

Cameroon: Second Review of the Three-Year Arrangement Under the Poverty Reduction and Growth Facility—Staff Report; Staff Statement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Cameroon

In the context of the second review of the three-year arrangement Under the Poverty Reduction and Growth Facility, the following documents have been released and are included in this package:

- the staff report for the Second Review of the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, prepared by a staff team of the IMF, following discussions that ended on September 11, 2006, with the officials of Cameroon on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 7, 2006. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF;
- a staff statement of December 22, 2006, updating information on recent developments;
- a Press Release summarizing the views of the Executive Board as expressed during its December 22, 2006 discussion of the staff report that completed the review; and
- a statement by the Executive Director for Cameroon.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Cameroon*

Memorandum of Economic and Financial Policies by the authorities of Cameroon*

Technical Memorandum of Understanding*

*Also included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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CAMEROON

Second Review of the Three-Year Arrangement Under the Poverty Reduction and Growth Facility

Prepared by the African Department
(In collaboration with other departments)

Approved by David Nellor and Adnan Mazarei

December 7, 2006

- **Main topics.** This report recommends completion of the second review of the PRGF arrangement. The government's letter of intent (LOI), memorandum of economic and financial policies (MEFP), and technical memorandum of understanding (TMU) may be found in Appendix I. The authorities have agreed to the publication of these documents.
- **Recent developments and PRGF performance.** Economic activity is slowing reflecting a weak business environment, stronger competition from low-cost producers of manufactured products, and reforms to foster sustainable forestry production. Higher world oil prices are leading to inflationary pressures while at the same time contributing to an improvement in the fiscal position and external current account balance. Macroeconomic performance under the PRGF-supported program was satisfactory during January-June 2006 although structural reform implementation was mixed. While budget execution and implementation of structural measures related to public financial management were satisfactory, most public enterprise and governance reforms were implemented with delay while two have yet to be completed.
- **Program relations and debt relief.** The IMF Executive Board completed the first review of the PRGF arrangement in April 2006 and approved a disbursement of SDR 2.65 million. At the same time, Cameroon reached the completion point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative and received assistance from the Fund under the Multilateral Debt Relief Initiative (MDRI). In June 2006 Paris Club creditors agreed to cancel nearly 100 percent of their outstanding claims against Cameroon.
- **Mission discussions.** Discussions were held in Yaoundé during August 28–September 11, 2006. The mission met with Prime Minister Inoni; State Minister at the Presidency Antagana Mebara; Finance Minister Abah Abah; and the National Director of the regional central bank (BEAC), Mr. Hayatou. Meetings were also held with representatives of the private sector, labor unions, donors, and the press. The staff team comprised Mr. Ghura (head), Mr. Ioannou, and Mr. Weisfeld (all AFR), Mr. Mansour (FAD), and Mr. Kireyev (PDR). They were assisted by Ms. Kabedi-Mbuyi, resident representative, and Mr. Tchakote, economist, and Ms. Essia Ngang, assistant in the resident representative's office. Mr. Menye, advisor to the executive director for Cameroon, participated in the discussions (Mr. Menye was appointed deputy minister of finance in charge of the budget in late September). The staff collaborated closely with a parallel World Bank mission.

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Abbreviations and Acronyms

ARMP	Public Procurement Regulatory Agency
CAMAIR	Cameroon airline
CAMTEL	Cameroon telephone company
CET	Common external tariff
CEMAC	Central African Economic and Monetary Community
EITI	Extractive Industry Transparency Initiative
EPA	Economic Partnership Agreement
EU	European Union
HIPC	Heavily Indebted Poor Countries
IFC	International Finance Corporation
MDRI	Multilateral Debt Relief Initiative
MTEF	Medium-term expenditure framework
NPV	Net present value
PRGF	Poverty Reduction and Growth Facility
PSI	Policy Support Instrument
REER	Real effective exchange rate
SNH	National oil company
SNEC	National water company
SONARA	National oil refinery
UN	United Nations
WAEMU	West African Economic and Monetary Union
WEO	World Economic Outlook

EXECUTIVE SUMMARY

Economic activity has slowed in Cameroon and inflation is picking up, though the external current account position has improved. Nonoil real GDP growth is expected to remain sluggish in 2006 reflecting a weak business environment and acute competition from low-cost producers of manufactured products. Also, reforms to foster sustainable forestry production have led to decreased utilization of forestry permits. Higher oil prices and lower debt service have improved the external current account. Inflation has picked up along with fuel price increases.

Fiscal performance under the PRGF-supported program was satisfactory during January-June 2006 although structural reform implementation was mixed. The nonoil primary fiscal balance objective was achieved, and the target on net credit to the government was met by a large margin. While budget execution and implementation of structural measures related to public finance management were satisfactory, work on measures pertaining to public enterprise and governance reforms was slow, though the government enhanced transparency by publishing information on budget execution and oil transactions.

The goal of the medium-term fiscal strategy is to expand priority spending so as to accelerate growth and poverty reduction while preserving fiscal sustainability. Staff has urged the authorities to implement resolutely reforms in revenue administration and budget execution, especially those geared to strengthen investment procedures and budget tracking.

Determined government action is necessary to revive growth. Completion of the reform of macro-critical public enterprises will help consolidate gains in economic efficiency and open opportunities for private investment. The business environment should be improved; upgrading infrastructure and strengthening the judiciary deserve particular attention. Regional import tariff rates would need to be brought down in a well-articulated medium-term framework.

The momentum for governance reforms seems to have slowed. Though an EITI administrator was selected and the Audit Chamber began operations, members of the National Anti-Corruption Commission, created in early 2006 to investigate allegations of corruption, have not been named, and the law requiring public officials to declare their assets is yet to be enforced.

Risks to the program include possible expenditure overruns in the context of upcoming elections and weakened ownership in view of forthcoming difficult reforms in the areas of governance and civil service. While safeguarding priority outlays, the government should resist excessive spending and persevere with business-friendly structural reforms.

The staff recommends completion of the second review of the PRGF. The authorities have taken steps to improve public finance management and governance, pursued public enterprise reform, and made firm policy commitments for 2007, and therefore the staff recommends that the Board conclude the second review of the PRGF and approve a disbursement in the amount equivalent to SDR 2.65 million.

I. BACKGROUND AND INTRODUCTION

1. **In 2005 and early 2006, the government moved to correct previous fiscal slippages, restore the conditions for macroeconomic stability, and improve governance.**

This allowed Cameroon to reach the completion point under the enhanced HIPC Initiative and receive additional debt relief under the MDRI. Its challenges now are to entrench macroeconomic stability and fiscal sustainability while expanding priority spending, and to make the business climate more attractive, particularly by improving governance, strengthening physical infrastructure, and reforming public enterprises.

2. **Cameroon's political situation has been stable, but recently social tensions led to strikes.** A UN-sponsored agreement reached by Cameroon and Nigeria in June settled the Bakassi Peninsula border dispute. Parliamentary elections are scheduled for 2007. The cabinet was reshuffled in September 2006; while the economic team was relatively unchanged, the deputy finance minister in charge of the budget was replaced. In the recent strikes, truckers, labor unions, and other groups protested higher fuel prices and a perceived lack of tangible benefits to the population from debt relief.

II. RECENT ECONOMIC DEVELOPMENTS AND PROGRAM IMPLEMENTATION

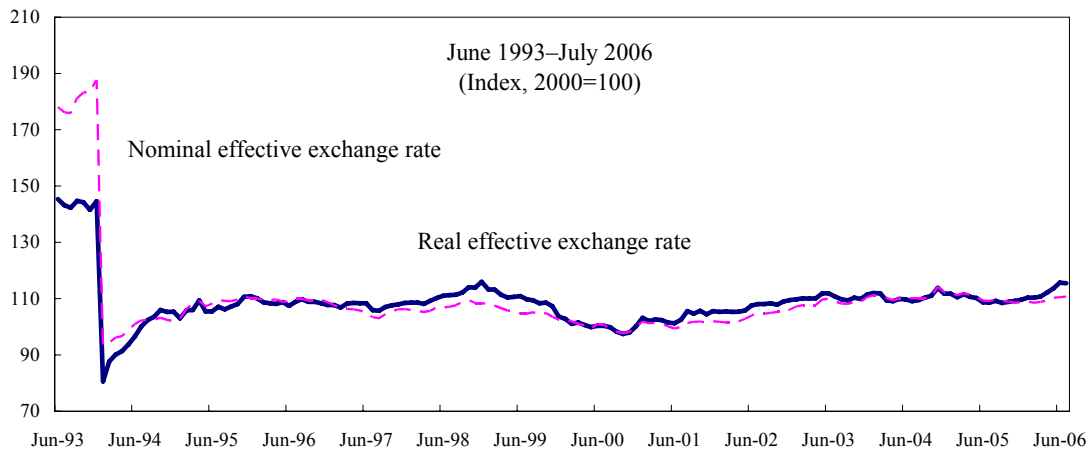
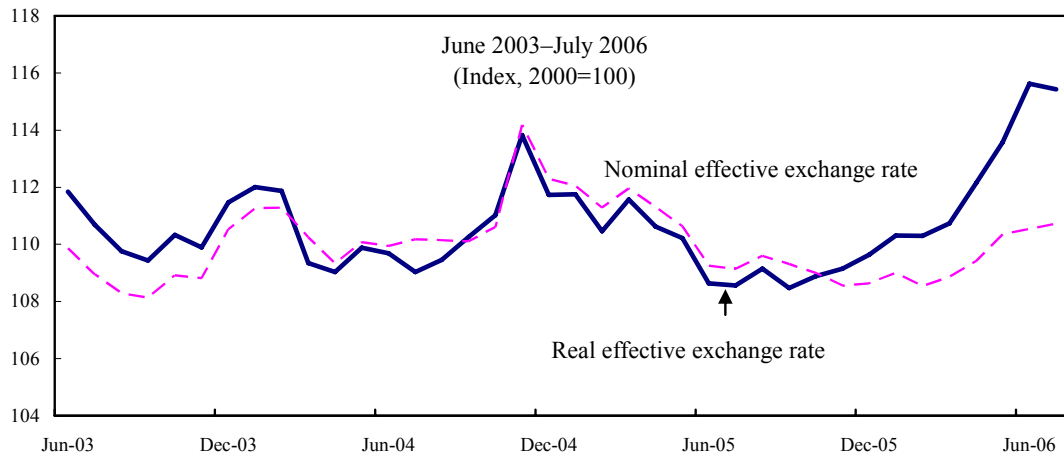
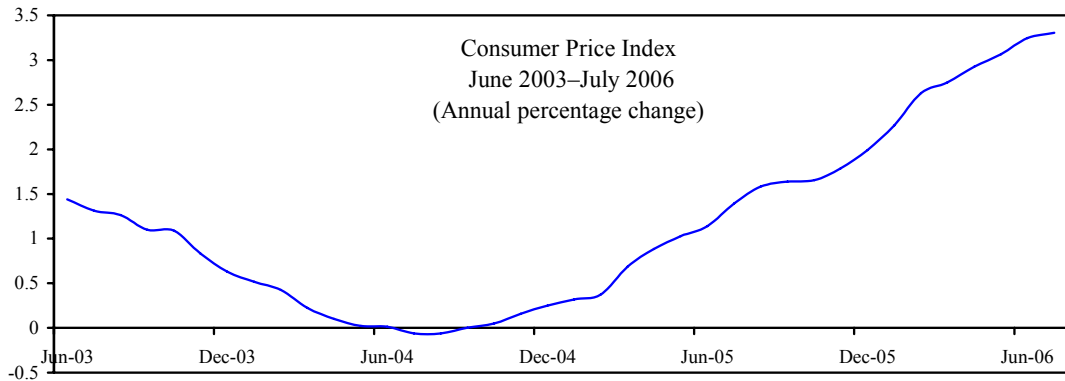
3. **Economic activity in Cameroon has slowed relative to previous years, though the external current account position has improved** (Tables 1 and 2). In 2005, nonoil real GDP growth declined to about 3 percent as agro-industry and forestry production contracted and oil output continued to decline. A mid-year survey found that production of export products (bananas and cotton) was

Cameroon: Macroeconomic Indicators, 2003–06 (Percentage change, unless otherwise indicated)				
	2003	2004	2005 Est.	2006 Proj.
Real GDP	4.0	3.7	2.0	3.5
Oil	-5.0	-9.3	-9.7	8.8
Non-oil	4.9	4.9	2.9	3.1
Consumer price index (period average)	0.6	0.3	2.0	4.6
External current account balance (percent of GDP)				
Excluding grants	-2.4	-4.0	-3.8	-1.5
Including grants	-1.8	-3.8	-3.4	-0.4
Export volume	9.3	-0.7	-8.4	3.5
Oil	-5.6	-10.4	-7.9	6.7
Non-oil	16.1	2.9	-8.5	2.4
Import volume	0.0	11.2	4.5	5.3
Terms of trade	-1.7	-2.2	17.8	12.7

Sources: Cameroonian authorities; and IMF staff estimates.

lower than expected, reflecting in part an erosion of trade preferences from the EU. Forestry production suffered from lower-than-expected utilization of forestry permits, in line with the government's strategy to rationalize forestry exploitation and make it more sustainable. Cameroon's manufacturing exports are also being challenged by stronger competition from low-cost producers. Thus nonoil economic growth is expected to remain sluggish in 2006. By contrast, oil output in 2006 is expected to grow more than anticipated owing to the recent discovery and development of a moderate-size oil deposit. Higher oil prices and significantly lower debt service have brought about an improvement in the external current account.

Cameroon: Consumer Prices and Real and Nominal Effective Exchange Rates,
June 1993–July 2006



Source: IMF Information Notice System.

4. **In recent months inflation has picked up and the real effective exchange rate (REER) has appreciated modestly.** Consumer prices rose 3.9 percent in June 2006 from a year ago, reflecting the upward adjustment in fuel prices. The recent strengthening of the euro—to which the CFA franc is pegged—against the U.S. dollar has contributed to some

REER appreciation. While the REER is still about 25 percent below its 1993 level,¹ external competitiveness also suffers from non-price factors such as the high cost of doing business (Box 1) and weak governance (Box 2).

Box 1. Factors Affecting External Competitiveness

Cameroon's external competitiveness may be weakening owing to:

- Reforms of the EU import regime, resulting in the loss of trade preferences for Cameroon's traditional agricultural exports (e.g., bananas).
- Increased competition from low-cost producers, especially in Asia, which is adversely impacting the production of Cameroon's manufactured products.
- Weak institutions and poor governance, resulting in high costs of doing business. The World Bank's "Doing Business" database (2006) ranks countries in 10 areas that provide a snapshot of the business environment:

	Cameroon's Rank	Rank for All Sub-Saharan Countries
Doing business (overall rank)	152	131
Starting a business	152	125
Dealing with licenses	151	110
Employing Workers	135	118
Registering property	131	121
Getting credit	117	112
Protecting investors	60	92
Paying taxes	143	104
Trading across borders	140	124
Enforcing contracts	170	111
Closing a business	96	111

Cameroon's position has deteriorated somewhat, moving from 147th place in 2005 to 152nd in 2006 (out of 175 countries). It has a particularly low standing in enforcing contracts, dealing with licenses, starting a business, paying taxes, and trading across borders.

¹ The CFA franc was devalued by 50 percent in January 1994.

Box 2. Governance Indicators

Although Cameroon has taken measures to strengthen governance, fight corruption, and enhance transparency, governance indicators are weak.

- The standing of Cameroon improved marginally between 2000 and 2006, according to Transparency International. Subject to methodological caveats, Cameroon's Corruption Perception Index improved from 2.0 out of 10 (least corrupt) in 2000 to 2.3 in 2006. The country's ranking improved slightly, from 84 (out of 90 countries) in 2000 to 138 (out of 163 countries) in 2006.
- The World Bank's Country Policy and Institutional Assessment (CPIA) notes some improvement in recent years, particularly in public sector management and institutions, where Cameroon moved up from the fifth (bottom) quintile in 2002 to the third in 2004.

5. **The fiscal position held firm in the first half of 2006** (Tables 3, 3a). Nonoil revenue met expectations and, with world prices rising, oil revenue exceeded the forecast by a significant margin. Current expenditure stayed below projections. Because of administrative capacity constraints and less foreign financing than was expected, capital spending slowed markedly. Domestic debt declined faster than expected as windfall oil revenue was used for additional repayments.

6. **Monetary developments have been influenced by the higher oil prices** (Table 4). Net foreign assets grew strongly, reflecting higher oil revenue. However, broad money growth was contained as the government reduced its liabilities in the banking system. Private sector credit grew in line with projected nominal nonoil GDP.

7. **Performance under the PRGF-supported program in January–July 2006 was mixed** (MEFP, ¶6-7). While budget execution and implementation of structural measures related to management of public finances were satisfactory, implementation of measures related to the reform of public enterprises and governance was slow.

Cameroon: End-June Monetary Aggregates, 2005-06		
	2005	2006
	June	June
	(In billion CFA francs)	
Net foreign assets	388	877
Bank of Central African States	256	695
Commercial banks	132	182
Net domestic assets	1,052	722
Of which:		
Net credit to central govt.	254	-14
Credit to the private sector	782	840
Broad money	1,440	1,599
	(Change in percent)	
Net credit to government	-32.2	-105.6
Credit to the private sector	5.2	7.5
Broad money	1.3	11.0

Source: Bank of Central African States (BEAC)

Cameroon: Key Fiscal Indicators, 2004–06										
(Percent of GDP)										
	2004	2005	2006							
			Est.	Est.	Jan-Mar		Apr-Jun		Year	
					Prog.	Prel. Est.	Prog.	Prel. Est.	Prog.	Proj.
Total revenue and grants	15.4	17.9	4.5	4.5	4.5	25.4	18.2	46.6		
Total revenue, excluding grants	15.2	17.3	4.5	4.5	4.3	5.2	17.6	18.7		
Oil revenue	3.9	4.9	1.1	1.2	1.4	2.3	5.4	6.6		
Non-oil revenue	11.3	12.4	3.3	3.3	2.9	2.9	12.2	12.1		
Grants	0.2	0.5	0.0	0.0	0.2	20.2	0.6	27.9		
Total expenditure	16.0	14.4	3.6	2.9	4.2	3.9	16.9	15.6		
Current	14.0	11.9	2.8	2.5	3.0	3.0	12.2	11.6		
Capital	2.0	2.3	0.8	0.6	1.2	0.6	4.7	4.0		
Foreign-financed	0.8	0.5	0.3	0.1	0.3	0.1	1.1	0.4		
Domestically-financed	1.1	1.8	0.4	0.4	0.5	0.3	2.6	2.7		
Rehabilitation and participation	0.1	0.0	0.1	0.0	0.4	0.2	0.9	0.9		
Unclassified	-0.1	0.2	0.0	-0.1	0.0	0.3	0.0	0.0		
Net change in arrears	0.4	-0.8	-0.6	-0.7	-0.3	-0.3	-1.3	-1.7		
Overall balance	-0.2	2.7	0.3	0.9	0.0	21.2	0.1	29.2		
Primary balance ¹	1.9	4.9	1.4	2.0	0.7	1.7	3.3	4.6		
Excluding oil sector										
Primary balance ¹	-2.0	0.0	0.3	0.8	-0.6	-0.6	-2.1	-2.0		
Primary balance, program definition ²	-1.3	0.9	0.6	1.0	0.0	-0.4	0.5	0.2		

Source: Cameroonian authorities; and IMF staff estimates and calculations.

¹ Excludes interest and foreign-financed investment.

² Excludes interest, foreign-financed investment, debt relief, and restructuring expenditure.

- All quantitative performance criteria and benchmarks for end-June 2006 were met (MEPF, Table 1). In particular, the nonoil primary balance objective was reached, and the target on net credit to the government was met by a large margin.
- The structural performance criterion related to the launching of bids to privatize CAMAIR was completed in January 2006; the government selected the winning bid in June and launched related negotiations in mid-November.
- Of the nine structural benchmarks, four were met and five were delayed (MEFP, Table 2).²

² The measure related to the completion of work to establish a financial subsidiary for the CAMPOST was postponed to the second year of the program at the time of the first review (IMF Country Report No.06/231/June 2006).

