability of the sector and reducing prospects for continued private sector investment. While electricity tariffs, at an average of 16 cents a kilowatt hour (kwh) are higher than the regional average of 10 US cents, they do not cover costs. Cost reduction can be achieved if Cameroon implements its least cost development plan for energy investments. To attract credible investors and secure the needed investments, and to reduce energy tariffs, two main challenges must be addressed: (i) ensuring financial viability across the value chain of the electricity sector; and (ii) successfully implementing ongoing reforms related to the unbundling of the electricity sector.

61. **The Government has taken important steps in the energy sector to deepen reforms and lay the foundation for private sector participation**. The adoption of the New Electricity Law in 2011 addressed the challenge of the lack of sector investments, which were particularly acute in 2010. A lack of investment in transmission led it to become a critical bottleneck to the expansion of power generation capacity and of Cameroon's hydroelectric resources of the Sanaga River Basin. Key changes under the 2011 legislation included: (a) the transfer of transmission network management from ENEO to a state-owned entity, the National Electricity Transport Company (SONATREL), whose mandate includes the development, operation, maintenance, and expansion of the national transmission grid, including its interconnection with neighboring countries; (b) changes to water storage activities, including the transfer of the water storage concession of the Sanaga Basin reservoirs to the Electricity Development Corporation (EDC);[16] and (c) the introduction of new penalty charges in the event that ENEO fails to meet agreed performance targets.

[15] 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.
[16] The EDC was created in 2006. It holds public electricity sector assets and its mandate includes the development, management, and operation of hydropower assets.

62. **Good progress has been made on unbundling the electricity sector.** Unbundling the sector by decoupling the functions of distribution and transmission allows ENEO to focus on raising the financing for the distribution network expansion and rehabilitation of generation assets conceded by the Government. Within this context, the Government selected the Third-Party Access (TPA) model as the new modus operandi for SONATREL acting as the National Transmission System Operator (NTSO). Under the TPA, electricity transmission system operators are required to grant electricity generation and distribution companies as well as eligible customers non-discriminatory access to their infrastructure. They must offer the same service to different users under identical contractual conditions. SONATREL is planned to be operational early 2018[17]. The structure of the sector after the end of ENEO concession in 2021 is still under discussion. The Government is considering further unbundling including in the distribution segment. Donors have expressed concerns on the proposed sequencing of this reform, and have advised the Government to set up a working group to come up with alternative options.

63. **Financial sustainability is critical to ensure the bankability of future structuring projects and attract the private sector**. It also undermines ENEO's credibility as off-taker of the energy generated by the private power plants and the confidence of investors to develop new ones. There are a number of challenges to achieving financial sustainability: (a) the tariff regulation mechanism remains fragile and is not properly applied and therefore does not fulfill its role as there are delays in the application of tariff adjustments and/or delays in payment of tariff compensation to ENEO; and (b) arrears in the payment of electricity bills from the Government, particularly municipalities and universities, combined with delays in tariff compensation, have worsened the financial health of ENEO and its ability to raise funds to carry out its program investments.

64. **The proposed operation will support the Government's efforts to ensure the financial sustainability of all actors along the value chain**. The prior action supports the Government's commitment to clear its arrears to ENEO, estimated at XAF 54 billion at end-August 2017, by not only updating its arrears clearance agreement but also allocating budgetary funds towards this purpose (Prior Action 4). Further policy actions focus on institutionalizing a mechanism for payment of energy bills by the public sector while continuing to provide timely payment of past arrears and tariff compensation (DPF2, Trigger 5), and finally, focusing on a revised energy policy for industries, that reduces subsidies and their related fiscal burden (DPF3, Trigger 4). Over the course of the program it is expected that the Government will substantially reduce its arrears to ENEO, while mitigating the chances of a renewed buildup of these arrears.

65. **The policy actions supported by this DPO are aimed at settling existing arrears and the avoidance of the build-up of new arrears, which is essential to maintain the financial sustainability of the energy sector and attract private capital.** In the absence of the policy actions of the DPO, Cameroon would likely have to resort to use of more expensive existing thermal units and delay development of further new hydro power projects that are part of the least cost development plan, which would cause further deterioration in the financial position of the energy sector and jeopardize its development. Thermal plants which are currently expected to be fully displaced by large new hydropower generation by 2021 in the least cost development option, would be continued without this intervention.

Prior Action 4
To improve the financial sustainability of the energy sector and enhance private sector confidence, the Ministry of Finance has: (a) concluded with ENEO, the 11th amendment to the 2005 debt repayment agreement to clear arrears of XAF 54 billion in electricity bills and compensation subsidies accumulated between the Government and ENEO as of August 31, 2017; (b) prepared a payment plan with a clear timetable for the payment of said arrears and (c) included

[17] With the support of the IDA funded Electricity Transmission and Reform Project (P152755).

in the draft 2018 Finance Law submitted for parliamentary approval, (i) a portion of the arrears to be paid in FY 2018 as specified in the payment plan referred to in (b) above and (ii) the compensatory subsidy to be paid to ENEO in FY 2018.

DPF2, Trigger 5

To improve financial sustainability and ensure the payment of energy bills of the public sector, the Ministry of Finance has developed a robust and reliable mechanism for the payment of electricity bills for parastatals.

DPF3, Trigger 4

To reduce indirect subsidies from the sector to industries through a tariff below cost of production thee Ministry of Energy has approved a new energy policy for industries.

Expected results: The reforms would result in a steady reduction in the government's arrears to ENEO from XAF 54 billion at August 2017 to zero by end-2020. Structural reforms in the energy sector and the establishment of new generation capacity would further improve its financial health and reduce the need for future subsidies.

Improve Road Maintenance

66. **A big challenge facing Cameroon's road network is the lack of adequate and effective road maintenance.** While Cameroon carried out major institutional reforms in the road sector during the nineties, these reforms have stalled, and in some cases, been reversed. Deteriorated governance and investment planning, political interference, and poor project management led to a large backlog in road construction. The trucking monopoly keeps road transport costs high. However, a major weakness is the quasi collapse of the road maintenance system and the poor enforcement of axle load control, which are threatening the sustainability of road assets. The reversal of the road maintenance financing policy in 2007 led to irregular, funding for road maintenance, which has in turn caused premature and rapid depreciation of the asset base, and reduced road transport safety and reliability. The cost of road transport, at 13 cents per ton-kilometer, is higher than the average of 4 cents per ton-kilometer in much of the developing world. Climate stressors further reinforce the need for maintenance; as a changing climate reinforces and increases the returns to optimal maintenance.

67. **Delays in implementing reforms to the road maintenance fund and mounting public debt to local companies constitute a serious threat to road development in Cameroon.** The second-generation road fund (RF) was created to improve road asset management but this was abolished in 2007. Since then, resources for road maintenance resources have been determined in an arbitrary manner. Under the current arrangement, resources collected for the RF first go to the State Treasury, which then provides an annual budget allocation for road maintenance. Due to budget constraints, only about 43 percent of the maintenance needs for the about 27,000 km classified road network are currently being met. Private financing to the sector is not available. Fuel levies for road maintenance and rehabilitation have increased substantially over the last decade to about XAF 100 billion (about US$213 million) per year but only about 50 percent of this amount is used for road maintenance. The RF is unable to continuously mobilize sufficient resources in a timely manner and can no longer pay for works already executed under the required optimal conditions. Delays in payment to contractors have increased from an average of 7 days in 2008 to 90 days in 2015. Given that many contactors are small and medium enterprises (SMEs), this creates severe liquidity problems for them. A related consequence of this situation is the reluctance of the banking sector to support the local construction industry even in the basic circumstances of providing guarantees and pre-financing required under road contracts.

68. **The proposed DPF supports policy reforms to expedite maintenance of Cameroon's road network**. Global evidence indicates that the highest rate of economic return in the road sector come from road maintenance. The reforms support actions on two fronts. First, it ensures that there is sufficient funding allocated for road maintenance in the annual budget exercise, and available in a dedicated account (Prior Action 5). In previous years, money was allocated but never available when the Ministry of Public Works

(MINTP) requested disbursements, leading to mounting public debt to local road construction companies. Second, the proposed DPF supports the development of multi-year Output Performance Based Road contracts (OPBC) that allow for maintenance activities to continue without the need to procure new contracts on an annual basis (prior action 5) Going forward, successive operations will build on the initial progress by supporting the MINTP in launching these multi-year contracts, improvement of its planning capacity as well as ensuring that axle load control is extended to recently rehabilitated roads, to prevent them from falling into disrepair (DPF2, Trigger 6). The third DPF will further progress by supporting continued execution of multi-year contracts, implementing a technical and operational audit of the RF, an audit of the road maintenance planning system of MINTP and further progress on axle load control (DPF3, Trigger 5).

69. **A changing climate reinforces and increases the returns to optimal maintenance**. Ensuring adequate road maintenance has been identified as the most critical and effective building block for creating a system resilience to the impact of climate change. Roads are vulnerable to climate stressors such as increased temperature, precipitation and flooding. Studies show that Cameroon is particularly vulnerable and even moderate changes in the climate will induce significant precipitation-related disruption. The effects of climate change are likely to lead to higher maintenance and rehabilitation costs, shortened road rehabilitation life-cycle, and large increases in the disruption time of the network. As an indication, in the worst scenarios, stress imposed on the roads by precipitation could lead to rehabilitation costs 10 times higher, while stress imposed by flooding could lead to costs 17 times higher. The operation aims to ensure that road maintenance remains adequately resourced in the face of anticipated growing climatic variability, thereby helping to improve the resiliency of the road network. Given the impacts of climate change are likely to be even more severe in the absence of a robust maintenance regime, the incremental costs of inaction are expected to continue to grow. Maintenance would be prioritized by considering the vulnerability and risks of the road to the impacts of climate change. The operation is in line with ongoing World Bank interventions which are addressing other measures to strengthen climate resiliency such as improved pavement design standards and development of a climate resilience and adaptation strategy for land transport (P150999). The operation is also aligned with the Government's overall objectives on climate adaptation, as stated in the Intended Nationally Determined Contribution submitted to the United Nations Framework Convention on Climate Change (2015).

Prior Action 5

To improve road maintenance, management of road assets and climate resiliency of roads, (a) The Ministry of Finance has included in the draft 2018 Finance Law submitted for parliamentary approval, an allocation of XAF 56 billion to be transferred to the Road Fund; and (b) Ministry of Public Works has adopted a list of selected routes to be maintained in accordance with the GENiS Agreements.

DPF2, Trigger 6

To improve road maintenance and management of road assets and climate resiliency of roads: (i)The Minister of Public Works has adopted through a ministerial decision and factored in its 2018 budget and road maintenance program, the use of multi-year OPBC contracts for road maintenance of major road corridors, and (ii) The MINTP has established an action plan for the extension and implementation of its policy of control of axle loads on extended tarred roads other than the recently rehabilitated roads which are systematically taken into account.

DPF3, Trigger 5

To improve road maintenance and management of road assets and climate resiliency of roads: (i) The Ministry of Public Works has begun the audit of the MINTP road maintenance programming system; (ii) The FR has started the technical and operational audit of the Road Fund (period: 2012-2017); and, (iii) The Ministry of Public Works has started the implementation of the action plan for the extension and implementation of its policy of controlling axle loads on extended tarred roads.

Expected results:

The reforms would help reduce delays in payments from the Road Fund to contractors, while ensuring that MINTP increases the execution of road contracts commensurately. The period for payment of invoices by the Road Funds to contractors would fall from between 120 and 180 days in 2016 to between 10 and 90 days by 2020. It is expected that at least 75 percent of the newly established performance based road contracts will be under execution by end-2020.

Improve Trade Facilitation at the Port of Douala

70. **To meet its goal of becoming a modern logistics hub, Cameroon will need to improve the efficiency and services in its largest port in Douala**. The Port of Douala accounts for 95 percent of the goods exported from and imported to Cameroon and is a natural hub for the Central African region given its strategic location. However, large investments in the Kribi and Limbe ports are changing the port landscape in Cameroon and the Douala port - whose on-going concession is soon to come to term, has to rethink its strategic positioning. The recently adopted National Port Master Plan has started to consider the evolution of the port landscape in Cameroon. Inefficiencies at the Port of Douala represent a major constraint to the country's growth. The global dwell time for cargo, at 11 days in 2017, is five times higher than that at Durban port, and twice that at Mombasa port. [18] In Latin American and Asian ports, dwell times usually average a few days to less than a week.

71. **The operation supports measures to reduce the time taken to clear goods at Douala Port.** The Port of Douala is constrained by a long waiting time at the entry gate as well as a long dwell time for ships and cargo**.** A key reason for the long transit time is cumbersome procedures to clear goods and slow progress in automating customs clearance procedures. Another reason for the delay in clearing cargo is the low storage price charged by the port, which provides an incentive to traders to use the port as a storage facility, rather than paying for commercial warehouse space. The operation supports an increase in the storage fees, complemented by measures to expedite customs clearance (Prior Action 6). The second operation will support the operationalization of an electronic payment platform. (DPF2, Trigger 7). Considering the evolution of the port landscape in Cameroon and the associated implications for the Douala port concession, the outdated 1998 texts for port reform will be revised (by the ministry of Transport in coordination with the Ports of Douala, Limbe and Kribi and the National Port Authority) to integrate recent major port actions and recommendations. The trade facilitation committee of the Port of Douala is implementing a three-year strategic plan which will be validated annually, and implementation will be completed under the third operation. The last operation will also support automation of clearance processes through the electronic E-Guce platform, increasing automation of the trade clearance process. (DPF3, Trigger 6).

Prior Action 6
To reduce length of stay and transit time in in the Port of Douala, (i) Director General of Customs, in his capacity as the president of the Single Window for Foreign Trade Operations, has extended the single form of foreign trade operations to all phases of the international logistics chain (pre-clearance, take-over, clearance, removal); and (ii) The National Port Authority has approved the revised current port tariffs to increase the storage levy at the port of Douala.
DPF 2 Trigger 7
To improve the competitiveness of ports and the performance of platforms and logistics chains, the CONAFE has made effective the electronic payment platform to cover all fees, duties and taxes.
DPF 3 Trigger 6
To improve the competitiveness of ports and the performance of platforms and logistics chains: (i) the CONAFE has implemented the three-year strategic plan detailing specific annual measures to reduce transit time at Douala Port and increased the number of automated trade clearance procedures; and, (ii) the Port Authority has simplified trade facilitation processes by enhancing the e-GUCE platform.
Expected results: The reforms would reduce congestion and delays from 11 days in 2016 to 7.5 days by 2020 at the port of Douala.