- Structural measures related to public finance management were implemented as scheduled. Fuel prices were raised and budgeted transfer payments were made to SONARA. Quarterly data on budget execution and oil operations and annual financial data for major public enterprises were published.
- Delays were encountered in the implementation of measures related to public enterprise reform in telecommunications (CAMTEL), and water (SNEC). Staff, in collaboration with the World Bank, discussed the reasons for the delays: for CAMTEL and SNEC, additional preparation for the bidding process was necessary; in addition, for CAMTEL, it was necessary to better assess the rights of those affected by its redundancy plan. The implementation of CAMTEL's social plan, expected for end-July 2006, was completed in mid-November with the effective payment of redundancy benefits to the employees concerned. The government is working closely with the World Bank to finalize the launching of the bids for the sale of CAMTEL and for the recruitment of a management team for SNEC.³
- The recruitment of the management team for CAMPOST, initially planned for February 2006, was completed at end-October.
- Regarding governance, with a delay, the authorities published on the government's official website judicial decisions and administrative sanctions related to corruption.

8. **Despite progress in recent years, governance is still weak (Box 2), and the momentum of reform seems to have slowed since Cameroon reached the completion point under the enhanced HIPC Initiative.** Progress was made in some areas: the government selected an EITI administrator who will prepare a report covering 2001-04; and the Audit Chamber began its audit of the 2004 treasury accounts. Nonetheless, while the government started cracking down on corruption earlier in 2006, it has yet to take further steps to institutionalize the fight against corruption: (i) members of the National Anti-Corruption Commission, created in early 2006 to investigate allegations of corruption, have not yet been named; and (ii) while a law requiring public officials to declare their assets passed in April 2006, the commission that is to enforce this law has not yet been named.

III. BROAD OBJECTIVES UNDER THE PRGF

9. **The PRGF-supported program supports the authorities' efforts to accelerate broad-based growth and poverty reduction, while preserving fiscal sustainability.** Consistent with these objectives, discussions centered around two core reform themes.

³ Completion of the outstanding measures on CAMTEL and SNEC is part of the conditionality for the second year of the PRGF-supported program.

- *First*, fiscal policies and reforms will focus on preserving fiscal sustainability by enhancing nonoil revenue mobilization, while raising priority spending in order to meet economic and social objectives in line with the PRSP priorities. Higher poverty-related spending would allow Cameroon to make faster progress toward the MDGs (Table 5). Maintaining fiscal sustainability will also require prudent debt management.
- *Second*, the government will undertake further improvements in the business environment to stimulate private sector-led investment and growth. In this context, it plans to further enhance governance, pursue the reform of public enterprises, reform the financial sector, and gradually liberalize trade.

10. **The medium-term fiscal strategy remains broadly adequate (IMF Country Report No.06/23/June 2006).** Its main objectives are to preserve fiscal sustainability and strengthen the conditions for macroeconomic stability. The strategy encompasses the following key elements:

- Use of conservative oil price assumptions to isolate core government operations from fluctuations in oil revenue and safeguard fiscal sustainability.
- Gradual increase of nonoil revenue to compensate from the expected decline in oil reserves and the loss of tariff revenue from the EPA with the EU.
- Expansion of capital expenditure to boost growth and use of the resources freed up by debt relief in line with the priorities of the PRSP, while controlling current spending.

11. **The macroeconomic objectives of the program are broadly unchanged** (text table; Table 1): (i) achieve average annual real GDP growth of about 4 percent through 2008; (ii) keep inflation below 3 percent, consistent with the regional convergence criterion; and (iii) keep the external current account deficit below 3 percent of GDP while allowing for increased investment-related imports. An increase in nonoil real GDP growth is expected to result from an easing of electricity constraints, recovery in forestry sector activities, and increase in public investment. The program continues to be based on a conservative oil price assumption to isolate government operations from price fluctuations. For the projections, oil prices have been set at US\$10 below *World Economic Outlook* (WEO) projections.⁴

12. **The staff had fruitful discussions with representatives of civil society.** Members of labor unions stressed the need to restore public sector salaries to the levels prevailing before the 1994 devaluation of the CFA franc. The staff noted that the government will analyze the issue of salary increases in the context of a medium-term plan that maintains fiscal sustainability and macroeconomic stability. Private sector representatives took note of the recent World Bank survey of the investment climate that found that Cameroon's business environment suffers from a poor reputation, perceptions of corruption, weak infrastructure,

⁴ The US\$10 a barrel prudence factor is equivalent to about one standard deviation of annual prices over the past 20 years; it is in addition to a US\$3 per barrel quality discount.

and a burdensome fiscal regime. The government, in collaboration with the World Bank and the private sector, plans to prepare an action plan to tackle these impediments.

Cameroon: Selected Macroeconomic Indicators, 2005–08							
	2005	Baseline			Updated Scenario		
		2006	2007	2008	2006	2007	2008
(Units indicated)							
Economic growth and prices							
Real GDP (percent)	2.0	4.2	4.3	4.3	3.5	4.0	4.1
Oil	-9.7	6.1	2.7	-8.2	8.8	3.6	-4.8
Non-oil	2.9	4.1	4.5	5.1	3.1	4.0	4.7
Consumer prices (period average, percent)	2.0	2.6	1.0	2.1	4.6	1.9	2.2
WEO oil price (US dollars per barrel)	53.3	61.8	60.0	58.0	69.2	75.5	74.3
Program oil price (US dollars per barrel)	...	49.2	43.3	42.0	60.7	62.5	61.3
Oil production (thousand barrels per day)	82	88	89	82	88	91	86
(Percent of GDP)							
Fiscal aggregates (percent of GDP)							
Total revenue (excluding grants)	17.3	17.6	17.2	16.7	18.7	19.0	18.9
Oil revenue	4.9	5.4	4.6	3.8	6.6	6.7	6.2
Non-oil revenue	12.4	12.2	12.7	12.8	12.1	12.3	12.6
Total expenditure	14.4	16.9	17.0	17.4	15.6	16.5	16.8
Current expenditure	11.9	12.2	12.6	12.6	11.6	11.6	11.7
<i>Of which: Noninterest current expenditure</i>	10.4	10.8	11.4	11.5	10.5	11.3	11.3
Capital expenditure	2.3	4.7	4.4	4.8	4.0	4.8	5.0
Primary balance ¹	4.9	3.3	2.2	1.4	4.6	4.1	4.0
<i>Of which: Non-oil</i>	0.0	-2.1	-2.4	-2.4	-2.0	-2.6	-2.2
Overall balance (commitment basis, excluding grants)	3.0	0.8	0.2	-0.7	3.1	2.6	2.1
<i>Memorandum items:</i>							
Current account, excluding grants	-3.8	-1.9	-2.1	-2.9	-1.5	-1.3	-2.9
Potential oil windfall revenue (percent of GDP) ²	...	...	...	...	0.6	1.2	1.3
Sources: Cameroonian authorities; and IMF staff estimates and projections.							
¹ Excluding grants and foreign-financed investment.							
² For 2006, July to December only.							

IV. KEY REFORMS TO ACHIEVE THE PRGF OBJECTIVES

A. Preserving Fiscal Sustainability and Macroeconomic Stability

13. **The authorities concur on the importance of further boosting Cameroon's nonoil revenues in view of declining oil revenues and to facilitate higher expenditures on key priorities.** In 2007, nonoil revenue is projected to increase by 0.2 percentage point of nonoil GDP relative to 2006. At the same time, the authorities have decided to (i) lower some tax and customs rates to stimulate consumption (primarily of low-income households), and (ii) introduce tax incentives to encourage investment and public financing through the newly-created Douala Stock Exchange (MEFP, ¶12). The staff advised caution on the adoption of these adhoc measures and encouraged the authorities to ensure that they are consistent with CEMAC directives. The staff also underscored the advantages of improving the business environment over tax incentives to stimulate investment. Nonetheless, the authorities stressed the importance of urgent actions in the face of slowing economic growth. They plan to offset the cost of these measures, estimated at 0.3 percent of GDP, through more intensive use of

transactional valuation at customs, and other tax and customs administration measures (see below and MEFP, ¶20). They will carefully monitor revenue mobilization and take corrective actions in case of shortfalls (MEFP, ¶12).

14. **Efforts to improve tax and customs administration will continue** (MEFP, ¶20). The main goals are to enhance the customs software, improve information-sharing between customs and domestic tax administration, replace the use of “administrative values” by “transactional values” for the valuation of imports, and make operational the tax centers for mid-size enterprises. By end-2006, the government plans to implement the computerized customs management software in the main coastal offices (performance criterion).

15. **The government is committed to expanding priority spending.** In the remainder of 2006, it plans to raise spending slightly (0.1 percent of GDP) for social outlays benefiting residents of the Bakassi peninsula, as well as education. Notwithstanding, this increase in spending, the budget balance is expected to improve by 2.4 percentage points of GDP relative to the original forecast because 2006 oil revenue projections have been revised upward and interest payments have been lowered. For the 2007 budget, the following highlights are noteworthy:

- Capital spending is projected at 4.8 percent of GDP, unchanged from 2006. Current outlays will remain stable at about 11.7 percent of GDP. However, noninterest spending will increase by about 0.6 percent of GDP relative to 2006, reflecting higher resources from debt relief (HIPC, C2D, and MDRI). Efforts already underway in civil service reform and payroll management are expected to keep the wage bill below 5 percent of GDP (MEFP ¶14). The impact of oil price increases on domestic fuel prices is built equally into fuel price increases and transfers to SONARA.
- Overall poverty-related spending is expected to increase by 0.8 percentage point of GDP relative to 2006.
- Repayment of domestic debt and arrears will continue as a way to strengthen the business environment. In the second half of 2006 the authorities paid the bulk of VAT refunds outstanding at the end of 2005, and they now intend to pay VAT refund claims within the limits set by law.
- The use of windfall oil revenues has been expanded (MEFP, ¶15). While they will be used primarily to accelerate repayment of domestic debt and arrears, priority one-off spending, in line with PRSP priorities, will also be considered in the context of program reviews.

16. **The government will better monitor budgets and track expenditures** (MEFP, ¶21-22). It will (i) establish a connection between the budget and treasury systems to track budget execution to the cash payment level by both ministry and function (performance criterion for June 2007); (ii) prepare a diagnostic study to further simplify budget classification (benchmark for March 2007), (iii) continue to prepare coherent budget execution data on a commitment and cash bases (continuous benchmark), and (iv) appoint local committees to monitor investment projects. As regards the tracking of the use of debt

relief, following understandings reached with Paris Club creditors during the June 2006 meeting, the replenishment of the HIPC account is no longer necessary.⁵

17. **The government is undertaking initiatives to reduce fraudulent wage payments and make the civil service more efficient** (MEFP, ¶28-29). It expects to complete a payroll census of civil servants by the end of 2006 (benchmark). This will generate savings that could be used to regularize the situation of a number of employees who for some years have been denied the financial benefits of promotions. In addition, the government will prepare a diagnostic study of the public service remuneration system (benchmark for March 2007), and unify the civil service database for the majority of employees (benchmark for June 2007).

18. **The 2007 budget is consistent with fiscal sustainability.** The nonoil primary fiscal deficit (program definition)⁶ relative to GDP is projected to stay in line with the baseline scenario. Because prices and production volumes are higher, oil revenue is projected to be higher by about 1 percentage point of GDP in 2007 relative to the baseline scenario. The government will submit to parliament a 2007 budget law in conformity to the PRGF-supported program by end-2006 (performance criterion).

19. **The authorities are developing a debt management strategy after the HIPC completion point** (MEFP, ¶16). Key objectives of the strategy would be to set policy objectives and debt sustainability thresholds, as well as adopt a prudent borrowing policy that relies primarily on concessional loans and grants. The authorities should undertake regular debt sustainability analyses, and assess financing needs and project implementation. They intend to update their debt database on the basis of the bilateral agreements signed with Paris Club creditors following the June 2006 meeting; they plan to finalize bilateral agreements by end-December 2006.⁷

20. **The government plans to introduce a new organic budget law in 2007** (MEFP, ¶24). Its main purpose is to improve accountability and transparency and introduce more modern budget practices, such as program budgeting. The government is aware of the risks related to this initiative and has worked with the IMF and the World Bank to improve the draft law and prepare a transition plan (benchmark for April 2007).

B. Improving the Business Environment and Enhancing Investment

21. **The authorities recognize the importance of further enhancing the business environment to boost private sector activity and growth.** To remove related bottlenecks and impediments, the government will continue taking actions in critical areas, including

⁵ The authorities committed to making the central MTEF the cornerstone of budget preparation and execution to improve alignment with PRSP priorities.

⁶ Domestic revenue (excluding grants) minus expenditure (excluding interest due, foreign-financed investment, restructuring spending, and outlays financed by debt relief).

⁷ Recently, international investors have expressed interest in purchasing Cameroon's securitized domestic debt. Details on these transactions, which will effectively transform domestic into external debt, are yet unknown.

governance and transparency, public enterprises, financial sector, and trade. In addition, it is tackling the physical infrastructure needs in the context of budget implementation as noted above.

Governance and transparency

22. **Corruption** (MEFP, ¶32). The government will appoint the members of the National Anti-Corruption Commission, making it operational, and appoint a commission to enforce the law requiring public officials to declare their assets. In its ongoing effort to improve transparency, the government will publish on its website (www.spm.gov.cm) corruption-related court decisions and administrative sanctions (quarterly benchmark).

23. **EITI** (MEFP, ¶31 and 33). The first EITI administrator's report, for 2001–04, will be published by December 2006 and the second report by March 2007 (benchmarks). Annual independent audits of the national oil company, SNH, and publication of quarterly information on the oil sector (production, prices, and revenue) will continue.

24. **Budget transparency** (MEFP, ¶25 and 31-33). The government will build on progress made in fiscal reporting by publishing quarterly information on budget implementation (quarterly benchmark), reports on execution of investment projects, and financial information on public enterprises. In partnership with civil society it will also institute periodic reviews of budget execution.

Public enterprise restructuring and the business climate

25. **Under the PRGF-supported program, the public enterprise reform agenda focuses on the privatization and restructuring of key macro-critical enterprises (CAMAIR, CAMTEL, SNEC).** During the first year of the program, the Fund, by way of its structural conditionality, helped the authorities launch reforms related to these enterprises. Completion of these reforms will be an important component of the second year of the PRGF arrangement. Thus, with assistance from the World Bank, the government will (MEFP, ¶31, Table 4):

- **complete the sale of CAMAIR in a transparent manner**, while working to contain its operating costs and limit its burden on the budget.
- **complete the privatization of CAMTEL and SNEC** by issuing the invitation for the related bids by end-March and choosing the successful bidder and a management contract team, respectively soon thereafter.

26. **In addition, the government will work to improve the business climate**, starting with a comprehensive plan to be prepared in partnership with the private sector by end-2006. The plan will be based on, among other sources, the results of the World Bank's "Doing Business" database and the survey of business practices conducted by the Bank in June 2006.

27. **Finally, the government will adopt a restructuring plan for SONARA** based on the recommendations of the recent audit. The company will start implementing the plan in 2007.

Financial sector

28. **Despite a sound banking system, financial intermediation remains weak.** In 2005 seven out of eleven banks were found to be in solid or good standing.⁸ Two banks, listed in “critical” condition are under the regional banking regulator’s (COBAC) surveillance; continued vigilance is needed to address potential risks posed by smaller banks. A recent FSAP report for the CEMAC region found major obstacles to financial deepening, including a poorly functioning judicial system and absence of adequate land registry systems. Further, COBAC lacks resources and independence, resulting in some regulatory forbearance, thus increasing the risk of bank failure and likely further weakening financial intermediation. In line with the regional FSAP, the staff recommended that the Cameroonian authorities take measures to enhance the functioning of the judicial system and land registries, and work with the other member countries to provide additional funding to COBAC. A comprehensive action plan should be prepared, incorporating recommendations from the regional FSAP report and from the country FSSA module, expected to take place in the first half of 2007.

Cameroon: Banking System Indicators (Units indicated)				
	2002	2003	2004	2005
Violations of main prudential ratios ¹				
Capital adequacy	3	1	3	5
Liquidity ²	0	0	2	0
Fixed assets coverage ³	3	2	4	5
Maturity transformation ⁴	3	3	5	4
Minimum capital ⁵	1	1	2	2
Limit on single large exposure ⁶	9	7	8	7
Quality of loan portfolio				
Nonperforming loans (percent of gross loans)	15.7	13.9	13.1	12.6
Provisions (percent of nonperforming loans)	81.1	81.2	85.3	85.4
Sources: Banking Commission of Central Africa (COBAC) and staff calculations				
¹ Number of banks. There were 9 banks through 2004 and 10 in 2005.				
² Short term assets (up to one month remaining maturity) over short-term liabilities (up to one month remaining maturity).				
³ Net capital and other permanent resources over fixed assets.				
⁴ Long-term assets (more than five years) over long-term liabilities (more than five years)				
⁵ Minimum capital for Cameroon: CFAF 1billion.				
⁶ Single large exposure is limited to 45 percent of capital.				

29. **In view of its critical importance in rural finance, the authorities will pursue the restructuring of the financial services of the postal savings system (CAMPOST).** In this regard, the financial services subsidiary of the postal system will be spun off and brought under the supervision of COBAC. For the latter to assume supervision, the authorities would need to do preparatory work, including production of CAMPOST financial statements and certified accounts for 2004 and 2005, and provision of sufficient capital. The authorities see CAMPOST as an important element of the financial sector, and plan to complete this work by June 2007 (performance criterion).

Trade

30. **Cameroon will take the lead in the reform of the CEMAC trade regime (MEFP, ¶18).**⁹ The government noted that most of the problems in CEMAC trade that were

⁸ Based on information contained in the CEMAC surveillance staff report.

⁹ The discussions were driven by the recommendations contained in the CEMAC surveillance selected issues paper.

highlighted in the recent regional surveillance report have already been addressed in Cameroon.¹⁰ However, the authorities are concerned about the possible negative fiscal implications of the report's recommendation on trade reform, in particular the lowering of import tariffs. While recognizing the potential for expanding the taxable base in the medium term, they emphasized the lack of instruments for immediate recovery of such losses, because the VAT and excises are already close to the CEMAC maximum rates. Staff urged the authorities to prepare a comprehensive medium-term plan to address the impact of lower tariffs.

V. FINANCING ASSURANCE REVIEW

31. **Given Cameroon's arrears to private external creditors, the staff discussed issues related to financing assurances.** The staff emphasized the importance of resolving pending litigation in line with its commitment to the Paris Club, namely offering comparable treatment for nonparticipating creditors.¹¹ The authorities are now negotiating with the private holders of Cameroon's debt. While Cameroon has offered terms that are comparable to the enhanced HIPC Initiative, commercial creditors have not yet accepted them. A few have improved their offers by agreeing to forgo accumulated interest and penalties but insist on repayment of the principal in full.

VI. PROGRAM RISKS AND MONITORING

32. **The program is subject to considerable risks, notably in the areas of expenditure control and ownership:**

- Parliamentary elections in 2007 could test the authorities' ability to resist pressures for a post-debt-relief "social dividend," including unions' calls for higher salaries and protests against fuel price increases.
- The authorities' resolve to pursue difficult civil service, governance, and other structural reforms may weaken following the completion point and ahead of parliamentary elections. As a result, economic growth may turn out to be lower than projected.

33. **Progress on program implementation will be monitored every six months** on the basis of quantitative and structural performance criteria, benchmarks, and indicative benchmarks (MEFP, Tables 3-4).

¹⁰ Discrepancies between the CET and nationally applied tariffs, import surcharges, and export taxes.

¹¹ Of the 22 commercial creditors that did not participate in the 2003 debt buy-back operation, five have resorted to litigation and two have already obtained court decisions in their favor and have seized government assets.

VII. STAFF APPRAISAL

34. **Execution of the budget in the first half of 2006 was satisfactory, as was implementation of structural measures related to public financial management.** Fiscal consolidation recovered the ground lost in 2004, reflecting not only increases in oil and nonoil revenue but also expenditure control. The return of fiscal discipline is contributing to broad-based macroeconomic stability. The authorities are well advised to persist in executing the planned fiscal policy to consolidate macroeconomic stability and accelerate growth and poverty reduction. The authorities should reconsider, in the medium term, the income tax incentives introduced in the 2007 budget law. In the meantime, they should carefully monitor these incentives to ensure that revenue losses do not pose a significant fiscal risk. The authorities should resolutely implement reforms in revenue administration and budget execution, especially strengthening investment procedures and budget tracking.

35. **The efforts to enhance fiscal transparency are commendable,** particularly the publication of information on budget execution and the oil sector, and implementation of the EITI principles. Also commendable is the commitment to publish information on public investment projects, finances of public enterprises, and the first EITI administrator's report.

36. **Delays in implementing measures related to public enterprise reform are regrettable, although slow progress is being made to catch up.** Looking forward, it will be critical for the government to complete the reforms, started a few years ago, in telecommunications (CAMTEL), water (SNEC), finance (CAMPOST), and air transport (CAMAIR). The completion of these reforms is critical to attract more investment and set the economy on a higher growth path.

37. **Sustaining and accelerating improvements in governance and anticorruption are among the most important post-HIPC challenges for Cameroon.** Despite recent progress, however, governance is still weak. The staff regrets that there have been delays in publishing information on court decisions and sanctions related to corruption. It is vital that the government take decisive steps to make the anticorruption commission and asset declaration law effective, and move to apply anticorruption laws systematically. Enhanced transparency will facilitate the work of the Audit Chamber and improve parliamentary oversight.

38. **The slowdown in nonoil real GDP growth in 2005 and 2006 calls for determined government action.** Resolute public enterprise reform would help consolidate gains in economic efficiency and open opportunities for private investment. The composition of public spending should be oriented to growth-enhancing and poverty-reducing outlays. Improving infrastructure and strengthening the judiciary would significantly enhance the business environment. Staff commends the Cameroonian government for its pledge to redouble its efforts in reforming the regional trade system.

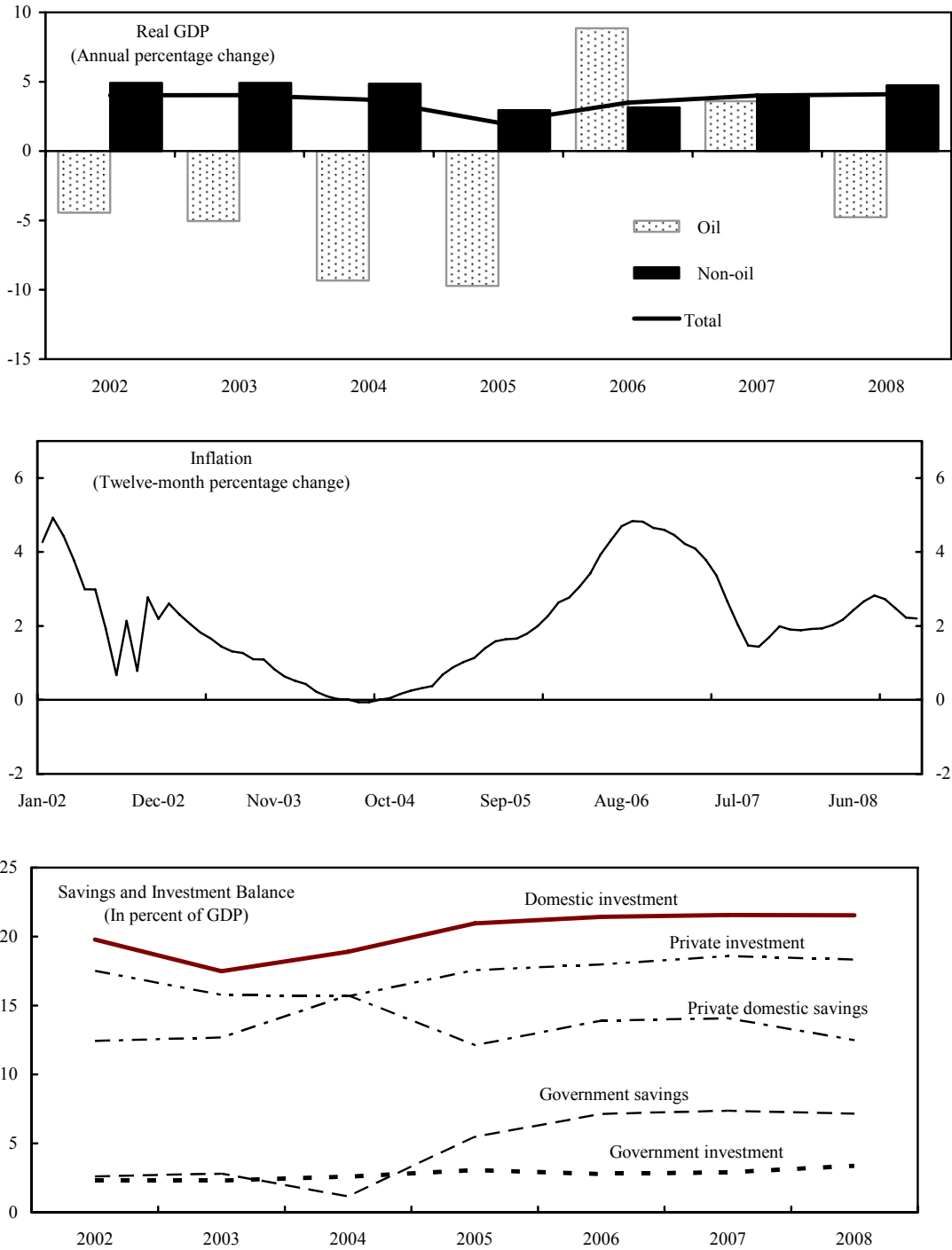
39. **Relief under the enhanced HIPC Initiative and MDRI has lowered Cameroon's debt to sustainable levels.** The authorities must continue to follow prudent borrowing policies, regularly analyze debt sustainability, and ensure that borrowed resources are used efficiently. Given the understandings reached with creditors in the context of the June 2006 Paris Club meeting, staff supports the authorities' request for removing the performance

criterion on the replenishment of the HIPC account from future reviews. The staff review pursuant to the Fund's Lending into Arrears Policy confirmed that the authorities are making good-faith efforts to reach collaborative agreements with commercial creditors and that Cameroon is pursuing appropriate policies.

40. **Staff therefore recommends:**

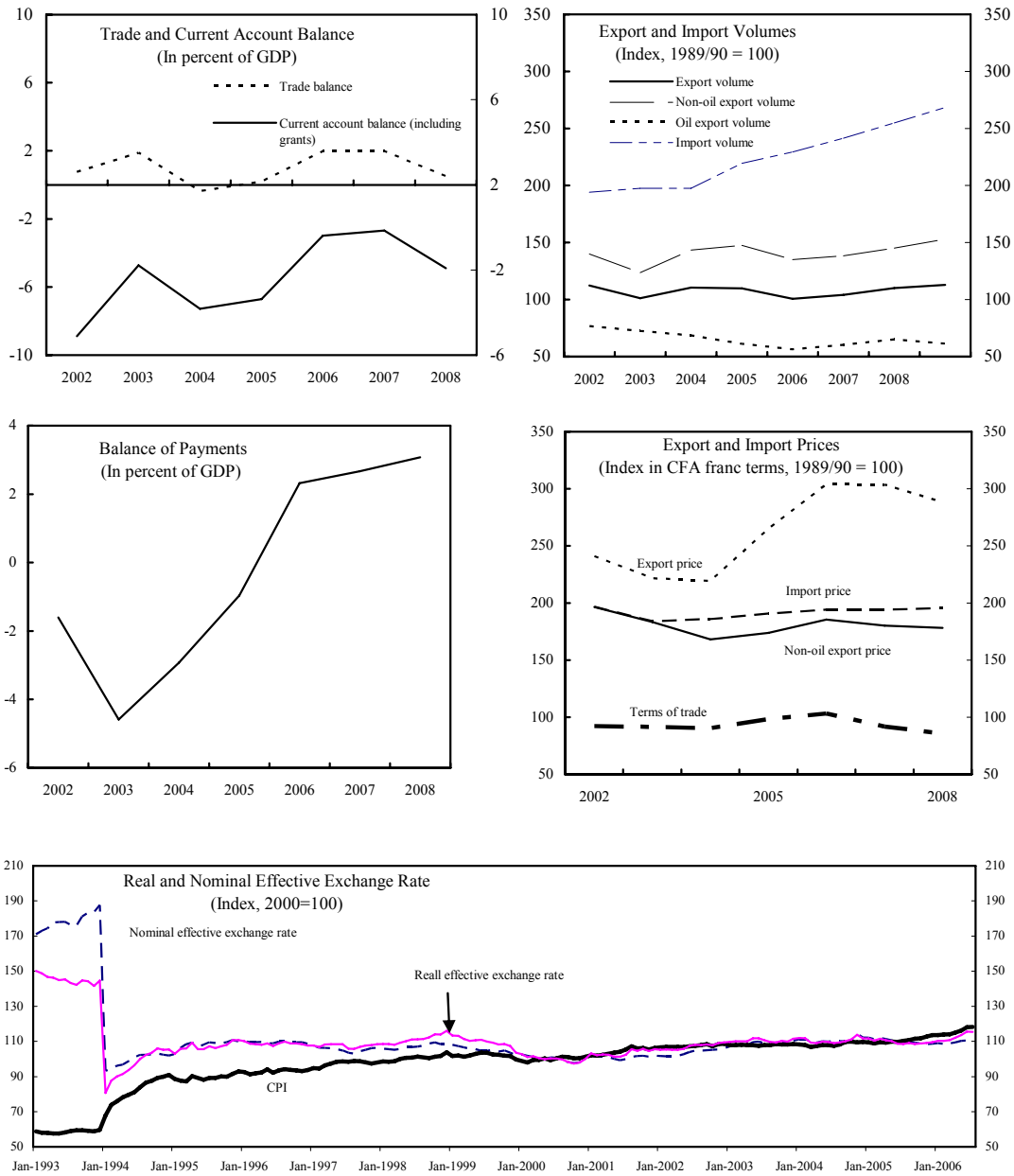
- **completion of the financing assurances review**, given that Cameroon's current relations with its external creditors offer sufficient financing assurances for the Fund-supported program;
- **completion of the second review of the PRGF arrangement**, in view of satisfactory program performance through July 2006 and commitments made for the second year of the program; and
- **elimination of the performance criterion** on the replenishment of the HIPC account from future reviews given that Cameroon has reached the completion point.

Figure 1. Cameroon: Output, Prices, Savings, and Investments, 2002- 08



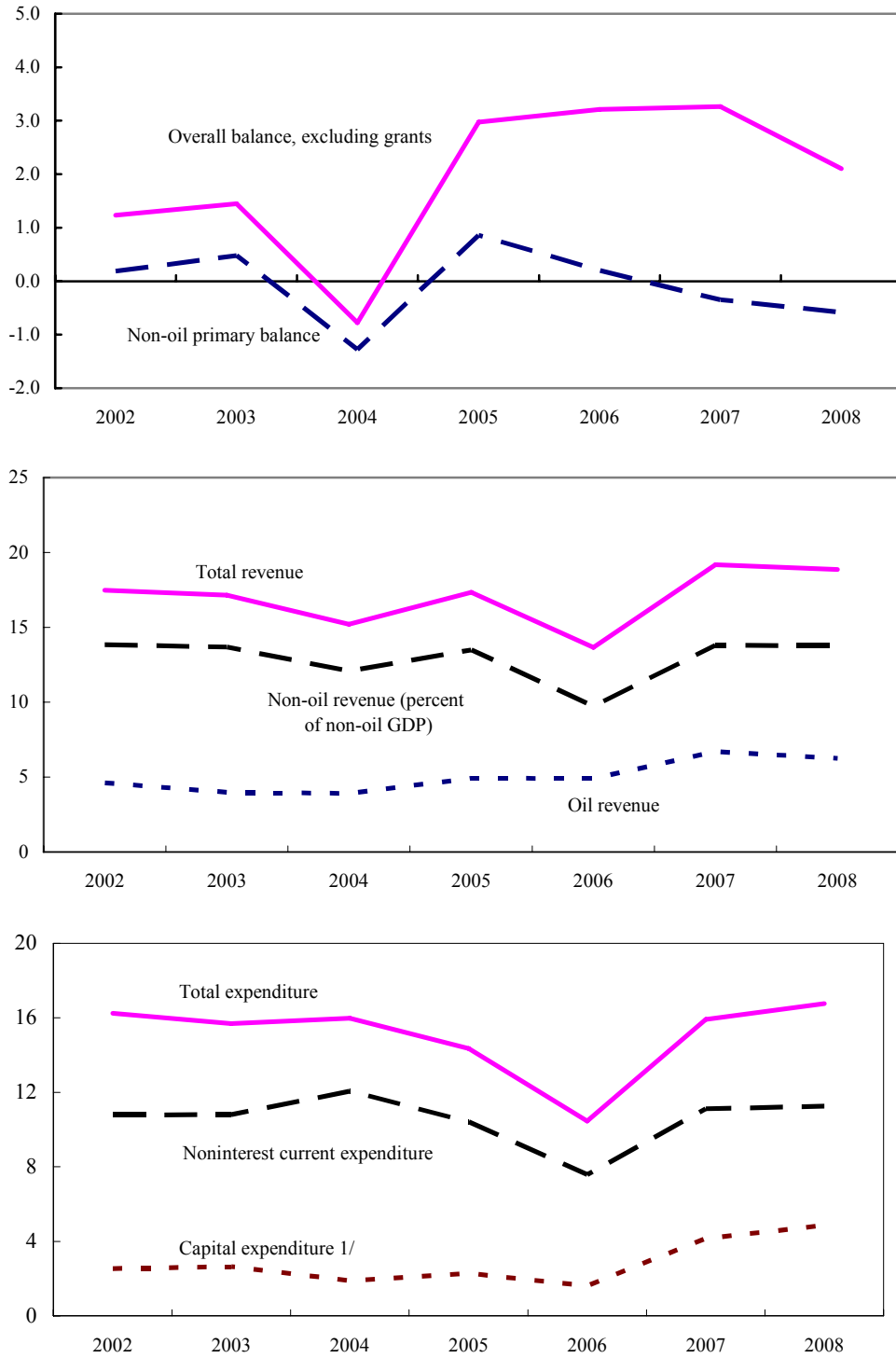
Sources: Cameroonian authorities and IMF staff estimates and projections.

Figure 2. Cameroon: External Sector Developments and Prospects, 2002- 08



Sources: Cameroonian authorities; and IMF staff estimates and projections.

Figure 3. Cameroon: Fiscal Developments and Prospects, 2002-08
(In percent of GDP)



Sources: Cameroonian authorities and IMF staff estimates and projections.

1/ Excluding restructuring expenditures.

Table 1. Cameroon: Selected Economic and Financial Indicators, 2004–08

	2004	2005	2006		2007		2008
	Est.	Est.	Prog.	Rev. Proj.	Prog.	Proj.	Proj.
(Annual percentage changes, unless otherwise indicated)							
National income and prices							
GDP at constant prices	3.7	2.0	4.2	3.5	4.3	4.0	4.1
Oil	-9.3	-9.7	6.1	8.8	2.7	3.6	-4.8
Non-oil	4.9	2.9	4.1	3.1	4.5	4.0	4.7
GDP deflator	1.5	4.7	2.3	5.2	0.7	2.2	1.3
Consumer prices (12-month average)	0.3	2.0	2.6	4.6	1.0	1.9	2.2
Nominal GDP (billions of CFA francs)	8,334	8,901	9,546	9,687	10,033	10,296	10,860
Oil	541	714	788	948	696	988	912
Non-oil	7,792	8,187	8,758	8,739	9,337	9,308	9,948
Oil output (thousands of barrels a day)	89	82	88	88	89	91	86
External trade							
Export volume	-0.7	-8.4	5.8	3.5	4.0	5.7	2.6
<i>Of which</i> : Non-oil sector	2.9	-8.5	4.8	2.4	4.9	5.0	5.4
Import volume	11.2	4.5	6.0	5.3	2.3	5.5	5.3
Average oil export price (U.S. dollars per barrel)	34.9	50.4	49.2	60.7	43.3	62.5	61.3
Nominal effective exchange rate	1.8	-4.4	...	...	...	...	...
Real effective exchange rate	0.1	-3.5	...	...	...	...	...
Terms of trade	-2.2	17.8	3.1	12.7	-7.6	-0.1	-5.6
Non-oil export price index (CFA francs)	-8.3	3.4	8.5	6.7	-0.2	-2.8	-1.1
Money and credit (end of period)							
Net domestic assets 1/	0.3	-5.3	5.4	-14.8	3.3	-9.3	-11.5
Net credit to the public sector 1/	0.1	-8.7	1.6	-12.6	-0.7	-13.3	-15.1
Credit to the private sector	1.4	10.9	7.2	4.8	7.7	8.0	7.0
Broad money (M2)	7.3	4.2	9.7	11.0	6.0	7.1	6.2
Velocity (GDP/average M2)	5.8	6.0	5.8	5.9	5.7	5.9	5.9
Central government operations							
Total revenue	-0.4	21.8	9.0	17.4	2.7	8.1	4.6
<i>Of which</i> : Non-oil revenue	-0.7	17.3	5.7	6.1	8.8	8.5	7.9
Total expenditure	9.2	-4.0	25.9	18.3	6.1	12.1	7.4
(Percent of GDP, unless otherwise indicated)							
Gross national savings	15.1	17.6	20.1	21.0	19.6	21.4	19.6
Gross domestic investment	18.9	21.0	21.5	21.4	21.5	21.6	21.6
Central government operations							
Total revenue (excluding grants)	15.2	17.3	17.6	18.7	17.2	19.0	18.9
Oil revenue	3.9	4.9	5.4	6.6	4.6	6.7	6.2
Non-oil revenue	11.3	12.4	12.2	12.1	12.7	12.3	12.6
Non-oil revenue (percent of non-oil GDP)	12.1	13.5	13.3	13.4	13.6	13.6	13.8
Total expenditure	16.0	14.4	16.9	15.6	17.0	16.5	16.8
Noninterest expenditure 2/	13.1	12.4	13.4	13.2	14.7	14.3	14.7
Capital expenditure 3/	1.9	2.3	3.7	3.1	4.0	4.2	4.9
Fiscal balance (excluding net changes in arrears)							
Excluding grants	-0.8	3.0	0.8	3.1	0.2	2.6	2.1
Including grants	-0.5	3.5	1.4	31.0	0.6	3.9	3.2
Primary balance 4/	1.9	4.9	3.3	4.6	2.2	4.1	4.0
Non-oil primary balance (percent of non-oil GDP) 4/	-2.1	0.0	-2.3	-2.2	-2.5	-2.9	-2.4
External sector							
Current account balance (including grants)	-3.8	-3.4	-1.4	-0.4	-1.9	-0.1	-1.9
Gross official reserves	9.3	8.8	10.9	10.7	9.4	9.0	12.8
Stock of external debt	44.2	36.7	32.4	3.1	31.8	4.0	5.3
Stock of public debt	61.3	52.7	46.6	17.8	43.7	16.3	14.1
(Percent of exports of goods and services, unless otherwise indicated)							
NPV of external debt after HIPC, bilateral relief beyond HIPC, and MDRI 5/	26.1	10.9	10.6	9.1	13.4	11.2	15.3
External debt service 6/	7.1	6.7	3.6	3.4	0.9	0.8	0.9
External debt service (as a percent of government revenue) 6/	10.8	9.2	5.2	4.5	1.0	0.8	0.9

Sources: Cameroonian authorities and IMF staff estimates and projections.

1/ In percent of broad money at the beginning of the period.

2/ Excluding foreign-financed investment, restructuring expenditure, and separation grants.

3/ Excluding restructuring expenditure.

4/ Excluding external grants and foreign-financed investment.

5/ NPVs calculated using the LIC DSA methodology.

6/ Actual payments through 2004 and after all expected debt relief from 2006 onward.