[18] The dwell time measures the time between the arrival of the vessel at the port to the exit of the cargo.

Pillar 3: Improving social services and scaling up social protection

72. **The need for fiscal consolidation combined with poor human development outcomes requires that the Government increase efficiency in the delivery of key social services, while ensuring that the adjustment effort does not hurt the vulnerable.** Cameroon's low human development outcomes and high levels of inequality, both in terms of income and access to social services, are not commensurate with its status as a middle income, resource rich country. Life expectancy is barely 54 years, Cameroon has a high prevalence of malnutrition, and maternal mortality is more than twice the average of lower middle income countries. Primary completion rates are lower than the average of other middle income countries and a 2014 Programme for the Analysis of Education Systems (PASEC) evaluation showed that only 23 percent of children complete primary education with sufficient proficiency and math and reading skills. The poor have lower access to pharmaceuticals and textbooks (for example only 50 percent of health care facilities have access to essential medicines in Adamawa and the North and only 11 percent of pupils in the northern regions have access to at least one textbook) and vaccination rates are particularly low in the poorer provinces.

73. **The objective of Pillar 3 is to support more efficient and equitable access to key social services, especially in the current context of fiscal adjustment**. Reforms will cover three policy areas: (i) improving the delivery of health services, by strengthening and scaling up the performance based funding framework, which has yielded good results in its pilot phase; (ii) improving the delivery of education by addressing the critical issue of textbook policy reform which can yield substantial wins in terms of primary completion rates and student learning; and (iii) scaling up the pilot social transfers program.

Improve service delivery in the health sector

74. **Cameroon faces significant challenges in improving service delivery in the health sector.** Poor health outcomes are in large part the consequence of major regional discrepancies in the quality of services. While there are many reasons for this, an important contributor is the inefficient way the health budget is allocated among regions. As the ongoing Public Expenditure Review details: (i) most of the public budget is allocated to the central administration while regional and peripheral levels have little funding; (ii) budget allocations do not reflect health needs at the regional level; and (iii) the performance of the public system for supply and distribution of pharmaceuticals is unsatisfactory, to highlight some of the problems.

75. **The performance based financing system (PBF) has shown good potential, in a pilot phase, to help increase the quality and efficiency of health services especially in underserved areas, thus helping reduce regional disparities in health services**. The foundation of PBF is based on a contractual relationship between the different actors of the health system. Health care providers and regulatory bodies are paid based on performance, as measured against predetermined targets, and this is formalized by a contract between the service provider and a purchaser. The intervention aims to increase providers' accountability and give them the autonomy and financial incentives necessary to achieve these targets, by enhancing motivation among health personnel.

76. **The PBF has been successfully piloted in Cameroon under an ongoing IDA project.** Through the Health Sector Support Investment Project (P104525), PBF has been implemented in Cameroon since 2011, first starting in one region (Littoral), and then expanding to six additional regions by 2016. PBF addresses critical impediments confronting the delivery of services at frontline health facilities. These include the (i) shortage of funds to meet operating expenses; (ii) lack of autonomy to manage resources to procure drugs and attract and motivate qualified HR; (iii) lack of focus on results and limited use of performance data at all levels (health facility, district; regional and national); (iv) lack of accountability and transparency of the

health system; and (v) weak managerial capacity at all levels. The program is being scaled up through another IDA project (the Health System Performance Reinforcement Project P156679), with a goal of reaching national coverage by 2020.

77. **The proposed operation will support the Government address inefficiencies in the health sector through two key areas of intervention.** The DPF will support government's reforms in: (i) increasing the level of funding and management capacity of health facilities with a focus on primary and secondary levels of service delivery to improve equity and efficiency in the allocation and use of health resources; and (ii) strengthening the availability of basic health services through expanding coverage of the PBF program to the central administration and decentralized health units.

78. **The first set of actions will improve equity and efficiency in the use of health resources in PBF regions and districts.** Prior actions and triggers revolve around activities such as: (i) Increasing the level of funding and the management capacity of the health facilities; and (ii) changing how public resources (financial, material and human) are allocated and managed. A first step in increasing the level of funding and management capacity of health facilities is the signing of a joint *circulaire* between the MINFI and the MINSANTE that allows health facilities at all levels of the system that are in the PBF program to benefit from specific fiduciary arrangements as defined in the National PBF Manual (including retaining all resources at the health facility), and more flexibility in the recruitment of staff and procurement of goods and services and facility investments. As a second step, to reduce the frequency and duration of stock outs of pharmaceutical products due to the poor performance of the central medical store[19], the MINSANTE will also issue a text that will allow Regional Funds for Health Promotion (regional pharmaceutical commodity wholesalers with "Public Interest Group" legal status and civil society oversight, contracted by the MINSANTE to procure and sell essential medicines to health facilities in their regions) to directly procure pharmaceutical products and other medical inputs from accredited private suppliers after 72 hours of stock outs on any product at the CENAME (Prior Action 7). [20]

79. **The second set of actions will strengthen the efficiency of health services through an expansion of the PBF.** Prior actions and triggers revolve around extending coverage of the PBF program across central government structures (directorates, inspections, programs and associated units). In the first DPF operation at least four performance contracts at the central level of the MINSANTE will be signed (Prior Action 8).

80. **Triggers under the DPF2 and DPF3 will continue to improve the efficiency of resource allocation and utilization in the health sector, and overall efficiency of health services, building upon the prior actions completed under the DPF 1**. DPF2, Trigger 8 will include a restructuring of the public budget to allocate a greater share of resources to periphery-level service providers (primary and secondary care), using equity-based criteria (i.e. greater per capita budget allocations for areas with worse health and poverty outcomes). Traditional budget transfers to health service providers would be converted into flexible performance-based payments to increase the government's contribution to the financing of the PBF program. To build on the greater financial autonomy health facilities were granted under Prior Action 8, health facilities will have more flexibility to procure essential medicines from any accredited supplier, independent of stock outs at Regional Funds for Health Promotion or CENAME. Trigger 9 will continue the scale up of PBF, in terms of performance contracting. For DPF3, Trigger 7 will introduce a decentralized, competitive selection process

---

[19] This central medical store is the National Center for the Supply of Essential Medicines and Medical Consumables *(Centrale Nationale d'Approvissionnement en Medicaments et Consommables Medicaux Essentiels) or* "CENAME".

[20] In parallel to the DPO, through the Health System Performance Reinforcement Project the World Bank is supporting the reinforcement of pharmaceutical regulatory capacities at all levels of the health system. These investments will address potential opportunities for corruption or procurement of essential medicines of questionable quality.

for the recruitment of new qualified health workers into the civil service while prioritizing regions with greater health needs.

Prior Action 7
To increase the level of funding and management capacity of health facilities and improve the availability of essential medicines in health regions and districts covered by PBF: (i) The Ministry of Public Health and Ministry of Finance have issued a joint circulaire allowing all health facilities under the PBF program to benefit from special fiduciary arrangements specified in the national PBF manual; and (ii) The Ministry of Public Health has issued a circular allowing Regional Health Promotion Funds to purchase pharmaceutical products from accredited public or private wholesalers through simplified procedures.
Prior Action 8
To improve efficiency of health sector spending, the Ministry of Public Health has expanded the administrative coverage of the PBF program by introducing at least four additional performance contracts at the central level of the Ministry of Public Health.
DPF2, Trigger 8
To increase the level of funding and management capacity of health facilities and improve the availability of essential medicines in health regions and districts covered by PBF: (i)The 2018 public health budget increases the minimum allocation to primary and secondary care facilities and regulators to at least 15 percent of the public budget and uses performance-based flexible payments in health regions and districts covered by PBF; and, (ii) The Ministry of Public Health has signed an official document that allows health facilities to buy pharmaceuticals and other medical supplies directly from licensed suppliers (public or private).
DPF2, Trigger 9
To improve efficiency of health services, the Ministry of Public Health has expanded the administrative coverage of the PBF program by introducing at least eight performance contracts at the central level of the Ministry of Public Health.
DPF3, Trigger 7
To increase the level of funding and management capacity of health facilities: (i) The 2019 public health budget increases the minimum allocation to primary and secondary care facilities and regulators to 20 percent; and, (ii) New health professionals introduced into the civil service are recruited and managed at the regional level through a competitive application process, with the distribution of new posts being based on population health needs.
DPF3, Trigger 8
To improve efficiency of health services, the Ministry of Public Health has broadened the administrative coverage of the PBF program by introducing at least 12 performance contracts at the central level of the Ministry of Public Health.
Expected results: The reforms will help ensure adequate resources for health care centers while scaling up the successful PBF program. This should support gradual improvement in health outcomes. Two specific result will be monitored. First, to ensure that the PBF rollout impacts health outcomes, the program will monitor the percent of births attended by skilled professionals in the three northern regions of Cameroon. Baseline: 37.6 percent (2016), Target: 42 percent (2020). This was chosen because baseline data is available and the maternal mortality is a critical problem overall and in the northern regions, as highlighted in the SCD. Second, to ensure that the PBF supports increased availability of essential medicines, the program will monitor the proportion of PBF facilities with essential drugs available during their quarterly evaluation. Health facilities in 78 districts, which are covered by the PBF program as of October 2017, will be included in the monitoring program. [21] The Baseline (October 2017) is 13 percent, and the target is 40 percent.

Improve efficiency and service delivery in the education sector

81. **Cameroon faces several challenges in its education sector.** While access to basic education has increased overall, education quality is low and large regional and gender disparities persist. The quality of

[21] The districts include: Adamaoua region (all health Districts); East region (all health Districts); North region (all health districts); Littoral region (Bangue, Cite des Palmiers, Deido, Edea, Loum, Manjo, Mbanga, Njombe Penja, Nkongsamba, Nylon, Yabassi); south west region (Bangem; Buea, Ekondo titi, Fonten, Kumba, Limbe, Mamfe, Nguti, Tombel); North west region (Bafut, Bamenda, Batibo, Benakuma, Fundong, Kumbo Est, Ndop, Nkambe, Tub ah); Far North region (Bourha, Guidiguis, Kaele, Kar-Hay, Koza, Mogode, Mokolo, Mora, Moulvoudaye, Tokombere, Yagoua.

basic education is below the levels expected for a middle-income country, resulting in lower than average completion rates and modest learning outcomes (as measured by the 2014 PASEC evaluation). This, in turn is a result of several weaknesses, including a shortage of teachers, a weak national assessment framework for learning evaluations, limited pre-school education, and a severe shortage of textbooks and learning materials to support teachers and students in the learning process.

82. **The Government has elaborated a vision for the education sector, which includes reforms to improve access, equity and quality of education.** The government's vision for the education sector is elaborated in the Document de Stratégie du Secteur de l'Education et de la Formation (DSSEF, 2013-2020). The strategy focuses on teacher policy reform as well as textbook policy reforms. Reforms related to teacher recruitment and training are supported by a forthcoming IDA project. However, there is an urgent need to revamp the current policy for production of textbooks, and the momentum for this change has grown due to strong analytical work and consistent dialogue on this issue.

83. **While a shortage of textbooks is a problem in many sub-Saharan African countries, it is particularly acute in Cameroon, where it clearly impacts learning outcomes.** As mentioned above, Cameroon faces many challenges in the education sector, including related to teacher allocation and training and the quality of the infrastructure. However, textbooks are the most critical binding constraint at this stage because of their absolute shortage and the strong negative impact on learning outcomes deriving from this shortage. The average national textbooks-to-pupil rate is among the lowest in the world (Figure 4.1, there is only one textbook per 12 pupils on average and as little as one per 30 depending on the region [22]). Additionally, it has been shown that in lower income countries the availability of textbooks and other learning materials in the classroom has a significant impact on learning outcomes. International research evidence confirms the central role of an adequate supply of good quality textbooks in improving student performance, with an impact greatest in the poorest countries, where it can counter-balance the problems of poorly trained teachers and the lack of basic facilities in schools. The evidence also confirms that the two most consistent characteristics in improving student performance are the availability of (a) textbooks and supplementary learning and teaching materials, and (b) well trained, prepared, supervised and motivated teachers. Research evidence also indicates that textbook provision is the most cost effective input affecting student performance, bearing in mind how much cheaper it is to provide textbooks compared to trained and motivated teachers. This evidence is also confirmed by the SACMEQ III and PASEC studies prepared from 2004 to 2012 on Africa and multiple analyses of learning outcome determinants on Cameroon (2014 PASEC evaluation, 2016 National Unit Assessment). The PASEC 2014 analysis for instance shows that one textbook for three or more students is associated with significantly lower scores (by as much as 80-100 points difference depending on the grade compared to an average score of about 500 points) than having one textbook per student. School factors explain over 50 percent of the variance in learning outcomes in Cameroon and the availability of textbooks is the school factor (for which evidence could be produced) with the strongest impact. The 2016 national learning assessment, disclosed in May 2017 and including a rigorous econometric analysis, confirms these findings: students using a textbook in mathematics and/or reading in the classroom are 3.5 more likely to perform than others in these subjects, all other things being equal. To get a strong impact on learning outcomes, textbooks also need to be high quality, systematically used and teachers need to be adequately trained to use them, implying the need for complementary actions, but clearly the necessary condition, with a strong impact on its own, is the availability of learning materials to start with.

[22] Only 11 percent of pupils in the northern regions have access to at least one textbook, and 17 percent of classrooms operate without a single French or English textbook.

84. **Cameroon's textbook shortage is symptomatic of and accompanied by many challenges.** Key problems related to textbooks are: (i) the high cost of the textbook (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), (ii) unavailability outside the major cities, and (iii) the poor quality of books (content and materials). These problems in turn are related to weaknesses in the national textbook policy which supports a costly and impractical "multiple titles" approach, and weak management of the textbook development chain, with overlapping channels of responsibility among ministries and poor quality assurance and accountability. An overhaul of the national textbook policy has been under discussion for at least three years and there is finally good momentum for reform due to increasing political and social pressure and support from the World Bank in terms of analytical background and related support via ongoing projects.

85. **The goal of this reform is to support government's efforts to revamp the national textbook policy and increase the quality and availability of textbooks in primary and secondary schools.** A first step will be the adoption of an official text on the principles guiding the new policy (Prior Action 9 (i)), with a focus on a single title per subject per grade, longer textbooks' utilization rates and a much clearer definition of roles and responsibilities across the various stakeholders. A national commission for the revision of the national school books policy, which was set up under the authority of the Prime Minister, the *Conseil National d'Agrément des Manuels Scolaires et des Matériels Didactiques* (CNAMSMD) will be reorganized to clarify its role, accountability and structure, and a technical unit will be established to help enforce key changes (Prior Action 9 (ii)). Both formal agreement of new principles and establishment of a technical unit will help undo the current oligopoly in textbook production that contributes to high costs and poor quality. These changes will be complemented by reforms on teacher training and textbook conservation under the forthcoming IDA project to ensure that textbooks are also well used in the classroom. Triggers for DPF2 will ensure implementation of agreed principles. The trigger for DPF3 will bring Cameroon on par with many developing countries that are providing subsidized textbooks to primary school children. The average annual cost per year has been estimated at approximately US$3 million.

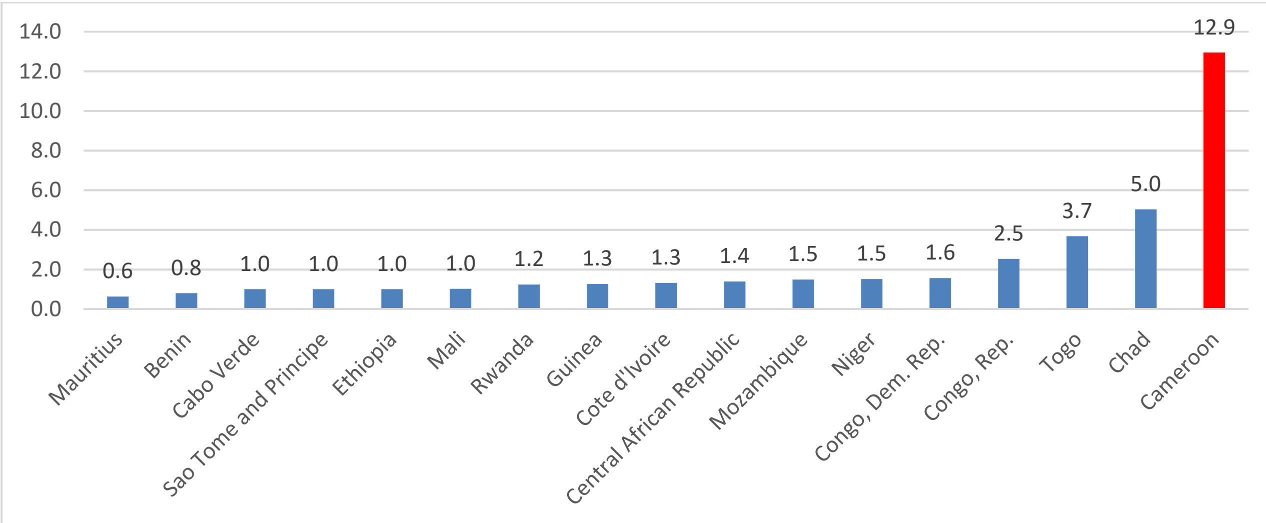
Prior Action 9
To increase accessibility to textbooks in primary and secondary school, the Prime Minister has issued: (i) a Circulaire on the principles guiding the new school textbook policy to reduce the cost of books and increase their availability; and (ii) a Decret reorganizing the *Conseil National d'Agrément des Manuels Scolaires et des Matériels Didactiques* (CNAMSMD) and setting up the national commission to streamline the development cycle of textbooks.

DPF2, Trigger 10
To make textbook provision more accessible: (i) The technical unit responsible for streamlining the textbook development cycle is fully staffed; and (ii) The Government has adopted a new schoolbook policy for kindergarten, primary and secondary education, and the Ministries of Basic Education and Secondary Education are implementing it at the beginning of school year 2018-2019.

DPF3, Trigger 9
To make textbooks more affordable to primary school students the Ministry of Finance has included funding to subsidize textbooks in the 2020 Finance Law.

Expected Results: Increase in the number textbooks per student in primary and secondary school to respectively 1/2 and 1/1.5 from baseline of 1/14 and 1/3. This increase is ultimately expected to bring to an increase in primary completion and learning outcomes.

Figure 4.1. Pupils-textbook ratio (Average number of pupils per mathematics and reading textbook in primary education) 2012-2013



Source: World Bank EdS data, 2016

Scale up social protection

86. **Despite strong national ownership, significant challenges remain in rolling out an effective social protection framework in Cameroon**. Cameroon is one of the few countries in the region that lacks a national social protection strategy. [23] This translates into a weak framework for the delivery of social assistance, with no clear guidelines and prioritization of issues. There are many small-scale and ad hoc safety net programs ranging from school feeding and fee waivers to small cash transfers for the indigent as well as some temporary food emergency assistance. Together these programs provide only 0.23 percent of GDP in social assistance and averaged 0.76 percent of total government spending between 2006 and 2010, with around 80 percent of this being spent on emergency programs implemented in response to shocks such as droughts and floods. Targeted programs (excluding universal subsidies) cover only 1 percent of the population, (compared to about 14 percent of the population in other Sub-Saharan Africa countries, 16 percent in lower-income countries and 33 percent in upper middle-income countries)[24], with limited impact in terms of reducing household vulnerability and overall poverty. To mitigate the negative effects of the 2008 rise in food and fuel prices, the Government had launched a universal subsidy program. By 2010 the universal subsidy program accounted for about 1.4 percent of GDP and 6.4 percent of total public expenditures. By 2012 fuel subsidies alone reached about 3 percent of GDP. Unfortunately, these subsidies mainly benefit the urban middle class.[25] The burden of these subsidy programs has decreased recently because of reforms and the reduction of the world oil price. However, targeted safety net programs have not been expanded to cover the most chronic and vulnerable populations.

87. **Capacity to effectively plan and deliver emergency and social assistance is also limited.** The slow response to the recent crisis that affected an estimated 200,000 IDPs in the North underscores the need to strengthen government mechanisms to effectively: (i) plan and respond to shocks; (ii) coordinate donors' response; and (iii) monitor and evaluate the impact of different interventions. The MINEPAT has been leading the dialogue on a national Social Protection Strategy as well as the support for the Safety Nets

[23] It should be noted however that efforts are underway to elaborate such document(s) by end of 2018 with the technical and financial assistance of DPs, under the leadership of UNICEF.

24 ASPIRE data, available at http://datatopics.worldbank.org/aspire/region/sub-saharan-africa and http://datatopics.worldbank.org/aspire/income-group-comparison/.

25 World Bank (2012) "Cameroon Economic Update, January 2012"

programs. However, permanent institutions need to be created to support the implementation of Safety Nets systems.

88. **The Government has developed the foundations of a comprehensive and well targeted national safety nets program.** The program, known as “Filet Sociaux”, includes targeted cash transfers and public works programs for the poorest. Findings from the impact evaluation of the cash transfer pilot showed promising results in the form of increased incomes and asset accumulation, reduced food insecurity, increased attendance to schools and visits to healthcare facilities, and an overall positive economic impact on local communities. For example, multidimensional poverty fell by almost one point on a scale of 0.5 to 4.5, the percentage of households with toilets went up 14 percent in the group receiving transfers, and food insecurity fell by almost half.[26] The program is largely IDA funded at present; however, to be scaled up nationally and to provide a mechanism to support equitable access to services and displaced communities in the North and other conflict affected regions, the program would need to be funded by budgetary resources.

89. **The goal of the reforms proposed in this policy area is to support the expansion of Cameroon’s social protection services.** The operation will ensure that funding for the cash transfer program is enshrined in the budget, beginning in 2019. As part of the structural benchmarks for the IMF supported program, the GoC is expected to prepare a revised national social protection strategy, which will lay out the action plan for a comprehensive national safety nets program. The DPF will complement this effort by supporting the institutional changes to implement the strategy, including institutionalizing the emerging safety net in the budget. This is a significant step for a government that has initially shown hesitation to implement and expand a safety net. After extended deliberations at the highest levels, the GoC has supported World Bank financing for a Cash Transfer program in 2013. The project showed promising results and was successfully expanded to cover currently 40,000 beneficiaries. At this stage, fiscal responsibility for the safety net program is starting to pass on to the Government, with the significant commitment to open and fund an earmarked budget line for the Cash Transfer program.

DPF2, Trigger 11:
To increase the level of funding of safety nets the Government has established a budget line in the 2019 Finance Law, with a budget of XAF 4.5 billion, corresponding to a coverage of 11,250 households.
DPF3, Trigger 10:
To increase the level of funding of safety nets the Government has established a budget line in the 2020 Finance Law, with a budget of XAF 6 billion, corresponding to a coverage of 15,000 households.
Expected Results: The reforms will increase the number of households covered by the social safety net program. Baseline (2016): 40,000; Target (2020): 100,000 households.

Table 4.1: Cameroon: Analytical Underpinnings of DPF

Prior actions	Analytical Underpinnings
Pillar 1: Improving fiscal sustainability and public sector management	
Prior Action 1: To improve revenue mobilization, the Ministry of Finance has: (i) included an assessment of tax expenditures from indirect taxes as an annex to the draft 2018 Finance Law, submitted for Parliamentary approval; and (ii) implemented the first phase of a program of joint audits between tax and customs authorities of the cement, forestry and telecommunications sectors to combat tax evasion.	TADAT – Tax Administration Diagnostic Assessment Tool (World Bank – IMF, 2017). Diagnostique de la polique fiscale au Cameroun (IMF, 2014). *Dépenses fiscales de TVA au Cameroun (GTZ,2016), Rapport sur les dépenses fiscales de l’Exercice 2016. (Ministère des Finances, 2017).*

[26] The impact evaluation was conducted between July 2014 and July 2016.

Prior Action 2: To improve the payroll and human resources management, the Ministry of Public Service and Administrative Reform has initiated disciplinary proceedings before the Permanent Disciplinary Council of the Civil Service of irregular public officials identified through the 2016 civil service census.	Country Economic Memorandum (chapter 4: Institution). Public Expenditure Review 2017.
Pillar 2: Enhancing competitiveness	
Prior Action 3: To improve corporate governance and management of public enterprises, the President of Cameroon has promulgated two laws detailing the responsibilities, monitoring and control of public enterprises and agencies in compliance with OHADA.	Country Economic Memorandum (chapter 4: Institution). Public Expenditure Review 2017.
Prior Action 4: To improve the financial sustainability of the energy sector and enhance private sector confidence the Ministry of Finance has: (a) concluded with ENEO, the 11th amendment to the 2005 debt repayment agreement to clear arrears of XAF 54 billion in electricity bills and compensation subsidies accumulated between the Government and ENEO as of August 31, 2017; (b) prepared a payment plan with a clear timetable for the payment of said arrears and (c) included in the draft 2018 Finance Law submitted for parliamentary approval, (i) a portion of the arrears to be paid in FY 2018 as specified in the payment plan referred to in (b) above and (ii) the compensatory subsidy to be paid to ENEO in FY 2018.	Financial Analysis of Energy Sector, and Energy Policy Note, World Bank 2016.
Prior Action 5: To improve road maintenance, management of road assets and climate resiliency of roads: (a) The Ministry of Finance has included in the draft 2018 Finance Law submitted for parliamentary approval, an allocation of XAF 56 billion to be transferred to the Road Fund and (b) Ministry of Public Works has adopted a list of selected routes to be maintained in accordance with the GENiS Agreements.	Cameroon: Transport Policy Note, World Bank, April 2017.
Prior Action 6: To reduce length of stay and transit time in in the Port of Douala, (i) Director General of Customs, in his capacity as the president of the Single Window for Foreign Trade Operations, has extended the single form of foreign trade operations to all phases of the international logistics chain (pre-clearance, take-over, clearance, removal); and (ii) The National Port Authority has approved the revised current port tariffs to increase the storage levy at the port of Douala.	Cameroon: Economic Update, World Bank, April 2015.
Pillar 3: Improving social services and scaling up social protection	
Prior Action 7: To increase the level of funding and management capacity of health facilities and improve the availability of essential medicines in health regions and districts covered by PBF: (i) The Ministry of Public Health and Ministry of Finance have issued a joint *circulaire* allowing all health facilities under the PBF program to benefit from special fiduciary arrangements specified in the national PBF manual; and (ii) The Ministry of Public Health has issued a circular allowing Regional Health Promotion Funds to purchase pharmaceutical products from accredited public or private wholesalers through simplified procedures.	Cameroon Public Expenditure Review (2017). Cameroon PBF Impact Evaluation Report (2017). Cameroon Global Financing Facility Investment Case (2017). Cameroon Health Financing Strategy, Diagnostic Chapter (2017). Cameroon Health Country Status Report (2013). Cameroon Systematic Country Diagnostic 2016

<u>Prior Action 8</u>: To improve efficiency of health sector spending, the Ministry of Public Health has expanded the administrative coverage of the PBF program by introducing at least four additional performance contracts at the central level of the Ministry of Public Health.	Cameroon Public Expenditure Review (2017). Cameroon PBF Impact Evaluation Report (2017). Cameroon Global Financing Facility Investment Case (2017). Cameroon Health Financing Strategy, Diagnostic Chapter (2017). Cameroon Health Country Status Report (2013).
<u>Prior Action 9</u>: To increase accessibility to textbooks in primary and secondary school, the Prime Minister has issued: (i) a *Circulaire* on the principles guiding the new school textbook policy to reduce the cost of books and increase their availability; and (ii) a *Decret* reorganizing the *Conseil National d'Agrément des Manuels Scolaires et des Matériels Didactiques* (CNAMSMD) and setting up the national commission to streamline the development cycle of textbooks.	Ref 1. Education and Training Sector Strategy Paper (2013-2020) Republic of Cameroon. Ref 2. Policy Note on Improving Textbooks Availability and Accessibility in Cameroon (June 2016). World Bank.