Table 2. Cameroon: Balance of Payments, 2004-08

	2004	2005	2006		2007		2008
	Est.	Est.	Prog.	Rev. Proj.	Prog.	Proj.	Proj.
(Billions of CFA francs)							
Current account balance	-319	-300	-137	-38	-190	-15	-208
Trade balance	-30	17	191	191	85	204	54
Exports, f.o.b.	1,362	1,509	1,802	1,791	1,749	1,891	1,843
Oil and oil products	574	763	854	975	757	1,059	975
Non-oil sector	789	747	948	816	992	832	867
Imports, f.o.b.	-1,392	-1,492	-1,611	-1,599	-1,664	-1,687	-1,788
Services (net)	-156	-188	-221	-262	-208.4	-263	-330
Income (net)	-212	-243	-226	-151	-175.6	-165	-126
<i>Of which</i> : Interest due on public debt	-139	-112	-104	-90	-92.0	-37	-36
Transfers (net)	79	114	119	183	109	209	194
Inflows	91	127	134	195	123	221	206
<i>Of which</i> : Official program grants	3	6	22	13	0	16	6
<i>Of which</i> : HIPC grants	10	35	21	13	23	12	10
Outflows	-11	-13	-15	-12	-14	-13	-11
Capital and financial account balance	75	214	-50	263	-36	290	542
Capital account	6	6	17	2,596	12.4	12	11
Capital transfers	6	6	17	134	12	12	11
<i>Of which</i> : Other transfers (MDRI grant-IMF)				132.7	0	0	0
Debt forgiveness	0	0	0	2,463	0	0	0
Principal not yet due forgiven	0	0	0	2,463	0	0	0
Financial account	69	208	-67	-2,333	-48.9	278	531
Official capital	-191	-236	-129	-2,591	-100.5	39	93
Long-term borrowing	104	38	121	67	112.1	124	175
Principal not yet due rescheduled	0	0	0	14	0.0	0	0
Amortization	-296	-273	-250	-195	-212.5	-85	-82
Principal not yet due	0	0	0	-2,477	0.0	0	0
Private capital (net)	260	444	62	257	52	239	438
Oil sector	-76	-25	59	-39	43	36	33
Non-oil sector	337	469	3	296	9	203	405
Direct investment	128	131	133	133	146	146	161
Privatization receipts	0	0	0	0	0	0	0
Other, including short-term	209	338	-130	163	-138	56	244
Overall balance	-244	-86	-188	225	-226	275	334
Financing	244	86	188	-225	226	-275	-334
Bank of Central African States (BEAC)	-87	-140	-59	-335	-37	-276	-331
Use of IMF credit (net)	-15	-19	-7	-139.0	4	4	4
Other reserves (net)	-72	-121	-51	-196	-41	-280	-335
Exceptional financing (debt relief) 1/	297	237	243	107	262	0	0
Net change in arrears 2/	34	-11	0	2	0	0	0
Financing need 3/	0	0	3	2	1	1	-3
<i>Of which</i> : Possible debt relief	0	0	3	2	1	1	1
Possible IMF disbursement	0	0	0	0	0	0	0
Remaining financing gap	0	0	0	0	0	0	-4
(Percent of GDP)							
Trade balance	-0.4	0.2	2.0	2.0	0.8	2.0	0.5
Current account balance							
Excluding grants	-4.0	-3.8	-1.9	-1.5	-2.1	-1.3	-2.9
Including grants	-3.8	-3.4	-1.4	-0.4	-1.9	-0.1	-1.9
Overall balance	-2.9	-1.0	-2.0	2.3	-2.3	2.7	3.1
(Percentage change, unless otherwise indicated)							
Export volume	-0.7	-8.4	5.8	3.5	4.0	5.7	2.6
Oil sector	-10.4	-7.9	9.2	6.7	1.1	7.9	-5.5
Non-oil sector	2.9	-8.5	4.8	2.4	4.9	5.0	5.4
Import volume	11.2	4.5	6.0	5.3	2.3	5.5	5.3
<i>Of which</i> : Non-oil sector	7.8	3.1	2.7	-0.1	3.3	9.3	6.4
Terms of trade	-2.2	17.8	3.1	12.7	-7.6	-0.1	-5.6
Non-oil export price index (CFA francs)	-8.3	3.4	8.5	6.7	-0.2	-2.8	-1.1
Import price index (CFA francs)	1.1	2.6	3.5	1.8	1.0	0.0	0.6
Exchange rate (CFA francs per U.S. dollar)	528.0	527.3	...	...	...	...	...

Sources: Cameroonian authorities and IMF staff estimates and projections.

1/ From Paris Club creditors.

2/ Including the London Club operation, estimated at CFAF 580 billion in 2002.

3/ Over the medium term, the financing need could be covered through debt relief by non-Paris Club creditors.

Table 3. Cameroon: Central Government Operations, 2004–08
(Billions of CFA francs)

	2004	2005		2006		2007		2008
		Est.	Prog.	Rev. Proj.	Prog.	Proj.	Proj.	
Total revenue and grants	1,286	1,590	1,741	4,512	1,762	2,092	2,163	
Total revenue	1,267	1,543	1,682	1,812	1,727	1,958	2,049	
Oil sector revenue	325	439	515	641	457	688	679	
Non-oil sector revenue	942	1,104	1,167	1,171	1,270	1,270	1,370	
Total grants	19	47	59	2,700	36	134	115	
Projects	6	6	17	1	12	12	11	
Programs	3	6	22	13	0	16	6	
Other	10	35	21	2,687	23	105	98	
Total expenditure	1,331	1,278	1,609	1,512	1,707	1,695	1,821	
Current expenditure	1,169	1,055	1,162	1,121	1,263	1,198	1,273	
Wages and salaries	450	414	446	443	477	479	502	
Goods and services	414	337	402	395	467	466	513	
<i>of which:</i> HIPC	33	22	12	14	20	20	9	
C2D	...	...	17	8	21	21	24	
MDRI	...	...	10	10	19	18	18	
Subsidies and transfers	141	175	184	180	198	205	207	
Scholarships and subsidies	77	98	99	99	104	113	113	
<i>of which:</i> fuel subsidies	...	17	20	23	20	28	28	
Pensions	64	77	84	80	94	92	94	
Separation grants (POEs)	0	0	0	0	0	0	0	
Interest due	164	129	130	102	120	49	51	
External	138	111	103	89	92	35	36	
Domestic	26	18	26	13	28	14	15	
Capital expenditure	167	206	447	392	444	496	548	
Foreign-financed investment	67	44	110	43	81	110	158	
Domestic investment	90	159	248	259	318	327	370	
<i>of which:</i> HIPC	10	52	90	84	80	80	69	
C2D	...	...	39	19	49	49	56	
MDRI	...	...	10	10	19	20	18	
Rehabilitation and participation	10	3	90	90	30	60	20	
<i>of which:</i> Large companies	0	0	82	69	20	48	0	
Participation	...	...	...	6	...	...	...
Unclassified expenditure	-5	17	0	0	0	0	0	
Overall balance, excluding net change in arrears								
Excluding grants	-64	265	73	300	20	264	228	
Including grants	-45	312	132	3,000	55	398	343	
Net change in arrears	31	-73	-120	-168	-60	-60	-35	
External	34	-11	0	2	0	0	0	
Domestic	-4	-62	-120	-169	-60	-60	-35	
Overall balance, cash basis								
Excluding grants	-34	192	-47	132	-40	204	193	
Including grants	-15	239	12	2,832	-5	338	308	
Financing	15	-239	-15	-2,834	4	-338	-305	
External financing, net	51	-35	89	-2,507	136	13	66	
Amortization	-296	-273	-250	-2,672	-213	-85	-82	
Drawings	94	38	96	42	86	97	148	
Project financing	0	38	93	42	69	97	148	
Program financing (loans)	43	0	3	0	17	0	0	
Debt rescheduling	0	0	0	14	0	0	0	
Exceptional financing 1/	252	200	243	109	262	0	0	
Domestic financing, net	-36	-204	-104	-327	-132	-351	-370	
Banking system	13	-139	25	-165	-12	-232	-281	
Banking system, excluding HIPC and C2D	-7	-151	3	-149	-43	-222	-270	
Net HIPC flows	20	12	38	34	34	14	-3	
Net C2D flows	...	...	-16	-50	-4	-23	-9	
Amortization	-33	-69	-129	-164	-110	-110	-79	
Non-bank financing	-16	5	0	2	0	0	0	
Reserves	0	0	0	0	-10	-10	-10	
Remaining financing needs	0	0	3	2	1	1	-3	
Memorandum items:								
Non-oil revenue	942	1,104	1,167	1,171	1,270	1,270	1,370	
Non-oil primary balance 2/	-167	-1	-203	-196	-236	-266	-241	
Non-oil primary balance (program definition) 3/	-106	76	44	19	-36	-36	-63	

Sources: Cameroonian authorities and staff estimates and projections.

1/ Interim HIPC assistance and accumulated reschedulable arrears under Paris Club 6 until 2005, assuming delivery of the remaining HIPC assistance at the completion point, projected for 2006.

2/ Excludes grants, interest, and foreign-financed capital expenditures.

3/ Excludes restructuring and debt relief expenditures, in addition to grants, interest, and foreign-financed capital expenditures.

Table 3a. Cameroon: Central Government Operations, 2006
(In billions of CFA francs, unless otherwise indicated)

	2006									
	Jan-Mar		Apr-Jun		Jul-Sep		Oct-Dec		Year	
	Prog.	Prel. Est.	Prog.	Prel. Est.	Prog.	Rev. Proj.	Prog.	Rev. Proj.	Prog.	Rev. Proj.
Total revenue and grants	429	434	434	2,460	427	1,122	445	496	1,741	4,512
Total revenue	427	434	416	502	416	448	418	428	1,682	1,812
Oil sector revenue	112	114	134	221	136	164	136	141	515	641
Non-oil sector revenue	316	320	282	281	280	283	283	287	1,167	1,171
Total grants	2	0	18	1,958	11	675	27	68	59	2,700
Projects	2	0	8	0	2	1	5	1	17	1
Programs	0	0	9	0	0	0	13	13	22	13
Other	0	0	1	1,958	10	674	9	55	21	2,687
Total expenditure	346	281	407	380	420	372	436	479	1,609	1,512
Current expenditure	271	240	289	292	302	287	300	303	1,162	1,121
Wages and salaries	107	102	111	103	113	117	116	121	446	443
Goods and services	85	77	102	95	106	111	109	112	402	395
<i>of which:</i> HIPC	3	4	2	3	2	2	5	5	12	14
C2D	...	...	...	...	8	4	8	4	17	8
MDRI	...	...	...	...	...	3	...	6	...	10
Subsidies and transfers	47	31	45	66	46	41	47	42	184	180
Scholarships and subsidies	27	15	24	49	24	18	24	18	99	99
<i>of which:</i> fuel subsidies	8	8	4	3	4	4	4	8	20	23
Pensions	19	17	21	17	22	23	23	24	84	80
Interest due	33	29	32	27	36	18	28	27	130	102
External	25	24	27	24	29	15	22	24	103	89
Domestic	8	5	5	2	7	3	7	3	26	13
Capital expenditure	76	53	118	61	118	93	136	185	447	392
Foreign-financed investment	24	11	30	13	24	1	31	19	110	43
Domestic investment	42	41	48	33	64	68	95	117	248	259
<i>of which:</i> HIPC	16	9	18	2	23	30	33	43	90	84
C2D	...	...	...	...	19	10	19	10	39	19
MDRI	...	...	...	...	...	3	...	6	...	10
Restructuring and rehabilitation of public companies	10	2	40	15	30	25	10	48	90	90
<i>of which:</i> Participation	0	0	0	6	0	0	0	0	0	6
Unclassified expenditure	0	-12	0	28	0	-8	0	-8	0	0
Overall balance, excluding net change in arrears										
Excluding grants	81	153	9	122	-4	75	-18	-51	73	300
Including grants	83	153	28	2,080	7	750	9	17	132	3,000
Net change in arrears	-35	-69	-32	-30	-17	-52	-17	-17	-120	-168
External	0	1	0	1	0	0	0	0	0	2
Domestic	-35	-70	-32	-31	-17	-52	-17	-17	-120	-169
Overall balance, cash basis										
Excluding grants	46	84	-22	92	-21	24	-35	-68	-47	132
Including grants	48	84	-4	2,050	-10	698	-8	0	12	2,832
Financing	-48	-84	1	-2,050	10	-699	8	-1	-15	-2,834
External financing, net	25	16	39	-1,833	25	-669	22	-21	89	-2,507
Amortization	-29	-29	-95	-95	-37	-669	-89	-40	-250	-2,672
Principal not yet due	...	...	...	-1,839	...	-638	...	0	0	-2,477
Drawings	22	11	22	27	22	0	29	19	96	42
Project financing	22	11	22	13	22	0	26	19	93	42
Program financing	0	0	0	0	0	0	3	0	3	0
Debt rescheduling	0	0	0	14	0	0	0	0	0	14
Exceptional financing 1/	32	35	112	74	39	0	82	0	243	109
Domestic financing, net	-74	-100	-38	-218	-16	-30	-15	21	-104	-327
Banking system	-43	-56	-7	-192	13	34	14	49	25	-165
Banking system, excluding HIPC and C2D	-41	-49	24	-174	-26	27	-1	46	3	-149
Net HIPC flows	-2	-7	5	-18	12	22	23	38	38	34
Net C2D flows	0	0	-35	0	28	-16	-8	-35	-16	-50
Amortization	-29	-43	-29	-29	-29	-64	-29	-29	-129	-164
Non-bank financing	0	-1	0	3	0	0	0	0	0	2
Reserves	-3	0	-3	0	0	0	0	0	0	0
Remaining financing needs	0	0	3	0	0	1	0	1	3	2
Possible debt relief	0	0	3	0	0	1	0	1	3	2
Memorandum items:										
Non-oil primary balance 2/	26	79	-63	-60	-79	-70	-94	-145	-203	-196
Non-oil primary balance (program definition) 3/	55	94	-3	-40	3	1	-18	-35	44	19

Sources: Cameroonian authorities and staff estimates and projections.

1/ Interim HIPC assistance and accumulated reschedulable arrears under Paris Club 6 until 2005, assuming delivery of the remaining HIPC assistance at the completion point, expected in 2006.

2/ Excludes grants, interest and foreign-financed capital expenditures.

3/ Excludes restructuring and debt relief expenditures, in addition to grants, interest and foreign-financed capital expenditures.

Table 3b. Cameroon: Central Government Operations, 2007
(In billions of CFA francs, unless otherwise indicated)

	2007				
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Year
	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	474	521	496	601	2,092
Total revenue	468	468	483	539	1,958
Oil sector revenue	126	165	176	221	688
Non-oil sector revenue	342	303	307	318	1,270
Total grants	6	53	13	62	134
Projects	3	3	3	3	12
Programs	0	0	7	10	16
Other	3	50	3	50	105
Total expenditure	391	433	412	459	1,695
Current expenditure	276	311	292	320	1,198
Wages and salaries	117	120	121	121	479
Goods and services	105	118	117	126	466
<i>of which:</i> HIPC	3	3	4	11	20
C2D	3	3	4	11	21
MDRI	3	2	3	9	18
Subsidies and transfers	49	54	49	53	205
Scholarships and subsidies	28	31	26	29	113
<i>of which:</i> fuel subsidies	7	7	7	7	28
Pensions	21	23	23	24	92
Interest due	5	19	5	19	49
External	1	16	1	16	35
Domestic	4	3	4	3	14
Capital expenditure	115	122	120	140	496
Foreign-financed investment	27	27	27	27	110
Domestic investment	70	79	79	99	327
<i>of which:</i> HIPC	22	21	11	27	80
C2D	12	12	12	12	49
MDRI	5	5	5	5	20
Restructuring and rehabilitation of public companies	17	16	14	13	60
<i>of which:</i> Participation	2	2	1	1	6
Unclassified expenditure	0	0	0	0	0
Overall balance, excluding net change in arrears					
Excluding grants	78	35	71	80	264
Including grants	84	88	84	142	398
Net change in arrears	-10	-15	-20	-15	-60
External	0	0	0	0	0
Domestic	-10	-15	-20	-15	-60
Overall balance, cash basis					
Excluding grants	68	20	51	65	204
Including grants	74	73	64	127	338
Financing	-74	-73	-64	-127	-338
External financing, net	19	-12	19	-12	13
Amortization	-6	-37	-6	-37	-85
Principal not yet due	...	...	...	...	...
Drawings	24	24	24	24	97
Project financing	24	24	24	24	97
Program financing	0	0	0	0	0
Debt rescheduling	0	0	0	0	0
Exceptional financing 1/	0	0	0	0	0
Domestic financing, net	-93	-61	-83	-114	-351
Banking system	-63	-31	-53	-85	-232
Banking system, excluding HIPC and C2D	-81	-1	-63	-77	-222
Net HIPC flows	3	2	-7	16	14
Net C2D flows	15	-32	16	-23	-23
Amortization	-27	-27	-27	-27	-110
Non-bank financing	0	0	0	0	0
Reserves	-3	-3	-3	-3	-10
Remaining financing needs	0	0	0	0	1
Possible debt relief	0	0	0	0	1
Memorandum items:					
Non-oil primary balance 2/	-16	-83	-72	-94	-266
Non-oil primary balance (program definition) 3/	41	-29	-28	-20	-36

Sources: Cameroonian authorities and staff estimates and projections.

1/ Interim HIPC assistance and accumulated reschedulable arrears under Paris Club 6 until 2005, assuming delivery of the remaining HIPC assistance at the completion point, expected in 2006.

2/ Excludes grants, interest and foreign-financed capital expenditures.

3/ Excludes restructuring and debt relief expenditures, in addition to grants, interest and foreign-financed capital exp

Table 3c. Cameroon: Central Government Operations, 2004–08
(Percent of GDP, unless otherwise indicated)

	2004	2005		2006		2007		2008
		Est.	Prog.	Rev. Proj.	Prog.	Proj.	Proj.	
Total revenue and grants	15.4	17.9	18.2	46.6	17.6	20.3	19.9	
Total revenue	15.2	17.3	17.6	18.7	17.2	19.0	18.9	
Oil sector revenue	3.9	4.9	5.4	6.6	4.6	6.7	6.2	
Non-oil sector revenue	11.3	12.4	12.2	12.1	12.7	12.3	12.6	
Total grants	0.2	0.5	0.6	27.9	0.4	1.3	1.1	
Projects	0.1	0.1	0.2	0.0	0.1	0.1	0.1	
Programs	0.0	0.1	0.2	0.1	0.0	0.2	0.1	
Other	0.1	0.4	0.2	27.7	0.2	1.0	0.9	
Total expenditure	16.0	14.4	16.9	15.6	17.0	16.5	16.8	
Current expenditure	14.0	11.9	12.2	11.6	12.6	11.6	11.7	
Wages and salaries	5.4	4.7	4.7	4.6	4.8	4.6	4.6	
Goods and services	5.0	3.8	4.2	4.1	4.7	4.5	4.7	
Subsidies and transfers	1.7	2.0	1.9	1.9	2.0	2.0	1.9	
Scholarships and subsidies	0.9	1.1	1.0	1.0	1.0	1.1	1.0	
<i>of which: fuel subsidies</i>	...	0.2	0.2	0.2	0.2	0.3	0.3	
Pensions	0.8	0.9	0.9	0.8	0.9	0.9	0.9	
Separation grants (POEs)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Interest due	2.0	1.5	1.4	1.1	1.2	0.5	0.5	
External	1.7	1.2	1.1	0.9	0.9	0.3	0.3	
Domestic	0.3	0.2	0.3	0.1	0.3	0.1	0.1	
Capital expenditure	2.0	2.3	4.7	4.0	4.4	4.8	5.0	
Foreign-financed investment	0.8	0.5	1.1	0.4	0.8	1.1	1.5	
Domestic investment	1.1	1.8	2.6	2.7	3.2	3.2	3.4	
Rehabilitation and participation	0.1	0.0	0.9	0.9	0.3	0.6	0.2	
<i>of which: Large companies</i>	0.0	0.0	0.9	0.7	0.2	0.5	0.0	
Participation	...	...	...	...	...	...	...
Unclassified expenditure	-0.1	0.2	0.0	0.0	0.0	0.0	0.0	
Overall balance, excluding net change in arrears								
Excluding grants	-0.8	3.0	0.8	3.1	0.2	2.6	2.1	
Including grants	-0.5	3.5	1.4	31.0	0.6	3.9	3.2	
Net change in arrears	0.4	-0.8	-1.3	-1.7	-0.6	-0.6	-0.3	
External	0.4	-0.1	0.0	0.0	0.0	0.0	0.0	
Domestic	0.0	-0.7	-1.3	-1.7	-0.6	-0.6	-0.3	
Overall balance, cash basis								
Excluding grants	-0.4	2.2	-0.5	1.4	-0.4	2.0	1.8	
Including grants	-0.2	2.7	0.1	29.2	0.0	3.3	2.8	
Financing	0.2	-2.7	-0.2	-29.3	0.0	-3.3	-2.8	
External financing, net	0.6	-0.4	0.9	-25.9	1.4	0.1	0.6	
Amortization	-3.5	-3.1	-2.6	-27.6	-2.1	-0.8	-0.8	
Drawings	1.1	0.4	1.0	0.4	0.9	0.9	1.4	
Project financing	0.0	0.4	1.0	0.4	0.7	0.9	1.4	
Program financing (loans)	0.5	0.0	0.0	0.0	0.2	0.0	0.0	
Debt rescheduling	0.0	0.0	0.0	0.1	0.0	0.0	0.0	
Exceptional financing 1/	3.0	2.2	2.5	1.1	2.6	0.0	0.0	
Domestic financing, net	-0.4	-2.3	-1.1	-3.4	-1.3	-3.4	-3.4	
Banking system	0.2	-1.6	0.3	-1.7	-0.1	-2.2	-2.6	
Banking system, excluding HIPC and C2D	-0.1	-1.7	0.0	-1.5	-0.4	-2.2	-2.5	
Net HIPC flows	0.2	0.1	0.4	0.4	0.3	0.1	0.0	
Net C2D flows	...	...	-0.2	-0.5	0.0	-0.2	-0.1
Amortization	-0.4	-0.8	-1.4	-1.7	-1.1	-1.1	-0.7	
Non-bank financing	-0.2	0.1	0.0	0.0	0.0	0.0	0.0	
Reserves	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1	
Remaining financing needs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Memorandum items:								
Non-oil revenue (in percent of non-oil GDP)	12.1	13.5	13.3	13.4	13.6	13.6	13.8	
Non-oil primary balance (in percent of non-oil GDP) 2/	-2.1	0.0	-2.3	-2.2	-2.5	-2.9	-2.4	
Non-oil primary balance (program definition) 3/	-1.3	0.9	0.5	0.2	-0.4	-0.3	-0.6	

Sources: Cameroonian authorities and staff estimates and projections.