4.3 LINK TO CPF, OTHER WORLD BANK OPERATIONS AND THE WBG STRATEGY

90. **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.

91. **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.

4.4 CONSULTATIONS, COLLABORATION WITH DPS

92. **The Government has followed a consultative process to prepare this operation.** To monitor the reforms of the DPF series, the Government has put in place an inter-ministerial committee chaired by the Secretary General of the MINEPAT and including eighteen sectoral ministries as well as the donor community. The technical secretary of the committee is the Director General of Economy in the MINEPAT. This technical committee has prepared the operation and will continued to follow up and work together with the World Bank team to during the programmatic DPF.

93. **As part of the broader CEMAC support strategy this operation has been prepared in close coordination with the IMF, the AfDB, the AFD and the EU.** Given the need to be mindful that multiple budget support operations could overburden the Government and create inconsistencies in the proposed reform program across sectors, all DPs have worked closely to ensure that they coordinate their programs and focus on areas where they have a relative comparative advantage, and leverage knowledge from ongoing programs in Cameroon. DPs have met frequently to exchange information, and have participated in each other's preparatory missions.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1 POVERTY AND SOCIAL IMPACT

94. **The proposed DPF will have a positive impact on poverty reduction.** While all prior actions in Pillar 3 will have a direct positive impact, other actions in Pillar 1 and 2 will have indirect impacts.

95. **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.** Prior actions on management of public enterprises and public service reform do not have any clear direct poverty or social impact. Prior Action 1, which focuses on documenting tax expenditures and taking specific measures to increase tax compliance, could potentially enhance fiscal space for social service delivery for the poor. However, specific poverty and social impacts will become clear during the second and third operations, as the Government implements its action plan to reduce tax exemptions. Rationalization of tax expenditures may not necessarily mean that the funds are redistributed to the poor. It remains to be seen if the poor will benefit from this action. Supporting due diligence to examine ghost workers before a disciplinary committee (Prior Action 2) reduces the likelihood that legitimate employees will be terminated, with the attendant negative impact.

96. **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.** Reforms in the electricity sector (Prior Action 4) could indirectly impact improvements in cost, access and quality of energy supply, which would benefit the population, including the poor. Studies in Africa have shown a strong relationship between power outages and poverty, especially for SMEs. Should the planned reforms be instrumental in increasing private sector participation in energy, this would have a positive social impact through job creation. Prior Action 6, which supports the financing of road maintenance, will have positive poverty and social impacts though job creation and greater connectivity. Poor road maintenance is a 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 example, access to good roads will reduce transport costs of agriculture produce, thus increasing farmers' incomes.

97. **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 disadvantaged population groups in Cameroon. The rollout of the PBF programs in the northern regions will help reduce inequality in access to quality healthcare services, and impact health outcomes which are also unequal. For example, under-five mortality rates are 173 per 100,000 live births in the North and 154 in the Far North, compared with 84 and 74 in the more prosperous Littoral and South-West regions respectively. 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 US$1-3, the cost of textbooks in Cameroon ranges between US$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. Data from the last household survey (ECAM 2014)

show that levels of education are significantly worse in regions where poverty is widespread than they are in better off regions.

5.2 ENVIRONMENTAL ASPECTS

98. **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.

99. **Environmental risks associated with the proposed measure to clear energy sector arrears (Prior Action 4) should be positive.** Reduction in arrears per se will not have any impact on the environment. Cameroon intends to further develop its hydropower resources which will serve to reduce the cost of service and lower the carbon intensity of the grid. Given the investments needed in power generation, transmission and distribution to meet growing energy demand, Cameroon has been seeking to attract private capital in the sector, including through public private partnerships in hydropower. The policy actions supported by this DPO would help accelerate the production of renewable, hydropower based energy.

100. **Actions to expedite the implementation of road maintenance (Prior Action 5) will lead to an increase in road maintenance activities with their associated health, safety issues and post construction environmental risks (control of erosion, riparian issues, etc.)**. However, per the Order No 00001/MINEPDED of 08 February 2016, road rehabilitation and maintenance are subject to prior environmental assessment (EA). In addition, the circular N° 00908/MINTP/DR by the MINTP lays down directives on the environmental impact of road maintenance. For some years now, there is an environmental department/Unit within the MINTP. The level of institutional and legal set up is quite satisfactory. However, weak contract enforcement, poor environmental monitoring compliance has been ascertained both in the MINTP and the Ministry in charge of environment. In addition, the overall performance of road maintenance companies under the traditional approach of road maintenance is of concern. This DPF will use the Output and performance Based Road maintenance contract (OPBRMC), and will focus on tarred roads. Most tarred roads in Cameroon have been subject to environmental assessment. This will continue as procurement is rolled out for the output based performance contracts.

101. **The action on reducing congestion in Douala Port (Prior Action 6) is likely to have potential occupational health and safety benefits**. Decongesting the terminal will lead reduce the time that ships and cargo spend at the port, which encourages a more rational use of infrastructures. This will enable easier movement of workers around the port and less exposure to potentially hazardous materials. The Port of Douala has an environmental Policy and a health and safety statement policy, it is firmly committed to providing and maintaining a safe and healthy working environment for its employees, contactors, vendors and visitors. It is also committed to the prevention of pollution and to minimizing their impact on the environment while continually improving our environmental performance as an integral part of our business strategy. Periodical inspection by the Ministry in charge of environment and DIT report on the state of the

environment, health and safety will show how it manages environmental risks and provides safe working environment that protects workers' health.

102. **Increasing availability of funding for health facilities and scaling up the PBF (Prior Actions 7 and 8), could lead to an increase in volumes of medical waste**. The Decree 2012/2809 of 26 September 2012 stipulating conditions of waste management in Cameroon, including health care waste (medical and pharmaceutical), regulates waste management in Cameroon. Per this Decree, it is the responsibility of the waste generator to ensure that the waste is packaged, transported, treated and disposed of in terms of the legal requirements and that there is an auditable record of the steps involved in storing, collecting and transporting the waste. To comply with this regulation and the OP 4.01 (environmental assessment) that has been triggered for health sector project in Cameroon, a Hazardous Waste Management Plan (HWMP) was prepared in 2008, updated and disclosed on Infoshop in 2014. Based on this instrument the project developed a PBF and Quality of care checklist that includes waste management, hygiene and safety issues. The level of compliance of these activities with environment and safeguards has been satisfactory. The quarterly quality evaluation for the PBF payments is currently using a standardized checklist that measures waste management, implying that there will be continuous monitoring, supervision and coaching on waste management. However, since all health care centers do not have waste treatment facilities and the same level of waste management and safety skills at inception, special attention will need to be paid to ensuring that new enrolled health care entities nominate a waste management Focal Point, sign an agreement with a Regional Hospital that hosts an environmentally friendly incinerator and train in healthcare waste management (HCWM) and related safety measures.

103. **An increase in the availability of textbooks (Prior Action 9) could have a small negative environmental impact**. The main environmental issue relates to the industry's carbon footprint. In case of Cameroon, pulp, paper and school textbooks are sourced from many countries and regions around the world. The principles guiding the new school textbook policy will include a quality assurance mechanism for potential vendors (publishers, printers, pulp and paper product importers). Assurance includes rainforest Alliance Verification of Legal Origin (VLO), Paper Forest Stewardship Council (FSC) certification, and the endorsement of Green Press Initiative Book industry Treatise on Responsible paper use.

5.3 PFM, DISBURSEMENT AND AUDITING ASPECTS

104. **Fiduciary risk in Cameroon is high.** This rating is based on: (i) the BEAC safeguards framework, accounting systems, and auditing arrangements that are currently weak, though they are being improved, and (ii) Cameroon's PFM system that still has shortcomings in terms of budget execution, internal control and procurement as revealed by the 2016 Public Expenditure and Financial Assessment (PEFA). After the adoption of the new PFM Act (*Nouveau Régime Financier de l'Etat*) in 2007, significant progress has been made in budget programming and reporting with the introduction by the GoC in 2013 of the program budgeting approach in all line ministries. However, while the budget has been approved on a programmatic basis since 2013, the intended benefits of the reforms have yet to materialize due in part to delayed implementation and persistent weaknesses internal controls. In addition, issues around the effectiveness and efficiency of public procurement continue to affect public investment spending, despite the adoption of major reforms in 2011 including the creation of a ministry in charge of public contracts (MINMAP).

105. **The 2016 PEFA for Cameroon found that while the PFM system has been modernized with the implementation of the 2007 Financial Act, shortcomings remain.** Current weaknesses include, for example, poor breakdown of expenditure by sector or by economic nature, direct interventions and existence of cash advance. Access to information on public procurement is still insufficient and the principle of separation between the functions of the contracting authority, the supervisory body and the regulatory body is still not

respected. Budget transparency continues to be weak, though the annual Finance Law is published in the national press. 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.

106. **Weaknesses identified in the PFM system, some of which are being addressed through this DPF, are taken very seriously by the GoC**. In September 2016 the Prime Minister issued instruction to all Ministers laying out the PFM priority areas, including: (i) completion of the transcription of the CEMAC PFM Directives; (ii) reinforcement of the links between sector policies and program-budgeting, notably by including investment and salary appropriations in Ministries programs; (iii) improvement of budget procedures for multiyear budget management with a focus on public investment projects preparation, scope/design of the programs, year-end budget procedures, etc.); (iv) strengthening of accounting procedures and practices; (v) implementation of a change management process in the public administration; and (vi) upgrade of the integrated financial management information system (IFMIS). The Government agreed to publish the 2016 PEFA report and will use it to develop a more comprehensive PFM reform strategy.

107. **Progress had been made in strengthening the regional central bank's safeguards framework since 2009**. The BEAC has initiated measures aimed at reinforcing its governance and control environment. A new organizational structure was established for the Internal Audit Department. A risk-based auditing approach was implemented, and the scope of the external audit was widened to include the activities of the National Directorates and other agencies. The BEAC now publishes a full set of audited financial statements. External auditors expressed unqualified ("clean") opinions on the 2012 to 2016 financial statements.

108. **Disbursement and Accounting*.*** The Recipient is the GoC, represented by the MINEPAT. The Loan amounting in the amount of Euro 172 million (equivalent to US$200 million) will be released in a single tranche the first year upon effectiveness and provided that the World Bank is satisfied with: (i) the program being carried out by the Recipient; and (ii) the adequacy of the Recipient's macroeconomic policy framework. The proposed operation will follow the World Bank's standard disbursement procedures for DPFs. Upon approval of the operation and effectiveness of the Financing Agreement, the proceeds of the Loan will be disbursed by the World Bank into a dedicated account designated by the GoC for budget support at the BEAC, which will form part of the country's foreign-exchange reserves. The Recipient shall ensure that upon the deposit of the Loan into said account, an equivalent amount is credited in the Recipient's budget management system in a manner acceptable to the World Bank. The Recipient will report to the World Bank on the amounts deposited in the foreign-currency account and credited in local currency (CFAF) to the budget management system. If the withdrawal request is in foreign currency, the equivalent amount in CFAF reported in the budgetary system will be based on the market rate effective on the date of the transfer. The Recipient will promptly notify the World Bank within thirty days of the transfer by fax or email that the transfer has taken place and that proceeds have been credited in a manner satisfactory to the World Bank.

109. **Audit.** The Recipient shall: (a) report the exact sum received into the Dedicated Account; (b) ensure that all withdrawals from the Dedicated Account are for budgeted public expenditures, except for items on the Bank's negative list (items excluded under the financing agreement). The World Bank reserves the right to seek an audit of the dedicated account by independent auditors acceptable to the Bank. If, after being deposited in this the dedicated account, the proceeds are used for excluded expenditures as defined in the Financing Agreement, the World Bank will require the Recipient to refund directly to the World Bank an amount equal to the amount of that payment promptly upon notice. Amounts refunded to the World Bank upon such a request will be credited to the loan account and cancelled.

110. **The closing date for the operation is December 31, 2018.**

5.4 MONITORING, EVALUATION AND ACCOUNTABILITY

111. **The MINEPAT will be responsible for the overall implementation of the proposed operation.** As mentioned above, 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 Investment Project Financings (IPF) 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.

112. **Grievance Redress**. Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions under a World Bank DPF may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

6. SUMMARY OF RISKS AND MITIGATION

113. **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.

114. **The political and governance risk is rated as high.** There are several significant risks to social peace and political stability. These include (i) an increasingly violent secessionist movement in the Anglophone regions; (ii) continued Boko Haram attacks in the Far North region; and (iii) spillover effects from instability in the Central African Republic and in the Adamawa and East regions of Cameroon. The preparation of the next presidential election planned for 2018 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 by including several reforms that will directly address strong demands from the population, such as reforms addressing the maintenance of roads, as well as the availability of textbooks and medicines.

115. **The macroeconomic risk is rated as high.** 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.

116. **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.

117. **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.