1/ Interim HIPC assistance and accumulated reschedulable arrears under Paris Club 6 until 2005, assuming delivery of the remaining HIPC assistance at the completion point, projected for 2006.

2/ Excludes grants, interest, and foreign-financed capital expenditures.

3/ Excludes restructuring and debt relief expenditures, in addition to grants, interest, and foreign-financed capital expenditures.

Table 4. Cameroon: Monetary Survey, December 2004–December 2007
(Billions of CFA francs, unless otherwise noted)

	2004	2005	2006				2007
	Dec.	Dec.	June		Dec.		Dec.
			Prog.	Est.	Prog.	Proj.	Proj.
Net foreign assets	357	500	461	877	511	903	1,189
Bank of Central African States (BEAC)	242	382	316	695	361	716	992
Commercial banks	115	118	145	182	150	187	197
Net domestic assets	1,148	1,069	1,216	722	1,207	837	675
Domestic credit	1,231	1,174	1,313	900	1,303	1,015	853
Net claims on the public sector	469	338	410	57	446	140	-91
Net credit to the central government	374	238	303	-14	339	69	-163
Claims	572	461	540	266	519	261	265
Deposits	-198	-223	-236	-280	-180	-193	-428
<i>Of which</i> : HIPC	-86	-75	...	...	...	...	...
Credit to autonomous agencies	15	22	18	16	18	16	16
Credit to public enterprises	81	78	88	56	88	56	56
Credit to financial institutions	11	4	7	3	7	3	3
Credit to the private sector	750	832	896	840	851	872	942
Other items (net)	-83	-106	-97	-178	-97	-178	-178
Money and quasi money	1,505	1,568	1,678	1,599	1,718	1,740	1,864
Currency outside banks	324	273	259	246	344	279	286
Deposits	1,181	1,295	1,419	1,353	1,374	1,461	1,577
Memorandum items:							
Contribution to the growth of broad money (in percentage points)							
Net foreign assets	7.8	9.5	5.1	33.9	6.3	25.7	16.4
Net domestic assets	2.5	-5.3	11.4	-22.9	2.7	-14.8	-9.3
<i>Of which</i> : Credit to the central government	1.6	-9.0	3.4	-18.6	-0.9	-10.8	-13.3
Private sector credit (annual percentage change)	1.4	10.9	14.6	7.5	7.0	4.8	8.0
Broad money (annual percentage change)	7.3	4.2	16.5	11.0	9.0	11.0	7.1
Currency	9.2	-15.6	4.0	-1.6	4.0	2.0	2.7
Deposits	6.7	9.6	19.1	13.7	10.3	12.8	8.0
Claims on government/domestic credit ratio	30.4	20.3	23.1	-1.6	26.0	6.8	-19.1
Currency outside banks/deposit ratio	27.4	21.1	18.3	18.2	25.0	19.1	18.2
Velocity (non-oil GDP/average M2)	5.4	5.5	5.7	5.7	5.7	5.4	5.3
Velocity (GDP/average M2)	5.8	6.0	6.2	6.3	6.2	5.9	5.9
Net claims on the public sector ^{1/}	340.9	205.0	282.1	-93.6	317.9	68.6	-163.0

Sources: Cameroonian authorities; and staff estimates and projections.

^{1/} In billions of CFA francs, using the definition of the BEAC, which includes deposits of public enterprises and autonomous agencies.

Table 5. Cameroon: Millennium Development Goals, 1990–2015

	1990	1995	2001	2002	2003	2004	2015 Target
<u>Goal 1. Eradicate extreme poverty and hunger</u>							
Target 1: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day.							
1. Population below US\$1 a day (percent)	...	3.2	17.1	...	...	...	...
2. Poverty gap ratio at US\$1 a day (percent)	...	9.0	4.1	...	...	...	...
3. Share of income or consumption held by poorest 20 percent (percent)	...	...	5.6	...	...	...	...
Target 2: Halve, between 1990 and 2015, the proportion of people suffering from hunger							
4. Prevalence of child malnutrition (percent of children under 5)	15.1	...	...	...	...	18.0	7.6
5. Population below minimum level of dietary energy consumption (percent)	...	...	...	...	24.6	...	...
<u>Goal 2. Achieve universal primary education</u>							
Target 3: Ensure that, by 2015, children will be able to complete a full course of primary schooling.							
6. Net primary enrollment ratio (percent of relevant age group)	73.6	...	...	...	...	...	100.0
7. Percent of cohort reaching grade 5	...	...	51.0	...	...	...	100.0
8. Youth literacy rate (percent ages 15-24)	...	...	...	...	72.8	72.8	...
<u>Goal 3. Promote gender equality and empower women</u>							
Target 4: Eliminate gender disparity in primary and secondary education, preferably by 2005, and to all levels of education by 2015							
9. Ratio of girls to boys in primary and secondary education (percent)	73.7	...	...	...	87.2	...	100.0
10. Ratio of young literate females to males (percent, ages 15-24)	...	...	84.8	...	81.1	80.8	...
11. Share of women employed in the nonagricultural sector (percent)	21.6	...	...	...	22.6	22.6	...
12. Proportion of seats held by women in the national parliament (percent)	10.8	12.0	...	...	12.7	12.2	...
<u>Goal 4. Reduce child mortality</u>							
Target 5: Reduce by two-thirds, between 1990 and 2015, the under-5 mortality rate							
13. Under-5 mortality rate (per 1,000)	139.0	156.0	151.0	166.0	166.0	149.0	46.3
14. Infant mortality rate (per 1,000 live births)	85.0	89.0	88.0	...	79.1	87.0	21.8
15. Immunization against measles (percent of children under 12 months)	57.6	46.0	47.0	...	65.5	64.0	19.2
<u>Goal 5. Improve maternal health</u>							
Target 6: Reduce by three-fourth, between 1990 and 2015, the maternal mortality ratio.							
16. Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	...	730.0	...	...	...	...
17. Proportion of births attended by skilled health personnel	58.4	...	60.0	...	...	62.0	14.6
<u>Goal 6. Combat HIV/AIDS, malaria, and other diseases</u>							
Target 7: Halt by 2015, and begin to reverse, the spread of HIV/AIDS							
18. HIV prevalence among females (percent, ages 15-24)	...	...	12.7	...	...	5.0	...
19. Contraceptive prevalence rate (percent of women ages 15-49)	16.0	...	26.0	...	...	26.0	...
20. Number of children orphaned by HIV/AIDS (Thousands)	...	...	...	...	...	24.0	...

Table 6. Cameroon: Indicators of IMF Credit, 2004-08

	2004	2005	Projections		
			2006	2007	2008
IMF credit outstanding					
In millions of SDRs	214.7	190.3	8.0	13.3	18.6
In millions of U.S. dollars	318.0	281.2	11.7	19.8	27.7
In billions of CFA francs	167.1	149.4	6.2	10.1	14.1
In percent of quota	115.6	102.5	4.3	7.2	10.0
Debt service to the IMF					
In millions of SDRs	20.0	28.0	188.2	0.9	0.9
In millions of U.S. dollars	29.7	41.4	276.4	1.3	1.3
In billions of CFA francs	15.7	21.8	145.1	0.7	0.7
In percent of					
Export of goods and nonfactor services	0.8	1.0	5.9	0.0	0.0
Total debt service due	3.6	5.7	43.3	0.2	0.3
Government revenue	1.2	1.4	8.0	0.0	0.0
GDP	0.2	0.2	1.5	0.0	0.0
Quota	10.8	15.1	101.4	0.5	0.5
Debt service to the IMF (in millions of SDRs)					
Interest and charges	1.1	1.0	0.5	0.9	0.9
Repurchases/repayments	18.9	27.0	187.7	0.0	0.0

Sources: IMF, Finance Department; and staff estimates and projections.

Table 7: Cameroon: Fund Disbursements and Timing of Reviews Under the PRGF, 2007-08

Date of Availability (on or after)	Conditions	Amount (in millions of SDR)
November 1, 2005	Board approval of the PRGF arrangement	2.65
May 10, 2006	Completion of first review (end-December 2005 quantitative and structural performance criteria)	2.65
November 17, 2006	Completion of second review (end-June 2006 quantitative and structural performance criteria)	2.65
May 31, 2007	Completion of third review (end-December 2006 quantitative and structural performance criteria)	2.65
November 30, 2007	Completion of fourth review (end-June 2007 quantitative and structural performance criteria)	2.65
May 31, 2008	Completion of fifth review (end-December 2007 quantitative and structural performance criteria)	2.65
November 30, 2008	Completion of sixth review (end-June 2008 quantitative and structural performance criteria)	2.67

Sources: Fund staff estimates.

December 6, 2006

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431
United States

Dear Mr. de Rato:

1. During the first half of 2006, the government continued its efforts to consolidate the macroeconomic framework and implement structural reforms in the context of its economic program supported by the IMF under the Poverty Reduction and Growth Facility (PRGF).
2. The government remains convinced that the continued implementation of the economic measures and policies it has undertaken under the PRGF will enable it to build on the satisfactory results already obtained and combat poverty more effectively, while improving the prospects for growth. To this end, the government intends to take the necessary steps to ensure that the financial resources generated by the debt relief initiatives from which Cameroon has benefited since reaching the completion point under the Heavily Indebted Poor Countries (HIPC) Initiative and qualifying for the Multilateral Debt Relief Initiative (MDRI) are used effectively to fight poverty.
3. The government's efforts to pursue fiscal consolidation and improve fiscal discipline in 2006 helped it to meet the program quantitative criteria and benchmarks at end-June 2006. The implementation of structural reforms also moved forward. There have been delays in completing some reforms, however, particularly in the public enterprise sector. The government has taken all measures necessary to catch up on the delayed implementation of the measures that were to have been in place by mid-July 2006.
4. The government is aware of the importance of structural reforms in strengthening growth prospects and boosting efficiency in the use of public resources. Accordingly, it will vigorously pursue the measures set out in the action plan for the privatization of CAMAIR and the reforms of CAMPOST, SNEC, CDC, CAMTEL, and SONARA. The government remains determined to implement these and related measures transparently and in compliance with internationally recognized best practices. Regarding the CAMAIR privatization strategy, the government selected a provisional successful bidder at end-June 2006, began negotiations in mid-November 2006, and expects to complete the process as soon as possible.
5. The macroeconomic policies and objectives for the second year of the program and over the medium term remain consistent with the general framework underlying the government's three-year PRGF-supported program. Thus, the attached Memorandum of Economic and Financial Policies (MEFP) supplements the MEFP attached to the letter of

intent of April 5, 2006. In addition, it evaluates the implementation of the government's economic program during the first half of 2006, and presents the economic policies and objectives for the period spanning July 2006 to June 2007.

6. For purposes of the execution of its economic and financial program, the government set ambitious medium-term objectives, consistent with the macroeconomic framework of the three-year program. In this context, particular emphasis will be placed on enhancing fiscal management, reforming the judicial system, combating corruption, and improving the quality of public investment. Finally, aware of the importance of structural reforms for improving growth prospects in Cameroon, the government intends to accelerate the implementation of these reforms, especially in the public enterprise sector. The government plans to identify the list of public enterprises that will be included in the second generation of structural reforms, with the aim of further reducing the State's role in the productive sector.

7. The government is convinced that the economic and financial policies described in the attached MEFP will help to achieve the objectives of its July 2006-June 2007 economic program. However, it is prepared to take any further measures that may become appropriate for this purpose. The government will consult with the IMF Managing Director on the adoption of these measures in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultations.

8. The government will take all necessary measures to ensure that the third program review is completed in May 2007 at the latest. This review will be based on the quantitative and structural performance criteria at end-December 2006.

9. Given performance so far and the commitment contained in the MEFP, the government requests that the third disbursement under the arrangement in the amount equivalent to SDR 2.65 million be made available upon completion of this review. The government also requests that following the completion point under the enhanced HIPC Initiative the performance criterion on the replenishment of the HIPC account be dropped from future reviews, in line with the understanding reached in June 2006 with Paris Club creditors. Finally, the government of Cameroon authorizes the IMF to make this letter and the attached MEFP available to the public.

Sincerely yours,

/s/

Inoni Ephraim
Prime Minister and
Head of Government

Enclosures: Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

REPUBLIC OF CAMEROON

Memorandum of Economic and Financial Policies

Yaoundé, December 6, 2006

I. INTRODUCTION

1. From July 2005 to June 2006, the government continued to improve the budgetary framework and implement structural reforms. Thanks to its good progress in implementing the triggers, Cameroon reached the completion point under the Heavily Indebted Poor Countries (HIPC) Initiative and qualified for the Multilateral Debt Relief Initiative (MDRI). This memorandum reviews the achievements during January-June 2006 of the three-year program supported by the IMF under the PRGF and describes the economic and financial objectives and policies for the period July 2006 to June 2007.
2. The government considers its Poverty Reduction Strategy Paper (PRSP) as the reference framework for its medium- and long-term development strategy and the main tool for harmonizing and aligning donors around the priority development programs in the medium term. To this end, it intends to resume and deepen the national dialogue on the country's development strategy by launching a review of the PRSP, which will emphasize economic growth and job creation strategies. It will also reach an agreement with the development partners on the modalities for strengthening and expediting implementation of the Paris Declaration on Aid Effectiveness.

II. RECENT ECONOMIC DEVELOPMENTS AND RESULTS OF IMPLEMENTATION OF THE PRGF-SUPPORTED PROGRAM

3. Economic indicators at end-June 2006 show that growth in the nonoil sector had reached 2.9 percent in 2005 due to the downturn in agro-industrial and forestry production. In June 2006, consumer prices recorded a year-on-year increase of 3.9 percent, which primarily reflected the impact of the upward adjustment in oil prices, following the increase in international oil prices. From July 2005 to June 2006, the retail prices of premium gasoline, fuel oil, and diesel fuel climbed 13 percent, 25 percent, and 17 percent, respectively. The money supply was substantially higher at end-June 2006 as a result of the rise in net foreign assets from higher oil revenues.
4. The government continued to pursue fiscal consolidation in 2006. During the first half of the year, nonoil revenue reached expected levels, while rising world oil prices led to higher-than-expected oil revenue. Expenditure remained below target, mainly because of limited execution of capital expenditures and public enterprise restructuring expenditures. The rate of capital expenditure execution was lower than expected, primarily because of the weak absorption capacity and the low level of external financing disbursements. Domestic debt was substantially reduced through the satisfactory implementation of the debt clearance plan and the use of windfall oil revenues.

5. The government took steps to further improve the collection of nonoil revenue. A study of the alternatives for increasing personal income tax (IRPP) receipts was conducted using data collected from enterprises. This analysis showed that while enterprises apply the reforms properly overall, they do not comply with some tax provisions—particularly the calculation of in-kind benefits and allowances, which contribute significantly to the IRPP tax base—thereby contributing to the poor performance of this tax. The General Directorate of Taxes took the necessary measures to improve audits in this area (see below). In an effort to improve the management of VAT credit refunds and ensure that these refunds are issued within the prescribed time limits, the government increased the monthly appropriation for VAT refunds from CFAF 4 billion to CFAF 6 billion beginning in June 2006, and published a manual of refund procedures in April 2006. As part of efforts to expand the automated system for customs data, a team was assembled to set up this system in Douala. In addition, the government began the work aimed at abolishing the reference values and reinstating Central African Economic and Monetary Community (CEMAC) customs valuation rules for the following products: frozen fish, second-hand clothing, and cigarettes. In the forestry sector, the government selected the Program to Secure Forestry Reserves as the tax point of contact for the sector, and began to consolidate the automated management system of the Ministry of Forests and Wildlife.

6. The quantitative performance criteria and benchmarks of the PRGF-supported program for the period from January to June 2006 were observed (Table 1). In particular, the floor for the nonoil primary balance was observed with a margin of CFAF 6 billion, and net bank credit to the central government was well below the ceiling set under the program.

7. There were mixed results in the implementation of structural measures between January and June 2006 (Table 2).

- **Government finance.** The preparation of data to improve tracking of budget execution continued. Accordingly, data recapitulating the expenditure chain continued to be produced regularly, including expenditure for poverty reduction. In addition, the authorities adjusted the retail prices of petroleum products as provided for under the program and made the scheduled transfers to SONARA, the national refining company.
- **CAMAIR.** With the assistance of the IFC, the government selected a provisional successful bidder for the privatization of Cameroon Airlines (CAMAIR) based on the privatization strategy it had adopted in December 2005. Negotiations with the provisional successful bidder began in mid-November 2006 and the government intends to complete the process as soon as possible. Furthermore, the authorities selected a liquidator for CAMAIR, who has already begun work. Internal measures were taken to reduce the company's operating costs, including by cutting some 400 jobs.
- **CAMTEL.** The announcement of the sale of the national telecommunications company (CAMTEL) was published in June 2006 at the end of the prequalification process. The privatization timetable was delayed to allow the government consultant responsible for preparing the bid documents time to incorporate the recommendations made by the government and the World Bank on the initial documents. In addition, the implementation of CAMTEL's social plan, adopted in May 2006, was completed in mid-

November with the effective payment of redundancy benefits to the employees concerned.

- **SNEC.** Further steps were taken in connection with the call for bids for the lease management contract for the water company (SNEC), namely publication of an announcement on July 26, 2006 inviting investors to submit their technical and financial proposals. Assets were inventoried and the legal documents for the transaction were prepared in coordination with the World Bank. Given the need to include an assessment of earlier rehabilitation investments in the bid documents, the authorities decided to hire a consultant to conduct the assessment.
- **CAMPOST.** The recruitment of the management team for the national postal service (CAMPOST), initially planned for February 2006, was completed on October 28, 2006 with the signature of the management contract.

8. The government continued implementing measures designed to strengthen governance and transparency.

- **Publication.** The budget execution reports as at end-March and end-June, the summary quarterly operating accounts of the national oil company (SNH), and the annual financial aggregates for the main public enterprises were published, but no judicial decisions or sanctions in the fight against corruption had been published on the government's website by end-July 2006. Nevertheless, numerous administrative sanctions against public officials who had committed acts of corruption were published in newspapers and on the government's website, www.spm.gov.cm, as were judicial decisions and information on pending court cases.
- **The Extractive Industries Transparency Initiative (EITI).** Progress was made in implementing the EITI principles. A consortium was recruited to prepare the reconciliation report for oil revenue data covering 2001-04.
- **Fight against corruption.** In April 2006, the government enacted a law defining the modalities for application of Article 66 of the Cameroonian Constitution, which refers to the disclosure of assets by senior government officials. Nevertheless, the commission that was to have been set up under this law to receive the asset declarations has not yet been established because the legal texts governing the application of the law have not yet been prepared. Similarly, the National Commission to Fight Corruption, created in March 2006, is not yet operational as its members have not yet been named, given the considerable time needed to ascertain the integrity of potential members.
- **Judicial system.** The efforts to strengthen the judicial system continued with the implementation of the following measures: (i) adoption and publication of the criminal code on the government's website; (ii) enhancement of peer-supervision among judges deciding commercial cases; (iii) translation of the Uniform Acts under the Treaty on the Harmonization of Business Law in Africa (OHADA Treaty) into English and their publication in the *Journal Officiel* (official gazette); (iv) intensification of oversight of the courts; and (v) presentation to Parliament the draft laws relating to the organization of

the judicial system, including the Supreme Court and other courts. In addition, the Audit Office began the audit of the end-year Treasury accounts for 2004. In this context, two temporary injunctions were issued in June 2006. The audit of the other 2004 accounts is under way.

- **Forestry sector.** The government continued to publish the outcomes of these disputes on a quarterly basis, and has repaid its arrears to the staff of the former National Office of Forestry Development (ONADEF).

9. The government has taken steps to strengthen the financial system. Cameroon's State-owned housing bank, *Crédit Foncier*, continued to implement the recommendations of the Central African Banking Commission's inspection mission. In particular, three audits were conducted: one on the organization and its staff, one on the accounting and financial system, and one on information technology. A number of measures have already been implemented internally, most notably the formulation of management and performance indicators, which have been widely disseminated throughout the agencies and directorates; the drafting of management and audit procedural manuals; and the refocusing of activities by prohibiting the opening of new current accounts and the granting of overdrafts. In the microfinance sector, the authorities took the following steps to improve supervision, following up on measures taken at end-December 2005 to strictly apply the rules of establishment for institutions in this sector: (i) intensification of control missions to ascertain the closure of the 205 microfinance institutions that were not given a license; (ii) acceleration of the study of village banks with the aim of regularizing them; and (iii) initiation of the process of evaluating the capital base and viability of the 508 microfinance institutions that had been granted a license.

III. ECONOMIC AND FINANCIAL POLICIES FOR 2006 AND 2007

A. Macroeconomic Framework

10. The economic outlook should improve in 2006 and 2007, partly due to the beneficial impact of external debt relief under the HIPC Initiative and the MDRI. In 2006 and 2007, economic growth in the nonoil sector should reach 4 percent, thanks mainly to the upturn in activity in the forestry sector and increased public investment. The continued rise in international oil prices will help to strengthen Cameroon's external position. Nevertheless, the inflationary pressures of 2006, which were caused mainly by the rising prices of petroleum products, could persist in 2007.

B. Fiscal Policy

11. The fiscal outlook for the second half of 2006 is positive. Rising prices will cause projected oil revenues to exceed the programmed level of CFAF 126 billion (or 1.2 percent of GDP).¹² Nonoil revenues will remain at programmed levels. Primary expenditure

¹² The program's approach of using conservative oil price projections is maintained; oil prices have been set at a constant prudence factor of US\$10 per barrel below the IMF's *World Economic Outlook* (WEO) projections.

(excluding externally financed expenditure) will remain within the planned envelope for the program. However, to address urgent priorities, the government envisages additional spending amounting to CFAF 11 billion (0.1 percent of GDP) to support the development of infrastructure in Bakassi and the improvement of university facilities. Thus, the primary balance in 2006 is expected to increase by 1.3 percentage points of GDP over program projections.

12. In 2007, nonoil revenues will increase to 12.3 percent of GDP, while oil revenues should record a marked upturn following the expected increases in production and prices. The draft 2007 budget law contains a number of tax measures that aim to stimulate investment and reduce the impact of recent price increases on consumer purchasing power. These include a reduction for a period not exceeding three years of the income tax of individuals and legal entities reinvesting in Cameroon, a reduction of the corporate tax rate to 30 percent over the first five years for companies that place at least 20 percent of their capital on the stock exchange and remain listed for at least five years; exemption of capital gains on stock market transactions for individuals and legal entities; and exemption from registration fees of share certificates and transactions on the stock market. Moreover, in October 2006 the government took measures to reduce custom duties on a number of essential products, consumed primarily by the most vulnerable groups of the population, and to exempt them from VAT. It also plans to eliminate the minimum thresholds for VAT credits eligible for refund in 2007. These measures are expected to lead to a loss of fiscal revenues in the order of 0.3 percent of GDP annually. To offset this loss, the government will adopt administrative measures and intensify the use of transaction valuation by customs (see below). It will closely monitor nonoil revenues. If nonoil revenues through end-March 2007 falls short of the target specified in Table 3 of the MEFP, the government, in consultation with the IMF, will take additional (including tax policy) measures starting in the second quarter of 2007 to ensure that nonoil revenues remain at the level envisaged for 2007. It will also consider expenditure measures, if needed, to safeguard the fiscal stance.

13. Spending policy will remain prudent while encouraging priority expenditures. Nevertheless, to accelerate poverty reduction under the PRSP, the government budget contains provisions for increasing noninterest expenditure by 1.5 percentage points of GDP over 2006 levels, of which about half for investment expenditures. The government believes that making budget appropriations available very early on in January 2007 will help to improve the execution rate for investment projects. The sectoral ministries will endeavor to improve project quality by systematizing the preparation of preliminary execution reports and by using their Medium-Term Expenditure Frameworks (MTEFs) to prepare their budgets. A circular is currently being adopted on how to prepare a budget that is harmonized with the PRSP. This circular defines the modalities for aligning budgets with the MTEFs and sets a new budget preparation timetable. Current expenditure (excluding interest) should increase by 10.5 percent in 2006 to around 11.2 percent of GDP in 2007, due in part to additional poverty reduction expenditure financed by budgetary assistance from France under the *Contrat de Désendettement et de Développement* (C2D), and through the financial assistance expected from multilateral creditors under the Multilateral Debt Relief Initiative (MDRI). Poverty reduction expenditure will increase from 6.7 percent of GDP in 2006 to 7.5 percent in 2007.

14. The authorities plan to pursue a prudent policy of gradually increasing salaries in a stable macroeconomic framework sustained over the medium term to enhance the efficiency of the civil service, combat corruption, and improve the economic welfare of civil servants. The government is committed to the following tasks: (i) completing the compilation of the results of the physical census of civil servants, which was based on payroll records, and assessing the savings made; (ii) calculating the cost of bringing salaries up to date; and (iii) assessing the wage arrears caused by the failure to take account of the financial impact of promotions and advancements. In that context, the government plans to give priority to bringing salaries up to date by earmarking the savings resulting from the census. These amounts will be paid only after the cost of this adjustment has been assessed to ensure that sufficient resources are available. The 2007 budget includes a wage bill of CFAF 479 billion. Furthermore, as described below, the government intends to implement measures to further control the wage bill and staffing levels, thereby providing an accurate basis for wage simulations.

15. With the expected upsurge in international oil prices, Cameroon will continue to earn windfall oil revenues. The government will continue applying these revenues exclusively to one-off purposes, particularly to accelerate payments on domestic debt and arrears. Nevertheless, given the significant reduction in the government's domestic debt in 2005-2006, the authorities plan to use some of the windfall oil revenue for other one-off uses, specifically for: (i) financing the repurchase of debt held by external commercial creditors who did not take part in the commercial debt repurchase initiative (London Club); and (ii) financing investment projects in the sectors defined in the PRSP, after consultation with IMF staff, including the counterpart funds for jointly-financed projects, such as infrastructure development (roads, energy) and investment in major sectoral programs (education, health, rural and urban development).

C. External Debt Management and Trade Liberalization

16. The government will pursue a prudent debt policy and ensure that its debt management safeguards sustainability. It will expedite the preparation of a comprehensive external debt management strategy by defining and implementing a debt policy and monitoring debt sustainability indicators. It also undertakes to seek mainly grants and concessional loans for its externally financed investment. By early 2007, the authorities expect to use the IMF/World Bank debt-sustainability analysis framework, thereby enabling them to improve projections and their debt sustainability analysis. Moreover, by December 2006, they will update their debt management software and begin to regularly publish statistical and analytical data on the website of the debt agency (CAA) at caa.gov.cm.

17. As a result of the debt relief granted to Cameroon by the Paris Club in June 2006, the government plans to finalize the signing of bilateral agreements with the member creditors by December 2006. It will continue to negotiate in good faith with its private creditors to clear its arrears, without overlooking the principle of comparability of treatment.

18. Beginning in 2007, the government plans to implement new reforms aimed at strengthening trade liberalization and boosting the volume of foreign trade, particularly with a view to consolidating subregional integration. To that end, it will play an active leadership

role in the CEMAC to ensure the proper implementation of common rules by all member states, the removal of barriers to intracommunity trade, and the lowering of the maximum Common External Tariff (CET). Accordingly, the government plans to present trade liberalization measures at the next meeting of CEMAC Heads of State in December 2006. Specifically, it plans to recommend the following: (i) a gradual reduction of the CET by decreasing the maximum rate initially from 30 to 20 percent; (ii) assessment of the obstacles to the development of intraregional trade, and harmonization of the rules of origin with those of the WTO as of March 2007; and (iii) revision of the customs duty and CET exemption systems of the CEMAC. By the same token, to stimulate investment and address a number of social constraints, the government, in consultation with other CEMAC members, will take the following derogation measures from the CET for a period of six months: (i) decategorize some imported goods by reducing the CET from 20 and 10 percent to 5 percent; and (ii) reduce the CET applicable to capital goods for the agricultural, livestock farming, fisheries, industry, tourism, handicrafts and energy sectors from 10 to 5 percent.

D. Government Finance

19. The government is aware that the budget preparation timetable must be observed to address the problems identified during budget execution. Accordingly, it plans to present the draft 2007 budget law to Parliament within the period prescribed in the Cameroonian Constitution.

20. On the revenue side, the government intends to: (i) extend the implementation of the automated system for customs data to the customs sectors of the Littoral province (which accounts for 95 percent of customs revenue) by December 31, 2006; (ii) complete the online connection between the General Directorate of Taxes and the General Directorate of Customs by September 2007; (iii) complete the establishment of the electronic external trade one-stop shop by creating the interfaces with the various participants in external trade, including the customs service, and finalizing the draft law on bank electronic communications and electronic payments; (iv) eliminate by June 2007 “minimum administrative values” for all imported products (except sugar, pasta, and cigarettes) and tax imported goods on the basis of CEMAC customs valuation rules; (v) put in place control mechanisms to improve the efficiency of the VAT and IRPP; (vi) strengthen control mechanisms after merchandise clears customs; and (vii) reinforce the use of the scanner during customs clearance of container merchandise. The authorities plan to improve IRPP administration through staff reorganization currently under way. Thus, the effective use of the tax centers for medium-sized enterprises in Yaoundé and Douala at end-December 2006, and for small enterprises in 2008 will facilitate a more efficient monitoring of this tax. Efforts are also underway to install new software in the tax centers for medium-sized enterprises, based on the model used in the large taxpayers unit. Initial testing and deployment of this application are expected to take place during the first half of 2007. In the hope of broadening the customs tax base, the authorities will continue their efforts to control and reduce exemptions, and will produce a quarterly report on exemptions, identifying the tax base and the corresponding loss of revenue.

21. The government remains committed to improving the tracking of public expenditure. In this context, it expects to improve the presentation of budget execution on commitment,

payment order, and cash bases at the functional and administrative levels so as to enhance the tracking of priority spending. To this end, it plans to complete the online connection between the IT systems of the General Directorates of Budget and the Treasury, and produce summary tables based on either system by end-June 2007. By the same time, the government will also provide training on the usage of the budget nomenclature to technical staff of priority ministries. Furthermore, it will continue to strengthen the existing global and sectoral medium-term expenditure frameworks (MTEFs) and their use in the budget preparation process beginning with the preparation of the draft 2008 budget law.

22. To improve budget execution controls and the physical and financial tracking of central government expenditure, the government, in partnership with representatives of the beneficiaries and members of civil society, has created and organized local committees to monitor projects, financed by the public investment budget in the provinces and departments. The government plans to expand this participatory monitoring to include all public investment expenditure for all sources of financing. Furthermore, it intends to continue implementing the action plan to improve budget execution controls and the physical and financial tracking of central government expenditure. The following priority actions in particular have been identified for 2006-07: (i) evaluating participatory monitoring with a view to strengthening it; (ii) granting provincial and departmental controllers additional human and financial resources to improve effectiveness; and (iii) creating a central unit charged with preparing a report on the financial and physical tracking of investment spending for all sources of financing.

23. In an effort to increase the responsibilities of authorizing officers, the government will gradually include appropriation managers among the users of the automated expenditure tracking application. The first phase of this expansion, to be implemented by end-June 2007, will target the Ministry of Public Works and the Ministries of Basic and Secondary Education. Similarly, to reduce processing times for budget commitments, the module of the IT central application of the General Directorate of Budget that issues the documentation confirming the debt or *titres de confirmations* (appropriations authorizations or *cartons*) will be moved to the financial monitoring offices of these ministries on an experimental basis by May 2007.

24. The government remains convinced that strengthening fiscal management is contingent on establishing a new legal framework. In this regard, in October 2006, it held discussions with a technical assistance team from the IMF and the World Bank, which aimed at ensuring that the following principles are respected: (i) sound planning and management of the transitional period; and (ii) assessment of the future impact on the government's financial program supported by the IMF under the PRGF. In this context, once the observations of its main development partners have been compiled, the government plans to submit the draft organic law to the National Assembly during the June 2007 parliamentary session. The government will prepare a medium-term action plan for fiscal management reform. Among other goals, this plan will enable the government to program the actions to be taken during the transitional period of the draft organic law. The authorities undertake to launch the implementation of this action plan in early 2007.

25. The government intends to continue implementing procurement reforms by periodically assessing the public procurement system and systematically publishing the penalties imposed on offenders. It also undertakes to: (i) approve and publish the general conditions of contract (*Cahier des Clauses Administratives Générales* - CCAG) on its website by end-December 2006 at the latest; (ii) implement the standard bid documents and procedural manuals by March 2007; (iii) publish the audit report for the 2005 public procurement activities by end-September 2007; (iv) adopt the Public Procurement Code implementing regulations on amicable settlements in 2007; and (v) annually assess the reliability and performance of the national procurement system using a set of performance indicators defined in collaboration with the World Bank.

E. Fuel Pricing Policy

26. The policy of adjusting retail fuel prices, which began in 2005 as part of Cameroon's financial program, will be continued for the remainder of 2006 and 2007. However, the impact of the additional upsurge in oil prices will be distributed equally between fuel price increases and budgetary transfers to SONARA, with a cap of CFAF 28 billion (0.3 percent of GDP) on transfers in 2007.

27. In addition, the government plans to adopt a system for full pass-through of fuel prices over the medium term. To this end, it will request technical assistance from the IMF to assess how this measure will affect poverty and possible related measures. Based on the mission's recommendations, a medium-term action plan will be adopted in June 2007 and implemented beginning in January 2008. In addition, the government intends to pursue the implementation of measures to bolster the financial position of the national refinery (SONARA), as described in paragraph 38 of the MEFP of October 13, 2005 (IMF Country Report No. 05/413/November 2005). On the basis of the SONARA audit recommendations, the government will adopt at end-November 2006 a restructuring plan for the company that will be implemented starting in December 2006.

F. Civil Service

28. The government is committed to continuing the ongoing civil service reforms to establish a solid basis for determining staffing levels and the payroll, as well as to secure related data, and to increase the efficiency of the civil service. In this context, it plans to complete by the end of 2006 the census of civil servants conducted by the Ministry of the Economy and Finance; clean up the payroll records based on the data compiled; conduct a census of all government personnel who are paid out of the government budget but who do not appear in the payroll records at end-September 2006; and complete by end-December 2007 the clean-up of the government personnel and payroll records kept by the Ministry of the Civil Service and Administrative Reform in collaboration with the Ministry of the Economy and Finance. In addition, the ministries with MTEFs will assess their human resource needs for implementing their sectoral strategies.

29. The government plans to take all necessary measures to make the payroll procedures more secure, in particular by: (i) overhauling or replacing the payroll management computer interface; (ii) establishing a single personnel database; (iii) freezing the financial impact of

unpaid promotions as of January 1, 2007 and covering their cost; and (iv) launching an audit of wage arrears (*rappels en mémoire*) at December 31, 2006 with a view to clearing them as part of the government's domestic debt. The personnel management system, already introduced in four ministries, will be installed in 14 others by end-2007. In early 2007, the government plans to begin a multi-step diagnostic study to assess the payroll IT needs and possibly replace the current payroll management computer interface with an upgraded system, particularly in the area of security technology and access rights. Among other things, this will help reduce the risk of fraudulent payments.

G. Financial Sector

30. The authorities intend to submit a request for a joint FSAP mission of the IMF and the World Bank. Based on the mission's recommendations, the government will adopt an action plan to enhance financial intermediation. The delay described above regarding the CAMPOST restructuring process has caused delays in achieving the program objectives. Specifically, preparations for the creation of a subsidiary responsible for financial services will be completed by June 2007. In order to ensure the reconstitution of CAMPOST's assets, the authorities will: (i) open an escrow account at the BEAC to hold funds transferred to CAMPOST by the government as part of its plan to clear domestic debt; (ii) ensure the financial supervision of CAMPOST by the staff of the Ministry of the Economy and Finance, responsible for monitoring nonbank financial institutions, who will produce a quarterly supervision report. The first report, covering operations during the third quarter of 2006, will be available at end-December 2006. Furthermore, transfers to CAMPOST will be limited to the minimum amount needed to meet the required annual working capital, estimated at CFAF 20 billion.

H. Public Enterprise Reform

31. In collaboration with the World Bank, the government will continue implementing privatization and restructuring programs for public enterprises. In this regard, it has allocated a sufficient amount of resources (CFAF 60 billion for 2007) for the restructuring of public enterprises. For CAMAIR, the government will continue efforts to liquidate the company while ensuring that no transfers are made to the company following its privatization. The goal for CAMTEL is to finalize the bid documents and make them available to investors by end-March 2007 at the latest, and complete the selection of a provisional successful bidder by end-April 2007. In the case of SNEC, the government will do its utmost to ensure that the bid documents are made available to interested parties by end-March 2007 at the latest, and that the private company that is to take over management of the water utility is selected by end-April 2007.

I. Transparency, Good Governance, and the Business Climate

32. The government will continue strengthening its program to promote transparency in government budget execution. To this end, it will continue to regularly publish the following information on its website (www.spm.gov.cm): (i) the quarterly report on the execution of the government budget; (ii) the main annual financial data of the 20 public enterprises selected by the government for monitoring; and (iii) the main results of SNH's oil operations,

particularly production, selling prices, and oil revenue transferred to the Treasury. In addition to this information and as part of the implementation of the EITI principles, the government will publish the conciliator's reports on its website. The first report, on revenues during the 2001 to 2004 period, should be published by end-December 2006 at the latest, while the second report, on oil revenues for the 2005 financial year, will be published by end-February 2007 at the latest. The quarterly investment-budget execution report will be published within two months after the end of the reporting period.

33. The government remains determined to strengthen governance and combat corruption in order to improve the business climate and the effective use of public resources. In particular, before February 2007 it undertakes to make operational the National Anti-Corruption Commission (CONAC) created in March 2006, and to take those measures necessary to enable the commission envisaged under the framework for implementing the asset disclosure by high public officials to begin its work. In addition, at the request of the government, a joint mission of OECD-DAC donors traveled to Yaoundé in July to conduct a preliminary assessment of corruption and to lay the groundwork for a detailed assessment mission. The government plans to use the recommendations of the mission, which recently submitted its report to the government, to formulate an action plan.

34. In the forestry sector, the government plans to establish an online connection between the Ministry of the Economy and Finance and the Ministry of Forests and Wildlife by end-December 2007. This measure is essential in order to restore the capacity to monitor sectoral data and control the tax base. The government undertakes to continue its fight against illegal logging. To this end, it will (i) waive the 2.5 percent tax levied at customs for timber not having proof of payment of the 2.25 percent tax; and (ii) effectively assess a penalty of 400 percent on timber that lacks documentation of legal origin and payment of domestic logging taxes.