Table 5.1: Summary Risk Ratings

Risk Categories	**Rating (H, S, M or L)**
1. Political and governance	High
2. Macroeconomic	High
3. Sector strategies and policies	Moderate
4. Technical design of project or program	Moderate
5. Institutional capacity for implementation and sustainability risk	Substantial
6. Fiduciary	High
7. Environment and social	Moderate
8. Stakeholders	Moderate
Overall	**High**

ANNEX 1: POLICY AND RESULTS MATRIX

Prior actions and Indicative Triggers			Results
Prior Actions under DPF 1	**Indicative Triggers for DPF 2**	**Indicative Triggers for DPF 3**	
Pillar 1: Improving fiscal sustainability and public sector management			
Prior Action 1 To improve revenue mobilization, the Ministry of Finance has: (i) included an assessment of tax expenditures from indirect taxes as an annex to the draft 2018 Finance Law, submitted for Parliamentary approval; and (ii) implemented the first phase of a program of joint audits between tax and customs authorities of the cement, forestry and telecommunications sectors to combat tax evasion.	**Trigger 1** To improve revenue mobilization, the Government has: (i) Prepared an assessment of tax expenditures in direct taxes, annexed to the 2019 Finance Law, including specific measures to reduce tax expenditures by 0.2-0.3 to GDP for 2019; (ii) Implemented action plan on reducing tax expenditures on indirect taxation by 0.8 percent to GDP for 2019; and (iii) Completed an evaluation of the 2013 Investment Law on incentives for private investment, with specific measures on rationalizing tax incentives over 2019-2020.	**Trigger 1** To improve revenue mobilization, the Government has: (i) Implemented action plan on reducing tax expenditures on indirect taxation by 0.8 percent to GDP for 2020; (ii) Prepared a specific action plan for the period 2020-2021 on the rationalization and simplification of all tax expenditures; and (iii) Updated in the Budget law for 2020 the annual reporting on revenue forgone due to tax expenditures, covering all tax sources.	**Result Indicator 1:** Tax expenditures as a percent of GDP **Baseline** (2016): 4.1 **Target** (2020): 3.1
	Trigger 2 To improve the effectiveness of the public procurement process: (i) the President has issued a new procurement code in the form of decree, which clarifies, inter alia, responsibilities of the stakeholders, the independence of the complaint mechanism, and the separation of three roles in public procurement: the regulatory, the control and the process; and (ii) MINEPAT and MINMAP have issued a joint *arrêté* stipulating the	**Trigger 2** To improve the effectiveness of public procurement, the Ministry of Public Procurement has set up the e-tracking system for dematerialization of public procurement documents and awarded contracts.	**Result Indicator 2:** Average time between launch of bidding documents and signature of contract For contracts under MINMAP threshold **Baseline** (2016): 128 days **Target** (2020): 90 days For contracts outside MINMAP threshold **Baseline** (2016): 225 days **Target** (2020): 150 days

	new performance pay based on the completion of review process at the tender board/procurement sub-commissions, and repealing the current *arrêté* on remuneration based on payment for attendance.		
Prior Action 2 To improve the payroll and human resources management, the Ministry of Public Service and Administrative Reform has initiated disciplinary proceedings before the Permanent Disciplinary Council of the Civil Service of irregular public officials identified through the 2016 civil service census.	**Trigger 3** To improve payroll management and control the wage bill, the Prime Minister has issued a decree defining criteria for creation of committees, its operational practice including limitation of the number of sessions, members, and remuneration policy.	**Trigger 3** To improve transparency and efficiency in payroll management and control the wage bill, MINIFI and MINEFOPRA have operationalized SIGIPES II in all ministries and integrated the new organizational framework in the SIGIPES II.	**Result Indicator 3:** Percentage of irregular/invalid HR and payment cases eliminated from the SIGIPES **Baseline** (2016): 0 **Target** (2020): 80
Prior Action 3 To improve corporate governance and management of public enterprises, the President of Cameroon has promulgated two laws detailing the responsibilities, monitoring and control of public enterprises and agencies in compliance with OHADA.	**Trigger 4** To improve corporate governance and management of public enterprises, the Government has issued an implementing decree to operationalize the new framework laws detailing: (i) presentation and publication of financial and operational data; (ii) criteria for selection, remuneration, evaluation and replacement of managers and board members (iii) financial audits; and, (iv) level of approval on operational and strategic issues of the enterprise and government oversight arrangements.		**Result Indicator 4** Percentage of SOEs publishing their annual audited financial reports. **Baseline** (2016): 0 **Target** (2020): 20
PILLAR 2: Enhancing competitiveness			
Prior Action 4 To improve the financial sustainability of the energy sector and enhance private sector confidence the Ministry of	**Trigger 5** To improve financial sustainability and ensure the payment of energy bills of the public sector, the Ministry of	**Trigger 4** To reduce indirect subsidies from the sector to industries through a tariff below cost of	**Result Indicator 5** Government's arrears to ENEO **Baseline** (2017): XAF 54 billion as of August 2017

Finance has: (a) concluded with ENEO, the 11th amendment to the 2005 debt repayment agreement to clear arrears of XAF 54 billion in electricity bills and compensation subsidies accumulated between the Government and ENEO as of August 31, 2017; (b) prepared a payment plan with a clear timetable for the payment of said arrears and (c) included in the draft 2018 Finance Law submitted for parliamentary approval, (i) a portion of the arrears to be paid in FY 2018 as specified in the payment plan referred to in (b) above and (ii) the compensatory subsidy to be paid to ENEO in FY 2018.	Finance has developed a robust and reliable mechanism for the payment of electricity bills for parastatals.	production thee Ministry of Energy has approved a new energy policy for industries.	**Target** (2020): 0
Prior Action 5 To improve road maintenance, management of road assets and climate resiliency of roads: (a) The Ministry of Finance has included in the draft 2018 Finance Law submitted for parliamentary approval, an allocation of XAF 56 billion to be transferred to the Road Fund and (b) Ministry of Public Works has adopted a list of selected routes to be maintained in accordance with the GENiS Agreements.	**Trigger 6** To improve road maintenance, management of road assets and climate resiliency of roads: (i) The Minister of Public Works has adopted through a ministerial decision and factored in its 2018/2019 budget and road maintenance program, the use multi-year OPBC contracts for road maintenance of major road corridors (ii) The MINTP has established an action plan for the extension and implementation of its policy of control of axle loads on extended tarred roads other than the recently rehabilitated roads which are systematically taken into account.	**Trigger 5** To improve road maintenance, management of road assets and climate resiliency of roads: (i) The Ministry of Public Works has begun the audit of the MINTP road maintenance programming system; (ii) The Ministry of Finance / FR has started the technical and operational audit of the Road Fund (period: 2002-2017); and, (iii) The Ministry of Public Works has started the implementation of the action plan for the extension and implementation of its policy of controlling axle loads on extended tarred roads.	**Result Indicator 6:** Period of payment of invoices by the Road Funds to companies **Baseline** (2016): between 120 and 180 days. **Target** (2020): between 10 and 90 days

Prior Action 6 To reduce length of stay and transit time in in the Port of Douala, (i)Director General of Customs, in his capacity as the president of the Single Window for Foreign Trade Operations, has extended the single form of foreign trade operations to all phases of the international logistics chain (pre-clearance, take-over, clearance, removal); and(ii) The National Port Authority has approved the revised current port tariffs to increase the storage levy at the port of Douala.	**Trigger 7** To improve the competitiveness of ports and the performance of platforms and logistics chains, the CONAFE has made effective the electronic payment platform to cover all fees, duties and taxes.	**Trigger 6** To improve the competitiveness of ports and the performance of platforms and logistics chains: (i) the CONAFE has implemented the three-year strategic plan detailing specific annual measures to reduce transit time at Douala Port and increased the number of automated trade clearance procedures; and, (ii) the Port Authority has simplified trade facilitation processes by enhancing the e-GUCE platform.	**Result Indicator 7:** Container dwell time at the Douala Port **Baseline** (2017): 11 days **Target** (2020): 7.5 days
Pillar 3: Improving social services and scaling up social protection			
Prior Action 7 To increase the level of funding and management capacity of health facilities and improve the availability of essential medicines in health regions and districts covered by PBF: (i)The Ministry of Public Health and Ministry of Finance have issued a joint *circulaire* allowing all health facilities under the PBF program to benefit from special fiduciary arrangements specified in the national PBF manual; and (ii) The Ministry of Public Health has issued a circular allowing Regional Health Promotion Funds to purchase pharmaceutical products from accredited public or private wholesalers through simplified procedures.	**Trigger 8** To increase the level of funding and management capacity of health facilities and improve the availability of essential medicines in health regions and districts covered by PBF: (i)The 2018 public health budget increases the minimum allocation to primary and secondary care facilities and regulators to at least 15 percent of the public budget and uses performance-based flexible payments in health regions and districts covered by PBF; and (ii) The Ministry of Public Health has signed an official document that allows health facilities to buy pharmaceuticals and other medical supplies directly from licensed suppliers (public or private).	**Trigger 7** To increase the level of funding and management capacity of health facilities: (i) The 2019 public health budget increases the minimum allocation to primary and secondary care facilities and regulators to 20 percent; and, (ii) New health professionals introduced into the civil service are recruited and managed at the regional level through a competitive application process, with the distribution of new posts being based on population health needs.	**Result Indicator 8:** Percentage of births attended by skilled professionals in the three northern regions of Cameroon **Baseline** (2016): 37.6 **Target** (2020): 42

Prior Action 8 To improve efficiency of health sector spending, the Ministry of Public Health has expanded the administrative coverage of the PBF program by introducing at least four additional performance contracts at the central level of the Ministry of Public Health.	**Trigger 9** To improve efficiency of health services, The Ministry of Public Health has expanded the administrative coverage of the PBF program by introducing at least 8 performance contracts at the central level of the Ministry of Public Health.	**Trigger 8** To improve efficiency of health services, the Ministry of Public Health has broadened the administrative coverage of the PBF program by introducing at least 12 performance contracts at the central level of the Ministry of Public Health.	**Result Indicator 9:** Proportion of health facilities under PBF contract with 100 percent of essential drugs in their checklist available during their quarterly evaluation in the 78 health districts covered by PBF, as of October 2017 **Baseline** (2017): 13 percent **Target** (2020): 40 percent
Prior Action 9 To increase accessibility to textbooks in primary and secondary school, the Prime Minister has issued: (i) a *Circulaire* on the principles guiding the new school textbook policy to reduce the cost of books and increase their availability; and (ii) a *Decret* reorganizing the *Conseil National d'Agrément des Manuels Scolaires et des Matériels Didactiques* (CNAMSMD) and setting up the national commission to streamline the development cycle of textbooks.	**Trigger 10:** To make textbook provision more accessible: (i) The technical unit responsible for streamlining the textbook development cycle is fully staffed; and, (ii) The Government has adopted a new schoolbook policy for kindergarten, primary and secondary education, and the Ministries of Basic Education and Secondary Education are implementing it at the beginning of school year 2018-2019.	**Trigger 9:** To make textbooks more affordable to primary school students the Ministry of Finance has included funding to subsidize textbooks in the 2020 Finance Law.	**Result Indicator 10:** Number of textbooks per student in primary school **Baseline** (2016): 1/14 **Target** (2020): 1/2 **Result Indicator 11:** Number of textbooks per student in secondary school. **Baseline** (2016): 1/3 **Target** (2020): 1/1.5
	Trigger 11: To increase the level of funding of safety nets the Government has established a budget line in the 2019 Finance Law, with a budget of XAF 4.5 billion, corresponding to a coverage of 11,250 households.	**Trigger 10:** To increase the level of funding of safety nets the Government has established a budget line in the 2020 Finance Law, with a budget of XAF 6 billion, corresponding to a coverage of 15,000 households.	**Result Indicator 12:** Number of households covered by the social safety net program **Baseline** (2016): 40,000 **Target** (2020): 100,000

ANNEX 2: LETTER OF DEVELOPMENT POLICY

REPUBLIQUE DU CAMEROUN
Paix – Travail – Patrie

MINISTERE DE L'ECONOMIE, DE LA PLANIFICATION ET DE L'AMENAGEMENT DU TERRITOIRE

REPUBLIC OF CAMEROON
Peace – Work – Fatherland

MINISTRY OF ECONOMY, PLANNING AND REGIONAL DEVELOPMENT

N° 007715 L/MINEPAT/SG

Yaoundé, le 13 NOV 2017

Le Ministre,

A Monsieur le Président du Groupe de la Banque mondiale
1818 H Street, NW Washington, D.C. 20433
ETATS-UNIS D'AMERIQUE

Objet : Lettre de politique de développement relative à l'appui budgétaire au profit de la République du Cameroun.

Monsieur le Président,

Le Gouvernement apprécie et remercie la Banque mondiale pour son accompagnement et son soutien face à la situation particulière que traverse le Cameroun, marquée par une crise sécuritaire et la baisse des prix de matières premières. La présente lettre de politique de développement, qui sous-tend l'appui budgétaire de la Banque mondiale au profit de la République du Cameroun, s'inscrit dans le cadre de la mise en œuvre du Programme Economique et Financier à moyen terme 2017-2019 soutenu par la communauté des Partenaires Techniques et Financiers du Cameroun. En outre, elle décrit l'évolution récente de la situation économique, les perspectives et les objectifs de développement du pays. Aussi, elle précise le programme de réformes structurelles à moyen terme pour améliorer la viabilité budgétaire et la gestion du secteur public, renforcer la compétitivité de l'économie, puis améliorer les services sociaux et élargir la protection sociale afin de réduire la vulnérabilité des populations pauvres.

Contexte économique

Bien que relativement diversifiée, l'économie camerounaise est négativement affectée par la baisse des prix des matières premières qui touche l'ensemble de la sous-région de la CEMAC depuis le second semestre de l'année 2014. La forte baisse du prix du baril de pétrole a réduit les recettes budgétaires et diminué considérablement les recettes d'exportations des pays de la CEMAC, entrainant une chute brutale de leurs réserves de change. Par ailleurs, les crises sécuritaire et humanitaire qui sévissent dans les régions de l'Extrême-Nord et de l'Est du Cameroun portent atteinte à l'activité économique et contribuent à l'aggravation du déficit budgétaire de l'Etat.

La détérioration rapide des soldes budgétaire et externe ainsi que la nécessité de restaurer la stabilité macroéconomique de la région CEMAC et la confiance dans la monnaie commune ont amené le Cameroun, conjointement avec les autres pays de la CEMAC à mettre en œuvre des mesures d'ajustement appropriées. C'est ainsi que le 23 décembre 2016, à l'initiative de Son Excellence Paul BIYA, Président de la République du Cameroun, les Chefs d'Etat de la CEMAC ont convenu de mettre en œuvre un programme de réformes coordonné pour enrayer la crise et accélérer la diversification économique de la sous-région. Aussi, les pays membres de la CEMAC ont-ils convenu de recourir au soutien des Partenaires Techniques et Financiers pour soutenir leurs programmes de réformes.

Performances macroéconomiques récentes

L'activité économique au Cameroun a ralenti en 2016 et au premier trimestre 2017 au point que la croissance du PIB est estimée à 3.7 % à la fin de l'année 2017 contre 4.5% en 2016 et 5.8% en 2015. Ce ralentissement est principalement attribuable à la baisse de la production pétrolière et aux perturbations résultant de la crise sécuritaire dans l'Extrême-Nord du pays. Toutefois, les efforts du Gouvernement pour préserver le dynamisme de la production agricole, accroître l'offre d'énergie ainsi que les effets bénéfiques de la forte demande intérieure induite notamment par la poursuite de la mise en œuvre du Plan d'Urgence Triennal pour l'accélération de la croissance (PLANUT), et l'accélération de la mise en œuvre des chantiers de travaux publics, y compris ceux liés à la préparation de la coupe d'Afrique des Nations 2019, ont davantage conforté la bonne tenue des industries manufacturières et du secteur des Bâtiments et Travaux Publics (BTP), et contribué à atténuer l'impact de la baisse de la production de pétrole.

Au cours du premier semestre 2017, le budget de l'Etat s'est exécuté conformément aux objectifs de consolidation budgétaire du programme de réformes économiques et financières conclu avec le FMI en juin 2017. À la fin du premier semestre, le déficit budgétaire s'élevait à 0.4% du PIB soit 0.4 point en dessous de la cible du programme, suite à une gestion prudente des dépenses courantes et d'investissement financées sur ressources propres. Toutefois, en raison du ralentissement de l'activité économique, de la baisse de la production pétrolière et la chute des cours de ce produit , il est anticipé un manque à gagner au niveau des recettes de l'Etat de l'ordre de 137 milliards de francs CFA par rapport à l'objectif annuel du programme. Le Gouvernement reste fermement engagé à poursuivre la consolidation budgétaire en privilégiant les dépenses prioritaires dont l'exécution devrait être aligné sur le rythme de collecte des ressources . Dans ce contexte, le déficit budgétaire à la fin de l'année 2017 est estimé à 3.5% contre 6.5% en 2016.

La position extérieure du pays s'est aussi améliorée en raison de la bonne performance des exportations et une diminution des dépenses d'importations de pétrole ; ce qui a entraîné une réduction de 22% du déficit commercial à la fin de juin 2017 par rapport à la même période en 2016 en même temps qu'un ralentissement de la baisse des réserves de change. À fin juin 2017, la contribution du Cameroun aux réserves de change régionales a augmenté de 7% alors qu'elle avait enregistré une baisse de 35% à fin décembre 2016 par rapport à décembre 2015.

Le stock de la dette a continué d'augmenter au premier semestre de 2017 et devrait atteindre 33,7% du PIB à la fin de l'année, contre 21,5% du PIB en 2014. Toutefois, dans le cadre de la consolidation budgétaire, le Gouvernement prévoit de réduire le plafond de la dette extérieure en 2018 et de donner plus de priorité aux projets d'investissement public à fort potentiel de croissance.

Le programme du Gouvernement

Le programme à moyen terme de réformes économiques et financières du Gouvernement s'inscrit dans le cadre de la vision de développement du Président de la République, Son Excellence Paul BIYA dont l'objectif est de faire du Cameroun, "UN PAYS EMERGENT, DEMOCRATIQUE ET UNI DANS SA DIVERSITE" à l'horizon 2035. Pour matérialiser cette vision, le Cameroun a adopté en 2009, une stratégie de croissance et d'emploi contenu dans le *Document de Stratégie pour la Croissance et l'Emploi (DSCE)* qui constitue le cadre de référence de la première phase (2010-2020) de la mise en œuvre de la « Vision 2035 ». Les principaux objectifs du DSCE sont : (i) réaliser une croissance économique moyenne annuelle de 5,5% entre 2010 et 2020 ; (ii) réduire le sous-emploi d'environ un tiers, de 75,4% en 2005 à moins de 50% en 2020 ; et (iii) réduire le taux de pauvreté de 39,9% en 2007 à moins de 28% en 2020.

L'évaluation à mi-parcours du DSCE (2010-2015) a révélé que la performance économique et sociale du Cameroun était inférieure aux objectifs fixés en 2009. Le taux de croissance moyen de l'économie pour la période 2010-2015 était de 4,9%, plus d'un point de pourcentage inférieur à la cible de 6,1% projetée dans le DSCE. La situation de l'emploi s'est détériorée ; le taux du sous-emploi s'étant établi à 79,0% en 2014 soit 7,9 points de plus que le niveau de 2004. Le taux de pauvreté a diminué passant de 40% en 2011 à 37,5% en 2014, mais les disparités de niveau de vie entre les zones urbaines et rurales ont augmenté au cours de la même période. Afin d'accélérer la croissance et la réduction de la pauvreté et des inégalités, le Président de la République a lancé en 2014 un Plan d'Urgence Triennal pour l'accélération de la croissance (PLANUT), dont la mise en œuvre va stimuler certains secteurs tels que l'agriculture, l'électricité, la santé, l'infrastructure routière et l'eau. Il a également lancé un programme spécial jeunes pour soutenir un million et demi de jeunes âgés de 15 à 35 ans et créer des emplois dans des secteurs tels que l'agriculture et l'économie numérique.

Le Gouvernement réitère sa volonté de tout mettre en œuvre pour poursuivre les objectifs fixés dans le cadre du DSCE. Il a ainsi élaboré un document intérimaire de la stratégie pour la croissance et l'emploi sur la période 2018-2020. L'objectif central dudit document est « de maintenir un cadre macroéconomique stable, en capitalisant les efforts d'investissement consentis depuis 2010 pour qu'ils puissent donner leur plein effet sur le développement du secteur privé, et de poursuivre les politiques sociales et de réduction de la pauvreté ». Au cours de cette période, le déficit budgétaire devrait passer de 3,5% du PIB en 2017 à près de 1,6% du PIB en 2020 et le déficit du compte courant de la balance de paiements devrait se stabiliser aux environs de 3% du PIB sur la période 2018-2019, suite à une reprise modérée attendue des prix des matières premières, malgré l'augmentation des importations qui pourraient résulter de la mise en œuvre du nouveau cadre de partenariat économique avec l'Union européenne.

Le programme à moyen terme de réformes économiques et financières du Gouvernement appuyé par les Partenaires Techniques et Financiers visent à assurer l'atteinte des objectifs visés par le Document intérimaire susmentionné. Il ambitionne entre autres de juguler les effets néfastes du double choc pétrolier et sécuritaire et promouvoir la diversification de l'économie, tout en préservant les populations vulnérables affectées.

Ces réformes devraient notamment permettre de : (i) consolider la croissance économique ; (ii) parachever la réforme des finances publiques et celle des marchés publics ; (iii) améliorer la compétitivité de l'économie et la gouvernance des entreprises publiques ; (iv) renforcer la protection sociale et réduire la vulnérabilité des couches défavorisées.

Dans ce cadre , le Programme d'Appui aux Politiques de Développement envisagé avec la Banque mondiale s'articule autour : de l'amélioration de la viabilité budgétaire et la gestion du secteur public (*pilier I*) ; du renforcement de la compétitivité de l'économie et l'amélioration des services sociaux (*pilier 2*) ; et enfin de l'élargissement de la protection sociale afin de réduire la vulnérabilité des pauvres (*pilier 3*).

Pilier 1 : Amélioration de la viabilité budgétaire et la gestion du secteur public

En vue d'améliorer la viabilité budgétaire et la gestion du secteur public, le Gouvernement ambitionne de renforcer la mobilisation des revenus non pétroliers, réformer le système de passation des marchés publics, ainsi que la gestion de la Fonction Publique et des entreprises publiques.

Mobilisation des recettes non pétrolières

Les efforts engagés dans la mobilisation des recettes non pétrolières vont se poursuivre. Afin de renforcer la mobilisation des recettes, le Gouvernement entend poursuivre les réformes visant à rationaliser le système d'incitations fiscales en vue de réduire les dépenses fiscales. Les estimations préliminaires indiquent que la perte annuelle des revenus au titre des dépenses fiscales se situe à près de 2,5% du PIB, toutes sources fiscales confondues. L'objectif du Gouvernement est d'assurer un suivi stratégique desdites dépenses de façon à maitriser leur niveau chaque année, et d'annexer le rapport annuel sur les dépenses fiscales à la loi de finances. En outre, il sera mis en œuvre une démarche progressive et pragmatique de réduction des dépenses fiscales jugées inefficaces et superflues. Aussi, le Gouvernement procédera à l'évaluation de la loi du 18 avril 2013 sur les incitations à l'investissement privé et déterminera les mesures spécifiques sur les incitations fiscales à éliminer.

Réforme des marchés publics

Le Gouvernement reste déterminé à poursuivre la réforme sur les marchés publics. Il s'agira de poursuivre l'allègement des procédures de passation des marchés en vue d'améliorer l'efficacité de l'investissement public. A cet effet, un code révisé des marchés publics sera adopté. Celui-ci clarifiera, entre autres, les responsabilités des parties prenantes, l'indépendance du mécanisme de gestion des plaintes et la séparation des fonctions de régulation, de contrôle et de passation des marchés.

En outre, le Gouvernement envisage à moyen terme de réduire les délais et d'accroître la concurrence dans les processus de passation des marchés en vue d'améliorer le taux d'exécution budgétaire des projets d'investissement public. A cet effet, le Gouvernement entend désormais: (i) rendre disponibles au plus tard le 31 Décembre de l'année N-1, les plans de passation des marchés approuvés , relatifs aux projets d'investissement retenus dans la loi de finances de l'année N, (ii) assurer la disponibilité des éléments de maturité des projets (Termes de Références et Dossiers d'Appels d'offres notamment) au moment des conférences budgétaires, (iii) conclure tous les contrats relatifs aux activités retenues dans la loi de finances au plus tard le 31 mai de l'année en cours ; (iv) réviser la politique de rémunération des membres de la commission de passation des marchés afin que cette rémunération soit adossée à la performance et au nombre de dossiers examinés et non au nombre de sessions ; (v) poursuivre le processus de dématérialisation des procédures par la mise en place d'un système électronique de gestion des documents et de passation des marchés publics.

Réforme de la gestion de la fonction publique et des entreprises publiques

L'efficacité et l'efficience seront au cœur de la gestion de l'administration et des entreprises publiques. Pour ce qui est de la fonction publique, le Gouvernement prévoit d'améliorer la transparence et l'efficacité dans la gestion de la solde ainsi que le contrôle des dépenses de personnel à travers l'opérationnalisation du nouveau système de gestion de la solde (SIGIPES II), et la rationalisation des Comités, Commissions et Groupes de Travail. Par ailleurs, le Gouvernement entend procéder (i) à la rationalisation des recrutements basés sur les besoins réels des administrations en fonction des postes de travail préalablement identifiés ; (ii) au renforcement de la mise en œuvre des sanctions disciplinaires en vue d'éliminer les cas d'agents publics irréguliers.

S'agissant des entreprises publiques, le Gouvernement entend promouvoir la transparence dans leur gestion et renforcer la surveillance. Dans ce cadre et en vue de rendre opérationnelles les lois de juillet 2017 portant respectivement sur le statut général des entreprises publiques et des établissements publics, le Gouvernement veillera à la signature dans les délais des textes d'application nécessaires. Cette réforme vise à clarifier les responsabilités au sein de ces entités et au sein des organes de contrôle, en ce qui concerne : (i) la présentation et la publication de données financières et opérationnelles ; (ii) les critères de sélection, de rémunération, d'évaluation et de remplacement des dirigeants (iii) les audits financiers ; et (iv) le niveau de décision / approbation sur les questions opérationnelles et stratégiques de l'entreprise.

Pilier 2 : Renforcement de la compétitivité de l'économie à travers le développement des infrastructures

Le Gouvernement s'engage à accélérer la mise en œuvre des réformes visant à lever les principaux obstacles à une plus grande compétitivité de l'économie. A ce titre, il entend poursuivre sa politique de développement des infrastructures dans les domaines de l'énergie, des transports, des bâtiments et travaux publics, des technologies de l'information et de la communication. Par ailleurs, le Gouvernement a mis en place depuis 2006, un mécanisme de dialogue public-privé visant l'amélioration du climat des affaires, le "Cameroon Business Forum" (CBF). Initié conjointement avec la SFI (Société financière internationale) du groupe de la Banque mondiale qui apporte son appui technique à l'Etat , cette plateforme de concertation vise à terme à lever les obstacles liés au monde des affaires, en appliquant les réformes adoptées en vue d'encourager le secteur productif. Les actions envisagées à moyen terme intègrent l'élargissement de l'accès aux services financiers conformément à la stratégie d'inclusion financière, la finalisation des plans cadastraux des principales villes du pays, l'informatisation des registres du commerce et la dématérialisation des procédures de collecte et de paiement des impôts et taxes. Le programme soutenu par la Banque mondiale se focalisera sur les secteurs des transports et de l'énergie.

Réformes du Secteur des Transports

La facilitation des échanges tant au niveau national que régional et la sécurisation du patrimoine routier seront les axes majeurs d'intervention. Dans cette optique, le Gouvernement compte améliorer le fonctionnement du Fonds routier en vue d'améliorer la qualité des routes. A cet effet, il envisage de mettre en place un compte dédié pour la gestion des ressources budgétaires qui seront allouées audit fonds et de pérenniser la dotation spéciale d'un montant de 55 milliards de francs CFA inscrite dans la loi de finances pour le financement de l'entretien routier.

S'agissant spécifiquement du secteur portuaire, l'amélioration de la performance du Port de Douala en tant qu'outil de facilitation du commerce reste une priorité du Gouvernement. Dans ce cadre, des mesures spécifiques seront prises pour réduire les délais de passage et limiter l'utilisation de la plateforme portuaire comme espace de stockage.

Réforme du Secteur de l'Energie

L'accroissement de l'offre d'énergie et la viabilité financière demeurent les priorités dans ce secteur. A cet effet, le Gouvernement ambitionne de porter la capacité de production à environ 1800 MW à l'horizon 2020, afin de réduire la facture énergétique, améliorer l'offre et la disponibilité aux entreprises, aux administrations et aux ménages. Par ailleurs, afin d'améliorer la viabilité financière de ce secteur et renforcer la confiance des investisseurs privés, le Gouvernement s'engage à apurer sa dette vis-à-vis dudit secteur. Afin de limiter les nouvelles accumulations d'arriérés de paiement de l'Etat, il établira, chaque année et dès 2018, un dialogue entre les acteurs du secteur, dont l'ARSEL. Ce dialogue débouchera sur l'application d'un ajustement tarifaire au 1er Janvier de l'année n+1 ou sur l'évaluation et la prise en charge par le budget de l'Etat au 1er Janvier de l'année n+1 de la compensation tarifaire, selon un calendrier aligné sur les échéanciers de facturation.