35. The government is determined to pursue efforts aimed at improving Cameroon's business climate. Thus, based on the results of the business climate survey conducted in June 2006 by the World Bank, the authorities, in partnership with the private sector, plan to prepare a strategic plan for enhancing the business climate by November 2006. This plan will give priority to addressing the main problems identified in the study, in particular, corruption, the lack of infrastructure, and the burdensome tax regime. The measures identified in the plan will be implemented beginning in January 2007.

IV. MONITORING PROGRAM IMPLEMENTATION

36. Program monitoring from July 2006 to end-June 2007 will be based on the performance criteria and the quarterly quantitative and structural benchmarks shown in Tables 1-4. The government is aware of the delays in implementing structural reforms during the first year of the program and is committed to completing these reforms before March 31, 2007. The government will report the data necessary for program monitoring to the IMF, in accordance with the Technical Memorandum of Understanding.

Table 1. Quantitative Performance Criteria and Benchmarks During January-June 2006
(Billions of CFA francs and cumulative from July 1, 2005, unless otherwise indicated)

	End-Mar. 06			End-Jun. 06						
	Quantitative benchmark	Adjustor	Adjusted target	Outturn	Status	Performance criteria 14/	Adjustor	Adjusted target	Outturn	Status
Ceiling on the increase in net claims of the banking system on the central government 1/	56	-24	32	-88	met	80	-240	-160	-262	met
Floor on the non-oil primary budget balance 2/	41	-4	37	87	met	38	4	42	47	met
Ceiling on the accumulation of external payments arrears of the central government 3/ 4/ 5/	0	none	0	0	met	0	none	0	0	met
Ceiling on new medium- and long-term nonconcessional external debt contracted or guaranteed by the central government 3/ 5/ 6/	0	none	0	0	met	0	none	0	0	met
Ceiling on the net disbursement of external debt contracted or guaranteed by the central government with a maturity of less than one year 3/ 5/ 7/	0	none	0	0	met	0	none	0	0	met
Floor on non-oil revenue of the central government 8/	829	none	829	850	met	1110	none	1110	1110	met
Ceiling on spending on goods and services 9/	237	none	237	225	met	336	none	336	329	met
Ceiling on cash spending by SNH 10/										
Payments on account of the government (interventions directes)	30	none	30	24	met	30	none	30	24	met
Other operating costs (autres charges)	21	none	21	9	met	25	none	25	10	met
Floor on reduction of domestic debts 11/										
Structured debt	104	none	104	123	met	133	none	133	152	met
Nonstructured debt	82	none	82	129	met	113	none	113	160	met
Floor on the replenishment of the HIPC account 12/	67	none	67	63	not met	82	none	82	100	met
Floor on payments to utility companies 13/										
SNEC	5.5	none	5.5	5.8	met	7.5	none	7.5	7.8	met
AES SONEI	4.8	none	4.8	5.3	met	6.5	none	6.5	7.0	met
CAMTEL	9.3	none	9.3	9.3	met	12.5	none	12.5	12.5	met
CAMRAIL	3.0	none	3.0	3.0	met	4.0	none	4.0	4.0	met
SONARA	4.5	none	4.5	4.5	met	6.0	none	6.0	6.0	met

Sources: Cameroonian authorities; Bank of Central African States (BEAC); and staff estimates.

1/ Defined in paragraph 14, and adjusted as specified in section C of the TMU.

2/ The non-oil primary budget balance is defined in paragraph 13 of the TMU.

3/ Applied on a continuous basis.

4/ Excluding reschedulable external payments arrears.

5/ Millions of U.S. dollars.

6/ Terms defined in paragraphs 3 and 4 of the TMU.

7/ Excluding normal, import-related credit.

8/ Non-oil revenue is defined in paragraph 10 of the TMU.

9/ Defined in paragraph 12 of the TMU, excluding HIPC and C2D.

10/ Defined in paragraphs 17 and 18 of the TMU.

11/ Defined in paragraphs 6 and 7 of the TMU.

12/ Defined in paragraph 15 of the TMU.

13/ Defined in paragraph 16 of the TMU.

14/ The following are quantitative benchmarks for end-December 2005 and end-June 2006: floor on non-oil revenue; ceiling on goods and services spending; ceiling on SNH spending; and floors on utility;

Table 2. Cameroon: Structural Performance Criteria and Benchmarks for the Period January to July 2006

Measure	Date	Status
Structural Performance Criteria		
Launching of invitations for bids on the privatization of CAMAIR.	End-January 2006	Met
Structural Benchmarks		
Preparation of monthly fiscal operations table fully consistent on a cash and commitment basis and a monthly table on a functional basis to monitor spending on priority sectors.	Ongoing	Met
Adjustment of retail fuel prices as agreed with Fund staff.	Ongoing	Met
Subsidy payments to SONARA as agreed with Fund staff.	Ongoing	Met
Publishing of judicial decisions and sanctions aimed at combating corruption on the website www.spm.gov.cm .	Ongoing	Delayed ¹
Recruitment of a management contract team for CAMPOST.	End-February 2006	Delayed ¹
Completion of preparatory work to establish a financial subsidiary of CAMPOST.	End-June 2006	Delayed ²
Offer for sale of CAMTEL.	End-June 2006	Delayed ³
Implementation of the social plan for CAMTEL adopted in May 2006.	End-July 2006	Delayed ¹
Launching of the call for bids for the management contract for the public-private partnership for SNEC. ¹	End-July 2006	Delayed ³
Preparation and implementation of measures to improve the execution oversight system and the physical and financial monitoring of central government expenditure.	End-July 2006	Met

¹ These measures have now been met as discussed in ¶7-8.

² This measure was postponed to the second year of the program at the time of the first review (IMF Country Report No.06/23/June 2006).

³ These measures have been reprogrammed for end-March 2007.

Table 3. Cameroon: Indicative quantitative targets for July, 2006–June, 2007¹
(Billions of CFA francs; cumulative from July 1, 2006, unless otherwise indicated)

	End-Sep. 06	End-Dec. 06	End-Mar. 07	End-Jun. 07
	Quantitative benchmarks	Performance criteria ⁶	Quantitative benchmarks	Performance criteria 13/
Ceiling on the increase in net claims of the banking system on the central government	27	73	-8	-9
Floor on the non-oil primary budget balance	1	-34	8	-21
Ceiling on the accumulation of external payments arrears of the central government ^{2,3,4}	0	0	0	0
Ceiling on new medium- and long-term nonconcessional external debt contracted or guaranteed by the central government ^{2,4}	0	0	0	0
Ceiling on the net disbursement of external debt contracted or guaranteed by the central government with a maturity of less than one year ^{2,4,5}	0	0	0	0
Floor on non-oil revenue of the central government	283	571	913	1216
Ceiling on spending on goods and services	105	208	307	419
Ceiling on cash spending by SNH				
Payments on account of the government (interventions directes)	0	0	0	0
Other operating costs (autres charges)	5	9	9	14
Floor on reduction of domestic debts				
Structured debt	72	101	136	164
Nonstructured debt	52	68	78	93
Floor on payments to utility companies				
SNEC	2.0	4.0	6.0	8.0
AES SONEL	1.8	3.5	5.3	7.0
CAMTEL	3.3	6.5	9.8	13.0
CAMRAIL	1.0	2.0	3.0	4.0
SONARA	1.5	3.0	4.5	6.0

Sources: Cameroonian authorities; Bank of Central African States (BEAC); and staff estimates.

¹ Definitions included in the Technical Memorandum of Understanding (TMU).

² Applied on a continuous basis.

³ Excluding reschedulable external payments arrears.

⁴ Millions of U.S. dollars.

⁵ Excluding normal, import-related credit.

⁶ The following will be quantitative benchmarks: floor on non-oil revenue; ceiling on goods and services spending; ceiling on SNH spending; and floors on utility payments. The other targets will be quantitative performance criteria.

Table 4. Cameroon: Structural Performance Criteria and Benchmarks for the Period July 2006 to June 2007	
Measure	Target Date
Government finance	
Submission to Parliament of the 2007 budget law in accordance with the program and adoption by end-2006. (Performance Criterion)	December 31, 2006
Implementation of the customs management system in the customs sectors of Littoral Province. (Performance Criterion)	December 31, 2006
Consolidation of the online connection between the IT systems of the General Directorates of Budget and the Treasury and production of monthly summary reports on budget execution—from commitment to payment—on a functional basis for the period January-April 2007. (Performance Criterion)	June 30, 2007
Diagnostic study on the budget and treasury nomenclature to assess its consistency with GFS standards and preparation of an analytical report.	March 31, 2007
Preparation of actions to be taken during the transitional period of the new organic law on government finance and a timetable for their implementation.	April 30, 2007
Preparation of consistent monthly budget execution tables on a cash and commitment basis and a monthly expenditure table broken down by economic function to track spending for priority sectors.	Continuous
Adjustment of retail fuel prices as agreed with Fund staff.	Continuous
Payment of budgetary transfers to SONARA as agreed with Fund staff.	Continuous
Civil Service	
Completion of the census of civil servants conducted by the Ministry of the Economy and Finance (MINEFI) and clean up of the payroll records based on the data collected.	December 31, 2006
Preparation of a diagnostic study on the civil service remuneration system (salaries and benefits).	March 31, 2007

Establishment of harmonized civil service personnel records based on the reconciliation of the censuses of the Ministry of Finance and the Ministry of the Civil Service in 14 ministries, and installation of the personnel management system in these ministries.	June 30, 2007
Transparency and Governance	
Publication of the report of the EITI administrator on oil revenues for the period 2001 to 2004 on the government website www.spm.gov.cm .	December 31, 2006
Publication of the report of the EITI conciliator on oil revenues for 2005 on the website www.spm.gov.cm .	March 31, 2007
Publication of the quarterly report on execution of the government budget.	Two months after the end of the quarter
Publication on the website www.spm.gov.cm , as part of the anti-corruption campaign, of: (i) judicial decisions; and (ii) administrative sanctions against civil servants.	Continuous
Financial Sector	
Completion of the preparatory work by the government for the establishment of a financial subsidiary for CAMPOST. (Performance Criterion)	June 30, 2007
Public Enterprise Reform	
Launching of the invitation for bids for the privatization of CAMTEL. (Performance Criterion)	March 31, 2007
Launching of the invitation for bids for the management contract of the public-private partnership for SNEC.	March 31, 2007

**Technical Memorandum of Understanding
on the Definitions of the Performance Criteria and Benchmarks of the PRGF-
supported Program for July 2006-June 2007 and the Modalities of Their Adjustment**

A. Introduction

1. This memorandum sets out the understandings between the Cameroonian authorities and the International Monetary Fund (IMF) regarding the definitions of the performance criteria and benchmarks of the program and the contingency mechanisms related thereto. It also specifies the program's exchange rates and the data to be reported to the IMF by the authorities.

B. Definitions

Government

2. Government is defined as central government unless otherwise noted.

External debt

3. External debt shall have the meaning set out in point 9 of the Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements (IMF Executive Board Decision No. 12274-00/85, dated August 24, 2000).

Accumulation of external arrears

4. External arrears are considered to be the external nonreschedulable arrears of the government, including public enterprises whose debt is guaranteed by the government. External nonreschedulable arrears includes the servicing of debt which is due and not paid to all multilateral creditors and to bilateral and commercial creditors with whom a debt rescheduling or restructuring agreement has been concluded. The nonpayment of debt service to bilateral and commercial creditors with whom a rescheduling or restructuring agreement has not yet been signed is not considered to be an arrear for the purposes of the program, provided that Cameroon is engaged in best efforts to negotiate a rescheduling or restructuring agreement with bilateral and commercial creditors.

Concessionality of external debt

5. Medium- and long-term debt is considered to be debt with an initial maturity of one year or more; short-term debt is considered to be loans with an initial maturity of less than one year. Debt is considered to be concessional if it includes a grant element equivalent to 35 percent or more, calculated on the basis of the commercial interest reference rate (CIRR) published by the OECD and following the methodology set out in the IMF staff paper entitled "Limits on External Debt or Borrowing in Fund Arrangement – Proposed Change in Implementation of the Revised Guidelines", approved by the IMF Executive Board on April 15, 1996. Thus, for debt maturing in 15 years or more, the OECD 10-year CIRR is used

as the discount rate to assess concessionality, and the six-month average CIRR is used for shorter-term loans. The following margins are added to the two CIRRs for the various repayment periods: 0.75 percent below 15 years; 1 percent between 15 and 19 years; 1.15 percent between 20 and 29 years; and 1.25 percent when the repayment period is spread over 30 years or more. Debt rescheduling and restructuring as well as the use of IMF resources and regular commercial loans linked to imports are not part of the performance criteria.

Debt relief

6. For the purpose of the program, the only form of debt relief that will be subject to the contingency mechanism described below is the debt relief that leads to an effective reduction in programmed debt service. This includes, in particular, any relief in the form of rescheduling, forgiveness, restructuring, or a grant under the Heavily Indebted Poor Countries (HIPC) Debt Initiative, the Multilateral Debt Relief Initiative (MDRI), and bilateral initiatives (e.g., C2D). Programmed debt relief on debt that has been in drawn-out rescheduling/restructuring negotiations with non-Paris Club creditors, including commercial creditors is excluded from the contingency mechanism as it does not lead to an effective reduction in programmed debt service.

Domestic debt

Structured debt

7. Structured debt is defined as debt that has been subject to a formal agreement (*convention*) or securitization (*titrisation*). For the purposes of the PRGF program, structured debt is limited to the stock of structured debt at end-December 2004 that was included in the audit completed in October 2005 and that is specified in the multiyear settlement plan for public domestic debt as recorded by the National Amortization Fund. The stock of this debt (excluding BEAC's advances) at end-December 2004 amounted to CFAF 956 billion.

Nonstructured debt

8. Nonstructured debt is defined as debt not subject to a formal agreement (*convention*) or securitization (*titrisation*). For the purposes of the PRGF program, non-structured debt is limited to the stock of non-structured debt at end-December 2004 that was included in the audit completed in October 2005 and that is specified in the multiyear settlement plan for public domestic debt as recorded by the National Amortization Fund. The stock of this debt at end-December 2004 amounted to CFAF 496 billion.

Domestic debt repayments

9. For assessing the observance of the quantitative performance criteria on the reduction of domestic debt, only those repayments of domestic debt are counted that are made to repay the structured and nonstructured domestic debt defined above. These repayments are recorded "below the line" in the Fund's "Central Government Operations" table. In the case of structured debt, they are (i) the payments on account of the securitized debt to the BEAC and commercial banks, which are entered in the line "Domestic financing, net – Banking

System - Banking system excl. HIPC and C2D”; and (ii) other repayments of principal, which are recorded in the line “Domestic financing, net – Amortization”. In the case of non-structured debt, they are the repayments of principal, which are recorded in the line “Net change in arrears – Domestic”.

Government financial operations table (TOFE)

10. The Treasury balance (Balance des comptes du Trésor) shows government revenue and expenditure posted in Class 6 accounts (current expenditure), Class 7 accounts (current revenue), and Class 2 accounts (investment operations). Debt-related operations are recorded in Class 1 accounts (debt operations) and partly in Class 5 (financial operations). The financial operations data must be consistent with the data in the treasury account at the BEAC. Data on provisional revenue and expenditure operations and deposits of the correspondents of the treasury are recorded in Class 4 accounts of the government’s chart of accounts (plan comptable). Government operations that are not carried out through the treasury need to be added to the data on operations that are carried out through the Treasury. Revenue and expenditure operations are recorded on a cash basis.

Nonoil revenue

11. Nonoil revenue comprises all government (tax and non-tax) revenue, excluding revenue from oil companies (i.e. companies engaged in crude oil extraction in Cameroon) and oil royalties (*redevance pétrolière*). VAT is recorded net of VAT refunds. The pipeline fee paid by the Cameroon Oil Transportation Company (CTOCO) is recorded as part of non-tax revenue.

Privatization proceeds

12. For the purposes of the program, privatization proceeds will be understood to mean all funds received by the government from the sale or concessioning of the operation of a public company or organization or publicly owned facility to one or more private company(ies) (including companies that are fully controlled by foreign government(s), private organization(s), or individual(s)). Privatization proceeds also include all funds received from the sale of shares owned by the government in private companies or public enterprises. All privatization proceeds should be recorded on a gross basis; if any costs are incurred in connection with the sale or concessioning, these must be recorded separately as expenditure.

Goods and services

13. All budgetary expenditures on account of the purchase of goods and services are recorded in the accounts 4000060, 4000090, 4011, 4010060, 48131, 4810 and 40001205 of the Treasury balance account and shown accordingly in the TABORD. HIPC and C2D spending is excluded.

Nonoil primary budget balance

14. The nonoil primary budget balance (on a cash basis) is calculated as government nonoil revenue, excluding external grants, less all expenditure other than interest payments, foreign-financed investment expenditure, HIPC-financed expenditure, expenditure financed by the Contrat Développement Désendettement C2D) and restructuring expenditure.

Net bank credit to the government

15. Net claims on the government by the banking system comprise the stock of all outstanding claims on the government by the banking system (loans, advances, and any other government debt instruments, such as long-term government securities), less all deposits held by the Treasury with the banking system, excluding the HIPC account, the account for the DRDCs, and the two accounts held by the CAA in a commercial bank to pay the government's domestic and external debt obligations.

Payments to utility companies

16. The floor relating to "payment to utility companies" will be considered observed if payments to the utility companies (water, electricity, fixed-line telephones, railway and refinery companies) are made in quarterly amounts, as indicated in Table 3 of the MEFP. These payments are to exclude fiscal compensation, and they are assessed on the basis of cash disbursements. They are to be registered as current expenditures in the TOFE.

Restructuring expenditure

17. Restructuring expenditures are defined as those expenditures that are made in the context of implementing a privatization strategy (CAMAIR, CAMTEL, CDC), a public-private partnership (SNEC) or a restructuring plan (CAMPOST, SONARA). The classification of an expenditure as "restructuring expenditure" should be made after consultation with the IMF.

Spending advances by SNH (*interventions directes*)

18. Spending advances (*interventions directes*) by SNH (*Société Nationale des Hydrocarbures*) are defined as advance payments by SNH on behalf of the government. They are deducted from the monthly cash revenue transferred by the SNH to the government. There will be no *interventions directes* in 2006 or later.

Quasi-fiscal spending by SNH (*autres charges*)

19. SNH's spending to cover costs that are not shared with the other oil companies as part of the production-sharing agreements are called *autres charges* (other spending). Some of this is related to SNH's mandate (mandat), e.g. decommissioning costs. Other elements of this spending are not related to SNH's oil sector activities and are quasi-fiscal in nature (e.g. the cost of operating the Chad-Cameroon oil pipeline).

Subsidy to fuel consumers

20. The budgetary transfer to SONARA to cover the fuel subsidy to consumers will amount to the difference between the retail price applied and the price that would be needed to keep SONARA's net result on domestic operations at zero for the previous month, times the volumes sold by SONARA in the domestic market. It will be calculated jointly by SONARA and CSPH and will be paid during the month (t+1) subsequent to the reference month (t) for which it has been calculated. It will not exceed CFAF 4.3 billion in the third quarter of 2006, CFAF 8.0 billion in the fourth quarter of 2006, CFAF 7.0 billion in the first quarter of 2007, and CFAF 7.0 billion in the second quarter of 2007. If, based on this mechanism, the quarterly budget transfer does not suffice to cover in full the fuel price subsidy/SONARA's shortfall, the government will revise retail prices upward, on a monthly basis, so as to prevent losses on domestic operations at SONARA. If oil prices weaken on international markets, the government will first reduce transfers to SONARA and then eliminate them completely, before lowering the retail price.

C. Modalities of the Contingency Mechanism for the Adjustment of Targets

21. The floor on the nonoil primary balance will be adjusted:

- upward by the amount of lower-than-programmed receipt of budget support grants;
- upward by the amount of lower-than-programmed transfers made to SONARA.

22. The ceiling on net bank credit to the government will be adjusted:

- downward up to the amount of higher-than-programmed oil revenue and privatization proceeds that are not used to reduce domestic debt;
- upward/downward by the amount of lower/higher-than-programmed external budget support (grants and loans) and by half of the amount of lower/higher than programmed debt relief (defined in paragraph 6 above); the revision upward will be capped to a cumulative amount of CFAF 15 billion;
- downward by the amount of lower-than-programmed restructuring expenditure;
- downward by the amount of lower-than-programmed payments of domestic debt (as defined above).