Pilier 3 : Amélioration des services sociaux et de la protection sociale

Le Gouvernement entend améliorer le financement et l'exécution des dépenses sociales notamment dans les secteurs de la santé, de l'éducation et de la protection sociale afin de réduire la vulnérabilité des pauvres.

Réforme dans le secteur de la Santé

Le Gouvernement poursuivra sa politique d'accès universel aux services et soins de santé de qualité à travers l'amélioration de l'offre et le financement de la demande de soins. A cet effet, la priorité sera accordée aux domaines d'intervention suivants : la santé de la mère, de l'adolescent et de l'enfant ; la lutte contre la maladie ; la promotion de la santé ; et la viabilisation du district de santé. A moyen terme, il s'agira d'élargir la couverture géographique et le nombre de bénéficiaires couverts par le Programme de financement basé sur les résultats (« Performance Based Financing- PBF »). Pour cela, le Gouvernement entreprendra des actions visant spécifiquement l'augmentation du niveau de financement et la capacité de gestion des établissements de santé, ainsi que l'accroissement de la disponibilité des médicaments essentiels dans les régions couvertes par le PBF. En outre, le Gouvernement prévoit de permettre aux établissements de santé de conserver et de gérer les ressources collectées localement, et de s'approvisionner en produits pharmaceutiques et autres consommables médicaux directement auprès de fournisseurs agréés (publics ou privés).

Réforme dans le secteur de l'Education

Le Gouvernement entend poursuivre sa politique de gratuité de l'éducation de base et de facilitation de l'accès au manuel scolaire. Dans cette perspective, il prévoit d'adopter dans les meilleurs délais, une nouvelle politique du livre scolaire visant à réduire son coût pour favoriser son accessibilité et augmenter sa disponibilité. De même, le cadre institutionnel qui soutiendra la mise en œuvre de cette nouvelle politique sera mis en place.

Réforme du système de protection sociale

Le Gouvernement, avec le financement et l'assistance technique de la Banque mondiale a jeté les bases d'un programme national complet de filets de sécurité sociale. Les principaux éléments du système comprennent des transferts monétaires ciblés et des programmes de travaux publics pour les personnes les plus pauvres et les plus vulnérables. Le Gouvernement entend consolider les acquis des programmes sociaux. A cet effet, il assurera la pérennisation du programme des filets sociaux initié avec le soutien de la Banque Mondiale et l'élargissement du nombre de bénéficiaires couverts par ledit programme.

Monsieur le Président,

Le suivi et l'évaluation techniques de ce Programme d'Appui aux Politiques de Développement que soutient votre institution seront de la responsabilité du Comité Technique de Suivi des programmes économiques qu'appuiera le Comité interministériel en charge du suivi des réformes structurelles.

Le Gouvernement entend, à travers les orientations et engagements sus mentionnés, renforcer la coopération économique et financière avec la Banque mondiale et les autres partenaires au développement. Il sollicite un appui budgétaire d'un montant de deux cents (200) millions de dollars américains pour l'année 2017, afin d'atteindre les résultats escomptés dans le cadre de ce programme.

Veuillez agréer, **Monsieur le Président**, l'expression de ma très haute considération. /-

<u>Copie</u> :

- *Min.SG/PR*
- *SG/PM*

REPUBLIQUE DU CAMEROUN
Republic of Cameroon
LE MINISTRE
MINISTERE DE L'ECONOMIE DE LA PLANIFICATION ET DE L'AMENAGEMENT DU TERRITOIRE

Louis Paul MOTAZE

LETTER OF DEVELOPMENT POLICY – UNOFFICIAL TRANSLATION

REPUBLIQUE DU CAMEROUN
Paix – Travail – Patrie

MINISTERE DE L'ECONOMIE, DE LA PLANIFICATION
ET DE L'AMENAGEMENT DU TERRITOIRE

REPUBLIC OF CAMEROON
Peace – Work – Fatherland

MINISTRY OF ECONOMY, PLANNING AND REGIONAL DEVELOPMENT

N°……………………………L/MINEPAT/SG

Yaoundé, November 13, 2017

The Minister,

To the President of
The World Bank Group
1818 H Street, NW Washington, D.C. 20433
United States of America

Objet : Letter of development policy for budget support for the Republic of Cameroon.

Mr. President,

The Government thanks the World Bank for its support in the face of the difficult situation in Cameroon, marked by a security crisis and falling commodity prices. This Development Policy Letter, which underpins the World Bank's budget support for the Republic of Cameroon, is part of the implementation of the Economic and Financial Program in the medium term 2017-2019, supported by Technical and Financial Partners of Cameroon. In addition, it describes recent developments in Cameroon's economic situation, prospects and development objectives. It also clarifies the medium-term structural reform program to improve fiscal sustainability and public sector management, to strengthen the competitiveness of the economy, and to improve social services and broaden social protection to reduce the vulnerability of the poor.

Macroeconomic context

Although relatively diversified, Cameroon's economy has been negatively impacted by the decline in commodity prices that has affected the entire CEMAC region since the second half of 2014. The sharp drop in the price of oil has reduced revenues and considerably cut export earnings of the CEMAC countries, resulting in a sharp drop in their foreign exchange reserves. In addition, the security and humanitarian crises in the Far North and East Cameroon regions are undermining economic activity and contributing to the deterioration of the fiscal deficit.

The rapid deterioration of the fiscal and external balances as well as the need to restore the macroeconomic stability of the CEMAC region and the confidence in the common currency requires that Cameroon, together with the other CEMAC countries, implement appropriate adjustment measures. On December 23, 2016, on the initiative of His Excellency Paul BIYA, President of the Republic of Cameroon, the Heads of State of CEMAC agreed to implement a coordinated reform program to stop the crisis and accelerate the economic diversification of the region. Also, the CEMAC member countries agreed to use the support of the Technical and Financial Partners to unroll their reform program.

Recent Macroeconomic performance

Economic activity in Cameroon slowed in 2016 and in the first quarter of 2017; GDP growth is estimated at 4.1 percent at the end of 2017, compared to 4.5 percent in 2016 and 5.8 percent in 2015. This slowdown is mainly attributed to the decline in oil production and the disruption resulting from the security crisis in the far north of the country. However, the Government's efforts to preserve the dynamism of agricultural production, the increase of the supply of energy, the beneficial effects of strong domestic demand led in particular by the continued implementation of the Triennial Emergency Plan for the accelerating growth (PLANUT), and the acceleration of the implementation of public works projects including those related to the preparation of the 2019 Africa Cup of Nations, have further supported the good performance of manufacturing industries , Construction and Public Works (BTP) and helped to contain the decline in oil production.

In the first half of 2017, the state budget was implemented in line with the budgetary consolidation objectives of the IMF economic and financial reform program signed in June 2017. At the end of the first half of the year, the fiscal deficit was 0.4 percent of GDP, or 0.4 point below the program target, following prudent management of current and capital expenditure financed by domestic resources. However, due to the slowdown of economic activity, and the decline in oil production and the price of oil, there (it?) is anticipated shortfall in government revenues of 137 CFA francs billion compared? to the annual program objective. The Government remains firmly committed to fiscal consolidation by conditioning the implementation of non-priority expenditures at the level of resource collection. In this context, the fiscal deficit at the end of 2017 is estimated/projected? at 3.5 percent against 6.5 percent in 2016.

The country's external position also improved thanks to good performance of exports and a decrease in oil import spending which resulted in a 22 percent reduction in the trade deficit at the end of June 2017 compared to the same period in 2016. Rising exports combined with lower imports led to a slowdown in the fall of foreign exchange reserves. At the end of June 2017, Cameroon's contribution to regional exchange reserves increased by 7 percent at the end of December 2016 compared to the decrease of 35 percent at the end of December 2015.
The stock of debt continued to increase in the first half of 2017 and is expected to reach 33.7 percent of GDP at the end of the year compared to 21.5 percent of GDP in 2014. However, as part of the consolidation, the government plans to reduce the external debt ceiling to CFA 500 billion in 2018 and give priority to public investment projects with the greatest potential for growth.

The government program

The government's medium-term program of economic and financial reforms is part of the development vision of the President of the Republic, his Excellency Paul Biya, whose objective is to make Cameroon an EMERGING, DEMOCRATIC COUNTRY AND UNITED IN ITS DIVERSITY "by 2035. To accomplish this vision, Cameroon adopted in 2009 a strategy for growth and employment contained in the "Strategy Document for Growth and Employment (DSCE) "which established the framework for the first phase of the implementation (2010-2020) of the "Vision 2035". The main objectives of the DSCE are to: (i) increase average annual economic growth to 5.5 percent between 2010 and 2020; (ii) reduce underemployment by about one third, from 75.4 percent in 2005 to less than 50 percent in 2020; and (iii) reduce the poverty rate from 39.9 percent in 2007 to less than 28 percent in 2020.

The mid-term evaluation of the DSCE (2010-2015) revealed that Cameroon's economic and social performance was below the targets set in 2009. The average growth rate of the economy for 2010-2015 was 4.9 percent, more than one percentage point lower than the 6.1 percent projected in the DSCE. The rate of underemployment deteriorated to 79.0 percent in 2014, 7.9 points higher than the level in 2004. The poverty rate decreased by 37.5 percent in 2014 compared to 40 percent in 2011, but disparities in living standards between urban and rural areas have increased over the same period. To accelerate growth and reduce poverty and inequality, the President of the Republic launched a Triennial Accelerated/accelerating? Growth Plan (PLANUT) in 2014 to stimulate sectors such as agriculture, electricity, health, road infrastructure and water. He has also launched a special youth program to support one and a half million young people aged 15 to 35 and boost employment in sectors such as agriculture and the digital economy.

The Government reiterates its determination to do everything possible to pursue the objectives set out in the Growth and Employment Strategy Document (DSCE). It drafted an interim strategy paper for growth and employment for the period 2018-2020. The central objective of the document is "to maintain a stable macroeconomic framework by building on investment efforts since 2010 so that they can fully impact private sector development and pursue social policies and poverty reduction ". During this period, the fiscal deficit is projected to decrease from 3.5 percent of GDP in 2017 to nearly 1.6 percent of GDP in 2020 and the current account deficit should stabilize at about 3 percent of GDP by 2018-2019 following a moderate expected recovery in commodity prices despite the expected increase in imports from the implementation of the new economic partnership framework with the EU.

The medium-term program of economic and financial reforms of the Government supported by the Technical and Financial Partners is aimed at achieving the objectives of the Interim Document mentioned above. It aims, among other things, to curb the negative effects of the oil and security shocks and to promote the diversification of the economies of the region, while preserving the vulnerable populations affected by the double crisis.

These reforms shall: (i) consolidate economic growth; (ii) complete the reform of public finance and public procurement; (iii) improve the competitiveness of the economy and the governance of public enterprises; (iv) strengthen social protection and reduce the vulnerability of the disadvantaged.

In this package, the Development Policy Support Program envisioned with the World Bank is based on: improving fiscal sustainability and public sector management (pillar 1); strengthening the competitiveness of the economy and improving social services (pillar 2); and the expansion of social protection to reduce the vulnerability of the poor (pillar 3).

Pillar 1: Improving fiscal sustainability and public sector management

With a view of improving fiscal sustainability and public sector management, the Government aims to strengthen non-oil revenue mobilization, to reform the public procurement system, and to reform public service management and public enterprises.

Non-oil revenue mobilization
Initiated efforts to mobilize non-oil revenues will continue. To strengthen revenue mobilization, the Government intends to pursue reforms aimed at streamlining the system of fiscal incentives to reduce tax expenditures. Preliminary estimates suggest that the annual loss of income from tax expenditures is almost 2.5 percent of GDP, all tax sources combined. The objective of the Government is to ensure a strategic follow-up of these expenditures so as to control their level each year, and to annex the annual report on tax expenditures to the Finance Law. In addition, a phased and pragmatic approach to reducing tax expenditures that is deemed ineffective and

unnecessary will be implemented. The Government will also evaluate the Law of 18 April 2013 on incentives for private investment and determine the specific measures on tax incentives to be eliminated.

Public procurement reform

The Government remains committed to pursuing reforms in public procurement. The aim will be to further streamline procurement procedures to improve the efficiency of public investment. To this end, a new public procurement code will be adopted and will clarify, inter alia, responsibilities of the stakeholders, the independence of the complaint mechanism, and the separation of three roles in public procurement: the regulatory, the control and the process.

In addition, the Government is planning in the medium term to reduce procurement delays and increase competition in procurement with a view of improving the budget execution rate of public investment projects. To this end, the Government intends: (i) to make available procurement documents such as Terms of References (TORs) and Bidding Documents (BD) for the proposed public investment projects before the budget conferences; (ii) to publish the procurement plans for single-year public investment projects approved in the Finance Law on the MINMAP website by December 31st of each year; and (iii) to sign all contracts subscribed in the Finance Law, which are to be financed with the Government resources, by May 31st of each year; (iv) review the remuneration policy of the members of the Procurement Board in order to link it to performance and the number of files rather than the number of sessions; (v) continue the process of dematerialization by setting up the electronic system for the dematerialization of public procurement documents and the award of public contracts.

Civil Service and Public Enterprise Management Reform

Effectiveness and efficiency will be central to the management of public administration and enterprises. With regard to the civil service, the Government plans to improve transparency and efficiency in the management of pay and control of staff costs through the operationalization of the new payroll management system (SIGIPES II), the rationalization of Committees, Commissions and Working Groups. In addition, the Government intends to: (i) rationalize recruitment based on the actual needs of the administrations according to the previously identified workstations; (ii) strengthening the implementation of disciplinary sanctions to eliminate cases of irregular public officials.

With regard to public enterprises, the Government intends to promote transparency in their management and strengthen supervision. Within this framework and with a view to operationalize the laws of July 2017 relating respectively to the general status of public enterprises and public establishments, the implementing texts will be signed as soon as possible. The purpose of this reform is to clarify the responsibilities of public enterprises and institutions of control with regard to: (i) the presentation and publication of financial and operational data; (ii) criteria for the selection, remuneration, evaluation and replacement of directors and members of the board of directors; (iii) financial audits; and (iv) the level of decision / approval on the operational and strategic issues of the company.

Pillar 2: Strengthening the competitiveness of the economy through infrastructure development

The Government is committed to accelerating the implementation of reforms aimed at removing the main obstacles to greater competitiveness of the economy. In this respect, it intends to pursue its policy of developing infrastructures in the fields of energy, transport, buildings and public works, information and communication technologies which play a leading role in improving competitiveness of the economy. In addition, since 2006, the GoC has set up a mechanism for public-private dialogue aimed at improving the business climate, the Cameroon Business Forum (CBF). Initiated jointly with the International Finance Corporation (IFC) of the World Bank Group, which provides technical support to the State for better ownership, this platform is designed to remove barriers related to the the business world, applying the reforms adopted to encourage the productive sector. Actions planned in the medium term include expanding access to financial services, in line with the financial inclusion strategy, finalization of the cadastral plans of the main cities of the country, computerization of business registers, dematerialization of procedures for the collection and payment of taxes. The program supported by the World Bank will focus on transport and energy sectors.

Transport sector reforms

Facilitation of exchanges at national and regional level and the securing of road assets will be the major focal points of intervention. To this end, the Government intends to improve the functioning of the Road Fund to improve the quality of roads. To this end, it plans to set up a dedicated account for the management of the budgetary resources to be allocated to this fund and to make permanent the special allocation of 55 billion CFA francs included in the finance law for financing of road maintenance.

In regards to the port sector, improving the performance of the Port of Douala as a trade facilitation tool remains a priority for the Government. In this context, specific measures will be taken to reduce transit times and limit the use of the port platform as storage space.

Energy sector reforms

Increased energy supply and financial sustainability remain priorities in this sector. To this end, the Government is aiming to increase production capacity to about 1,800 MW by 2020 to reduce the energy bills, improve supply and availability to businesses, administrations and households. In addition, to improve the financial viability of the sector and strengthen the confidence of the private sector, the Government is committed to clearing its debt vis-à-vis the sector. To limit new accumulations of government payment arrears, it will establish, every year and as early as 2018, a dialogue between the players in the sector, in particular ARSEL, leading to the application of a tariff adjustment to the 1st January of year n + 1 or on the assessment and assumption by the State budget on the 1st of January of the year n + 1 of the tariff compensation, on a timetable aligned with the billing schedules.

Pillar 3: Improving social services and scaling up social protection

The Government intends to improve the financing and implementation of social spending, particularly in the areas of health, education and social protection, in order to reduce the vulnerability of the poor.

Health sector reforms

The Government will continue its policy of universal access to quality health care and services through improved supply and financing of demand for care. To this end, priority will be given to the following areas of intervention: maternal, adolescent and child health; disease control; health promotion; and servicing the health district. In the medium term, it will be necessary to broaden the geographical coverage and the number of beneficiaries covered by the Results-Based Funding Program (PBF). To this end, the Government will undertake actions specifically aimed at increasing the level of funding and management capacity of health facilities, as well as increasing the availability of essential medicines in the regions covered by the PBF. In addition, the Government plans to allow health facilities to retain and manage locally collected resources and to source pharmaceutical products and other medical supplies directly from accredited suppliers (public or private).

Education sector reforms

The Government intends to continue its policy of free basic education and the facilitation of access to textbooks. So, the government plans to adopt, as soon as possible, a new school textbook policy aimed at reducing its cost in order to promote its accessibility and increase its availability. Similarly, the institutional framework that will support the implementation of this new policy will be put in place.

Social protection Reforms

The Government, with World Bank funding and TA, has laid the foundation for a comprehensive national safety net program. The main elements of the system include targeted cash transfers and public works programs for the poorest and most vulnerable. The Government intends to consolidate the achievements of these social programs. To this end, it will ensure the sustainability of the social safety net program initiated with the support of the World Bank and the expansion of the number of beneficiaries covered by the program.

Mr. President,

The monitoring and evaluation of this development policy program backed by your institution will be the responsibility of the Technical Committee for Monitoring Economic Programs, which will be supported by the inter-ministerial Committee in charge of monitoring structural reforms.

The Government intends, through the above-mentioned orientations and commitments, to strengthen economic and financial cooperation with the World Bank and other DPs. The Government is requesting a budget support of US$ 200 million for the year 2017 to achieve the expected results under this program.

Please accept, Mr. President, the assurances of my highest consideration.

ANNEX 3: IMF RELATIONS ANNEX

IMF Executive Board Approves US$666.2 Million Arrangement Under the Extended Credit Facility for Cameroon

June 26, 2017

- Executive Board decision allows an immediate disbursement of SDR 124.2 million (about US$171.3 million) to Cameroon.
- Cameroon's ECF-supported program aims to restore the country's fiscal and external sustainability and unlock job-rich, private sector-driven growth.
- Reforms to maintain financial stability and boost financial inclusion, and address structural obstacles to competitiveness and economic diversification, will be key in accelerating private sector-led diversification.

On June 26, 2017, the Executive Board of the International Monetary Fund (IMF) approved a three-year arrangement under the Extended Credit Facility (ECF) with Cameroon for SDR 483 million (about US$666.2 million, or 175 percent of Cameroon's quota) to support the country's economic and financial reform program.

The ECF-supported program is expected to help Cameroon restore external and fiscal sustainability and lay the foundations for sustainable, private sector-led growth.

An amount of SDR 124.2 million (about US$171.3 million) will be immediately made available to Cameroon, further to the approval of the arrangement. The remaining amount will be phased in over the duration of the program, subject to semi-annual program reviews.

Following the Executive Board discussion on Cameroon, Mr. Mitsuhiro Furusawa, Deputy Managing Director and Acting Chair, said:

"Cameroon has been hit hard by the twin oil price and security shocks which have affected the CEMAC region since 2014 and led to a sharp drop in the pooled international reserves. Having initially shown resilience owing to its greater diversification, the Cameroonian economy is now facing decelerating growth, declining fiscal and external buffers, and rapidly-rising public debt. The authorities' Fund-supported program appropriately aims at addressing Cameroon's large balance of payments need and restoring fiscal and external sustainability, while also contributing to the collective effort to rebuild regional reserves. The Cameroonian authorities' leadership has been instrumental in spearheading the coordinated regional response to maintain the integrity of the CEMAC's monetary arrangement.

"Addressing the rising fiscal and external imbalances requires a sustained and balanced fiscal consolidation based on expanding the non-oil revenue base, prioritizing public investment projects with demonstrated growth dividends, and rationalizing recurrent expenditure, while protecting social spending. The authorities' fiscal program is supported by comprehensive structural reforms in revenue mobilization and public financial management to further boost non-oil revenue collection, improve spending efficiency, and contain fiscal risks.

"The authorities are committed to enhance Cameroon's competitiveness and medium-term growth potential, in line with their strategy to reach emerging economy status by 2035. The completion of large energy and transport public infrastructure projects will help boost private sector investment, job creation and further diversification, and is supported by complementary reforms to maintain financial stability, expand access to financial services and improve the business environment.

"The success of Cameroon's program will also depend on the implementation of supportive policies and reforms by the regional institutions."

Appendix to Annex 3

Recent Economic Developments

Cameroon, the largest economy in the Central African Economic and Monetary Union (CEMAC), has been hit hard since 2014 by shocks caused by a slump in oil prices and increased security threats. Oil revenue declined and security and humanitarian spending increased, while needed infrastructure programs continued, leading to widening fiscal and current account deficits as well as a rapid accumulation of external debt.

After showing initial resilience to the shocks, growth weakened to 4.7 percent in 2016, from 5.8 percent in 2015 and 5.9 percent in 2014. Inflation declined to 0.3 percent at end 2016 and remained low at 0.4 percent in March 2017. It is expected to stay below the CEMAC convergence criterion of 3 percent in the medium-term. The fiscal deficit rose to 6.5 percent in 2016, from 2 percent of GDP in 2015, largely driven by a surge in capital spending and a decline in revenues.

Program Summary

Cameroon's reform strategy is embedded in the coordinated regional approach outlined at the Yaoundé Heads of States summit in December 2016, during which the Cameroonian authorities spearheaded a coordinated response to maintain regional external stability as well as the integrity of the monetary arrangement. In that context, Cameroon's ECF-supported program aims to restore the country's fiscal and external sustainability and unlock job-rich, private sector-driven growth. The program rests on three main pillars: i) frontloaded fiscal consolidation to strengthen fiscal and external buffers, while protecting social spending and social safety nets; ii) structural fiscal reforms to expand the non-oil revenue base, improve the efficiency of public investment and the quality of budgetary system, and mitigate fiscal risks from contingent liabilities; iii) reforms to accelerate private sector-led economic diversification and boost the resilience of the financial sector.

The fiscal objectives of the program will be achieved through a better prioritization of public investment, focusing on infrastructure projects essential to further economic diversification, and a rationalization of the Government's spending on goods and services, while supporting an expansion of essential social expenditure and safety nets. In addition, with oil revenue declining over time, further expanding the non-oil revenue base and enhancing spending efficiency are key to maintaining the fiscal space needed for infrastructure investment and other priority areas.

To address the remaining weaknesses in public financial management, the authorities plan to enhance the budget credibility and transparency, including through the publication of regular reports on budget execution; strengthen treasury management, strictly limit and eventually eliminate the resort to exceptional procedures, and improve the efficiency in planning, executing and monitoring public investment projects.

Public debt management will focus on reducing the pace of debt accumulation in line with the program's fiscal deficit objectives, tilting the composition of new borrowing towards more concessional financing, and closely monitoring contingent liabilities.

Reforms to maintain financial stability and boost financial inclusion, and address structural obstacles to competitiveness and economic diversification, will be key in accelerating private sector-led diversification.

Background

Cameroon, which became member of the IMF on July 10, 1963, has an IMF quota of SDR 276 million.

For additional information on the IMF and Cameroon, see:

http://www.imf.org/external/country/CMR/index.htm

ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior actions	Significant positive or negative environment effects (yes/no/to be determined)	Significant poverty, social or distributional effects positive or negative (yes/no/to be determined)
PILLAR 1: Improving fiscal sustainability and public sector management		
Prior Action 1: To improve revenue mobilization, the Ministry of Finance has: (i) included an assessment of tax expenditures from indirect taxes as an annex to the draft 2018 Finance Law, submitted for Parliamentary approval; and (ii) implemented the first phase of a program of joint audits between tax and customs authorities of the cement, forestry and telecommunications sectors to combat tax evasion.	No	No
Prior Action 2: To improve the payroll and human resources management, the Ministry of Public Service and Administrative Reform has initiated disciplinary proceedings before the Permanent Disciplinary Council of the Civil Service of irregular public officials identified through the 2016 civil service census.	No	No
Prior Action 3: To improve corporate governance and management of public enterprises, the President of Cameroon has promulgated two laws detailing the responsibilities, monitoring and control of public enterprises and agencies in compliance with OHADA.	No	No
Pillar 2: Enhancing Competitiveness		
Prior Action 4: To improve the financial sustainability of the energy sector and enhance private sector confidence the Ministry of Finance has: (a) concluded with ENEO, the 11th amendment to the 2005 debt repayment agreement to clear arrears of XAF 54 billion in electricity bills and compensation subsidies accumulated between the Government and ENEO as of August 31, 2017; (b) prepared a payment plan with a clear timetable for the payment of said arrears and (c) included in the draft 2018 Finance Law submitted for parliamentary approval, (i) a portion of the arrears to be paid in FY 2018 as specified in the payment plan referred to in (b) above and (ii) the compensatory subsidy to be paid to ENEO in FY 2018.	Both positive and negative effects	Potential positive effects
Prior Action 5: To improve road maintenance, management of road assets and climate resiliency of roads: (a) The Ministry of Finance has included in the draft 2018 Finance Law submitted for parliamentary approval, an allocation of XAF 56 billion to be transferred to the Road Fund and (b) Ministry of Public Works has adopted a list of selected routes to be maintained in accordance with the GENiS Agreements.	Possible negative effect	Positive effects

Prior actions	Significant positive or negative environment effects (yes/no/to be determined)	Significant poverty, social or distributional effects positive or negative (yes/no/to be determined)
<u>Prior Action 6</u>: To reduce length of stay and transit time in in the Port of Douala, (i) Director General of Customs, in his capacity as the president of the Single Window for Foreign Trade Operations, has extended the single form of foreign trade operations to all phases of the international logistics chain (pre-clearance, take-over, clearance, removal); and (ii)The National Port Authority has approved the revised current port tariffs to increase the storage levy at the port of Douala.	Positive effect	No
Pillar 3: Improving social services and scaling up social protection		
<u>Prior Action 7</u>: To increase the level of funding and management capacity of health facilities and improve the availability of essential medicines in health regions and districts covered by PBF: (i) The Ministry of Public Health and Ministry of Finance have issued a joint circulaire allowing all health facilities under the PBF program to benefit from special fiduciary arrangements specified in the national PBF manual; and (ii) The Ministry of Public Health has issued a circular allowing Regional Health Promotion Funds to purchase pharmaceutical products from accredited public or private wholesalers through simplified procedures.	Potential negative effects	Significant Positive effects
<u>Prior Action 8</u>: To improve efficiency of health sector spending, the Ministry of Public Health has expanded the administrative coverage of the PBF program by introducing at least four additional performance contracts at the central level of the Ministry of Public Health.	Negative effect	Significant Positive Effects
<u>Prior Action 9</u>: To increase accessibility to textbooks in primary and secondary school, the Prime Minister has issued: (i) a Circulaire on the principles guiding the new school textbook policy to reduce the cost of books and increase their availability; and (ii) a *Decret reorganizing the Conseil National d'Agrément des Manuels Scolaires et des Matériels Didactiques* (CNAMSMD) and setting up the national commission to streamline the development cycle of textbooks.	Small negative effect	Significant positive effects