23. Higher-than-programmed oil revenue and all privatization proceeds will be allocated to repayments of domestic debt (as defined above). The repayments will be made within one month following the end of the quarter in which the surplus occurred.

24. In case the shortfall/excess in oil revenue, external budget support (including debt relief), privatization revenue, and/or adjustments in the ceiling on net bank credit to the government exceed a cumulative 0.2 percent of 2006 GDP, the government will consult with the staff of the IMF to formulate corrective policies.

D. Program Exchange Rates

25. Exchange rates to be applied for the conversion of amounts in SDR or U.S. dollars are US\$1.4786 per SDR and CFAF 516.83 per U.S. dollar for the third quarter of 2006, US\$1.4813 per SDR and CFAF 515.32 per U.S. dollar for the fourth quarter of 2006, US\$1.4836 per SDR and CFAF 514.04 per U.S. dollar for the first quarter of 2007, US\$1.4847 per SDR and CFAF 513.45 per U.S. dollar for the second quarter of 2007, US\$1.4859 per SDR and CFAF 512.81 per U.S. dollar for the third quarter of 2007, and US\$1.4871 per SDR and CFAF 512.13 per U.S. dollar for the fourth quarter of 2007. Liabilities to the IMF, which are included in the definition of net bank credit to the government, will be valued at the same exchange rates. Any deviation from the exchange rate will lead to a full upward or downward adjustment, as appropriate, of the value of the stock of IMF liabilities to the BEAC, and to a similar adjustment of the ceiling on net bank credit to the government.

E. Structural Performance Criteria

26. The performance criterion concerning the 2007 budget law will be considered observed if the budget law (i) is adopted by end-December 2006 and (ii) is compatible with the fiscal program for 2007.

27. The performance criterion regarding the placement in service of the Automated System for Customs Data in the customs sectors of Littoral province will be considered observed if, by end-December 2006, (i) a switch is made to the new system; effective January 2007, the new system is used to manage import and export transactions as well as all duties and fees collected by Customs, and (ii) the authorities produce an implementation report with a sample list generated by the new system.

28. The performance criterion pertaining to the consolidation of the online connection between the IT systems of the General Directorates of Budget and the Treasury will be considered observed if, by June 30, 2007, summary reports on budget execution—from commitment through to payment—are produced on a functional basis for the January-April 2007 period (monthly and cumulative data). These reports will continue to be produced on a monthly basis for each month beyond April 2007, no later than eight weeks after the end of the reference month.

29. The performance criterion on completion of the preparatory work for the establishment of a financial subsidiary for CAMPOST will be considered observed if, by June 30, 2007, the decree establishing the subsidiary is published and the following tasks are accomplished and the results are adopted by the government: statutes of the subsidiary, list of shareholders and managers, business plan including projected activities, network and structure of post offices and postal agencies, financial statements and accounts certified by the statutory auditors and validated by the competent entities, payment of capital or minimum available budgetary transfers.

30. The performance criterion on offering CAMTEL for sale will be considered completed when the call for bids has been issued in accordance with international standards,

inviting companies to bid on the sale of CAMTEL to a majority private investor. The preparation of the bidding documents (DAO) and their submission to investors will complete the implementation of this measure.

F. Structural Benchmarks

31. The benchmark related to the establishment of harmonized civil service personnel records based on the reconciliation of the censuses of the Ministry of Finance and the Ministry of the Civil Service in 14 ministries, and installation of a personnel management software in these ministries will be considered observed if, by end-June 2007: (i) the equipment, the protocol for communication between the various personnel management software sites, and the personnel management software application are in place in each of these ministries; (ii) staff have been trained in their use; (iii) the personnel management software is operating effectively in the said ministries; and (iv) the personnel data of these ministries in the personnel management software are consistent with the data in the payroll management system. The 14 ministries scheduled for personnel management software installation are the following: (1) the Office of the Prime Minister, (2) the Ministry of Higher Education, (3) the Ministry of Public Works, (4) the Ministry of Communication, (5) the Ministry of Forests and Wildlife, (6) the Ministry of Employment and Vocational Training; (7) the Ministry of Labor and Social Security, (8) the Ministry of Justice, (9) the Ministry of Programming and Regional Development, (10) the Ministry of Environment and the Protection of Nature, (11) the Ministry of Agriculture and Rural Development, (12) the Ministry of Industry, Mines, and Technological Development, (13) the Ministry of Territorial Administration and Decentralization, and (14) the Ministry of Water and Energy.

32. The benchmark concerning the diagnostic study on the budget and treasury nomenclature to assess its consistency with COFOG standards and the preparation of an analytical report will be considered met if the government submits to the IMF, by end-March 2007, an analytical report containing the following: (i) a description of the deficiencies of the current budget classification, particularly with regard to simplicity, interpretation, and consistency with international standards, and (ii) an action plan to improve the budget classification in the 2007-2009 period.

33. The benchmark regarding the preparation of actions to be taken during the transitional period of the new organic law on government finance and the timetable for their implementation will be considered met if, by end-April 2007: (i) a new draft law establishing the government financial system is prepared with the assistance of IMF staff and is presented, along with the key objectives for the transitional period, and (ii) the government prepares an action plan covering this transition, forwards it to all concerned ministries and government entities, and holds a seminar for those ministries to present the plan and explain its implications.

34. The benchmark pertaining to the preparation of consistent monthly budget execution tables on a cash and a commitment basis and a monthly expenditure table broken down by economic function to track spending on priority sectors will be considered met if, by the 25th of the month following the reporting month, the following are sent to the IMF: (i) the TABORD, the treasury balances, expenditure tracking tables with a breakdown by chapter

and account and a functional breakdown (up to payment authorization and for the central offices only), (ii) the TABORD contains an annex showing payment authorizations and payments broken down by economic function (for the central offices only), (iii) the TABORD is consistent with the Treasury balances and the expenditure tracking tables broken down by chapter and account and by function; and (iv) the expenditure tracking table broken down by chapter and account is consistent with the expenditure tracking table broken down by function.

35. The benchmark on adjustment of the retail prices of petroleum products and payment of budgetary transfers to SONARA as agreed with Fund staff will be considered met if the authorities raise the prices of the three main fuel products, i.e., premium gasoline, oil, and diesel fuel, and make transfer payments as indicated in paragraph 26 of the MEFP and paragraph 20 above. Fuel prices are to be raised on the first business day of the month.

36. The benchmark related to completion of the census of civil servants conducted by the Ministry of Economy and Finance (MINEFI) and clean-up of the payroll records based on the data compiled will be considered met if, by end-December 2006, MINEFI, having processed the census data collected, produces a summary report containing the following information: number of government employees in the payroll records (staff, contractuels, and managers), number of retirees by category (civilian and military), counted population by ministry, grade, and category, as well as the related wage bill; and estimate of staffing and wage expenditure savings realized.

37. The benchmark on the preparation of a diagnostic study of the civil service remuneration system (salaries and benefits) will be considered met if, by end-March 2007, the final report on the study, conducted in accordance with the terms of reference approved by the authorities and the IMF, has been submitted to the minister responsible for finance.

38. The benchmark pertaining to publication of the report of the EITI administrator for the 2001-2004 period on the website www.spm.gov.cm will be considered met if, by December 31, 2006, the report is available on the website www.spm.gov.cm.

39. The benchmark regarding publication of the report of the EITI administrator for 2005 will be considered met, if by February 28, 2007, the report is available on the website www.spm.gov.cm.

40. The benchmark concerning publication of the quarterly report on execution of the government budget will be considered met if, two months after the end of the quarter, a report detailing and commenting on execution of the budget in terms of revenue, expenditure, and financing (based on a model similar to the TOFE) is available on the website www.spm.gov.cm.

41. The benchmark related to publication on the website www.spm.gov.cm: (i) of judicial decisions, and (ii) administrative sanctions against civil servants will be considered met if the government creates on its website a section devoted to the fight against corruption, where the following are published on a continual basis: (i) all judicial decisions, including appealed decisions, with the necessary reservations; (ii) all administrative sanctions against civil

servants. As understood in this Memorandum, administrative sanctions are punitive measures taken by the authorities against civil servants for failing to act with integrity and observe professional ethics. The sanctioned behaviors may involve indirect actions detrimental to sound financial management and good governance, such as misappropriation, corruption, favoritism, or influence-peddling. Without prejudice to criminal prosecution, persons guilty of such behaviors are, in particular, subject to being relieved of their responsibilities (if any) and liable for disciplinary sanctions ranging from a written warning to the revocation, suspension, or forfeiture of pension rights.

42. The benchmark on the launching of the invitation for bids for the management contract of the public-private partnership SNEC will be considered completed when the call for bids has been issued in accordance with international standards, inviting companies to tender for the SNEC management contract. This measure will be completed with the preparation of the bidding documents (DAO) and the release of the DAO to investors.

G. Reporting Requirements

43. The Cameroonian authorities will send data, as per the attached Tables 1 and 2, to the IMF within the time limits set out in that table. The authorities will supply the IMF, on a timely basis, with any additional information that the IMF requests for the purpose of monitoring the implementation of the program.

Table 1. Cameroon: Data-Reporting Requirements

Category of Data	Table/Report	Frequency	Target Date
Financial and monetary data	Central bank balance sheet, consolidated commercial bank balance sheet, monetary survey	Monthly	10 th of the month for the previous month's data for the preliminary series 25 th of the month for the previous month's data for the final series
	Net credit by the banking system to the central Government	Monthly	10 th of the month for the previous month's data for the preliminary series 25 th of the month for the previous month's data for the final series
	Interest rates	Irregular	One week after new rates announced
	Transactions through the HIPC Initiative and C2D accounts opened at the BEAC, including credit and debit	Monthly	10 th of the month for the previous month's data
	Status report on all Government deposits at the BEAC	Monthly	10 th of the month for the previous month's data
	Changes to domestic and custom taxes (<i>loi de finance and others</i>)	Irregular	Two weeks after the change has been made
	Government financial operations table (TOFE) on a cash basis, including revenue, expenditure, financing, and domestic debt payments (including settlement of domestic arrears)	Monthly	Three weeks after the end of the month concerned for the preliminary series. Eight weeks after the end of the month for the final series
	Government financial operations table on a commitment basis (<i>services centraux</i>) consistent with the TOFE on a cash basis	Monthly	Three weeks after the end of the month concerned for the preliminary series Eight weeks after the end of the month
	Treasury balances of a given month, including table on expenditure paid but not yet committed (<i>dépenses payées mais non ordonnancées</i>) and the table reconciling the Treasury account at the BEAC and the Treasury balance.	Monthly	Three weeks after the end of the month Eight weeks after the end of the month

Table 1. Cameroon: Data-Reporting Requirements

Category of Data	Table/Report	Frequency	Target Date
	Report on the implementation of the domestic debt settlement plan	Monthly	25 th of the month for the previous month's data
	Table on budgetary execution on a functional basis consistent with the table on Government financial operations on a commitment basis	Monthly	Eight weeks after the end of the month for the final series
	VAT refunds' balances (both refunds requested and refunds paid)	Monthly	25 th of the month for the previous month's data
	Investment budget execution report	Quarterly	Two months after the end of month concerned
	HIPC and C2D spending (<i>engagements, ordonnancements, paiements</i>)	Monthly	25 th of the month for the previous month's data
	SNH operations, including export volumes, exchange rates, prices, values, operating costs (including a detailed list of <i>autres charges</i>), <i>autres engagements</i> , transferable balance, <i>interventions directes</i> , and balance transferred (cash basis), dividends received, and dividends transferred.	Monthly	25 th of the month for the previous month's data
Public companies data	Payments of bills to public enterprises (SNEC, CAMTEL, AES SONEL, CAMRAIL, and SONARA)	Monthly	20 th of the month for the previous month's data
	Payments made to or on account of CAMAIR (for bills, subsidies, loans, arrears ...)	Monthly	20 th of the month for the previous month's data
Fuel products pricing data	International oil prices, domestic fuel prices and their components, budgetary transfers to SONARA, and SONARA net financial result, using the format of Table 2 below.	Monthly	20 th of the month for the previous month's data
Real sector data	Consumer price index, Yaoundé and Douala	Monthly	20 th of the month for previous month's data
	National consumer price index	Quarterly	Six weeks after the end of the quarter concerned
	Index of industrial production	Quarterly	Two months after the end of the preceding quarter
	National accounts <ul style="list-style-type: none"> • Flash series 	Annual	Eight months after the end of the year

Table 1. Cameroon: Data-Reporting Requirements

Category of Data	Table/Report	Frequency	Target Date
	<ul style="list-style-type: none"> • Provisional series 	Annual	Eighteen months after the end of the year
	<ul style="list-style-type: none"> • Final series 	Annual	Twenty four months after the end of the year
Balance of payments data	Imports by use and major export products, trade balance	Monthly	25 th of the month for the previous month
	Preliminary price and volume indices of imports and of exports	Quarterly	One month after the end of the quarter concerned
	Final price and volume indices of imports and exports	Quarterly	Three months after the end of the quarter concerned
	Balance of payments	Annual	Six months after the end of the year for the preliminary series Twelve months after the end of the year for the final series
External debt data	Stock of outstanding debt and arrears	At least annual	At the beginning of the year; updates as needed
	Debt service due before debt relief	Monthly	25 th of the month for the previous month's data
	Debt service due after debt relief	Monthly	25 th of the month for the previous quarter's data
	Debt service paid	Monthly	25 th of the month for the previous quarter's data
	New grants and loans received, specified by creditor including their terms and conditions and project	Monthly	25 th of the month for the previous quarter's data
	Grants and loans projected for the next eight quarters	Quarterly	25 th of the month for the previous quarter's data
	Regular and additional bilateral HIPC assistance received and projected for the next eight quarters	Quarterly	25 th of the month for the previous quarter's data

Cameroon: Relations with the Fund

(As of October 31, 2006)

I. **Membership Status:** Joined 07/10/1963; Article VIII

II. **General Resources Account:**

	<u>SDR million</u>	<u>%Quota</u>
Quota	185.70	100.00
Fund holdings of currency	184.99	99.62
Reserve position in Fund	0.71	0.38

III. **SDR Department:**

	<u>SDR million</u>	<u>%Allocation</u>
Net cumulative allocation	24.46	100.00
Holdings	3.09	12.64

IV. **Outstanding Purchases and Loans:**

	<u>SDR million</u>	<u>%Quota</u>
PRGF arrangements	5.30	2.85

V. **Financial Arrangements:**

<u>Type</u>	<u>Approval date</u>	<u>Expiration date</u>	<u>Amount approved (SDR million)</u>	<u>Amount drawn (SDR million)</u>
Poverty Reduction and Growth Facility (PRGF)	10/24/2005	10/23/2008	18.57	5.30
Poverty Reduction and Growth Facility (PRGF)	12/21/2000	12/20/2004	111.42	79.59

Enhanced Structural Adjustment Facility	08/20/1997	12/20/2000	162.12	162.12
(ESAF)/PRGF Stand-By Arrangement	09/27/1995	09/26/1996	67.60	28.20

VI. **Projected Payments to Fund (SDR million; based on existing use of resources and present holding of SDRs, with Board-approved HIPC assistance)**

	<u>Forthcoming</u>				
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Principal					
Charges/interest	0.22	0.89	0.89	0.89	0.89
Total	0.22	0.89	0.89	0.89	0.89

VII.

Implementation of HIPC Initiative:

	<u>Enhanced framework</u>
Commitment of HIPC assistance	
Decision point date	10/11/2000
Assistance committed (NPV terms)	
Total assistance (US\$ million)	1,267.00
<i>Of which:</i> Fund assistance (US\$ million)	37.04
(SDR equivalent in millions)	28.62
Completion point date	April 2006
Delivery of Fund assistance (SDR million)	
Amount disbursed	28.62
Interim assistance	11.25
Completion point	17.37
Additional disbursement of interest income	5.05
Total disbursements	33.67

VIII. **Implementation of MDRI Assistance:**

I.	Total Debt Relief (SDR Million)	173.26
	Of Which: MDRI	149.17
	HIPC	24.09
II.	Debt Relief by Facility (SDR million)	

Eligible Debt

<u>Delivery</u>	<u>GRA</u>	<u>PRGF</u>	<u>Total</u>
<u>Date</u> April 2006	N/A	173.26	173.26

1/ The Multilateral Debt Relief Initiative (MDRI) provides 100 percent debt relief to eligible member countries that are qualified for assistance. The debt relief covers the full stock of debt owed to the Fund as of end-2004 which remains outstanding at the time the member qualifies for such debt relief. The MDRI is financed by bilateral contributions and the Fund's own resources, as well as the resources already disbursed to the member under the HIPC Initiative (see Section VII above)

IX. **Safeguards Assessments:**

The Bank of the Central African States (BEAC) is the regional central bank of Central African States, of which Cameroon is a member. A safeguard assessment of the BEAC completed on August 30, 2004 found that BEAC has implemented a number of measures to strengthen its safeguards framework since the 2001 safeguards assessment, but further progress needs to be made in key areas.

The main recommendations of the assessment, applicable to the BEAC as an institution, include: (i) preparation of financial statements in full accordance with an internationally recognized accounting framework, initially the ECB guidelines; (ii) publication of its full financial statements, together with the auditor's report, starting with the 2003 financial statements; (iii) formulation of Board-approved formal guidelines under which the BEAC Governor is authorized to make exceptional advances to BEAC member countries; (iv) annual review by BEAC internal audit department of the process of program data reporting of member countries to the IMF; (v) implementation of a risk-based audit approach, and finalization of a charter, for the internal audit function; and (vi) systematic follow-up of all recommendations pertaining to the BEAC's system of internal controls to be coordinated by internal audit department, with regular reporting to the Audit Committee and the BEAC Governor.

Other priority recommendations of the assessment, but of a country specific nature, were: (i) the BEAC should clarify with its member countries that hold foreign reserves outside the BEAC the statutory basis and circumstances for doing so, to avoid an apparent conflict with the BEAC statutes and to ensure full transparency of reporting of reserves by the member

country; (ii) the BEAC and its member states should establish a mechanism to prevent arrears to the IMF through advance acquisitions of SDRs and an authorization to debit an SDR account of the member; and (iii) the BEAC should cooperate with its members to reconcile and confirm their Treasury balances to ensure that the balances reported by the BEAC in respect of credit to government as reflected in the accounts of the Treasuries are in agreement with the BEAC.

The authorities agreed in September 2005 to fully implement the Cameroon-specific recommendations of the 2004 Safeguards Assessments.

IX. Exchange Arrangements:

Cameroon's currency, the CFA franc, is pegged to the euro at the fixed rate of CFAF 655.957 per euro.

Local currency equivalent: CFAF 767.59 = SDR 1, as of October 13, 2006.

Cameroon maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions, except for restrictions maintained for security reasons that have been notified to the Fund pursuant to Executive Board decision 144-152/51.

XI. Article IV Consultation:

The last Article IV consultation with Cameroon was concluded by the Executive Board on April 22, 2005.

XII. FSAP Participation and ROSCs:

The Financial System Stability Assessment (FSSA) report of May 24, 2000 is based on the findings of the joint IMF-World Bank mission that visited Cameroon during February 29–March 14, 2000. The findings of the Financial Sector Assessment Program (FSAP) mission were presented to the authorities on March 13-14, 2000 in the context of the 2000 Article IV consultation.

The Report on the Observance of Standards and Codes (ROSC) on fiscal transparency and transparency of monetary and financial policies was issued on June 16, 2000.

The data module of the ROSC was issued on August 24, 2001.

XIII. Technical Assistance:

Since September 2005: presence of an FAD resident expert for fiscal administration (shared with other countries in the region).

March 2006: STA mission on balance of payments statistics compilation.

July 2005: FAD mission on tax policy.

May 2005: FAD mission on tax and customs administration.

December 2004: STA mission on the compilation of national accounts and follow-up by FAD expert on public expenditure management.

October 2003: STA mission on the compilation of national accounts.

September 2003: FAD mission on non-oil revenue mobilization and follow-up by FAD expert on public expenditure management.

June 2003: FAD mission on public expenditure management.

March 2003: FAD mission on public expenditure management.

November 2002: FAD mission on public expenditure management.

May 2002: FAD mission on public expenditure management.

April 2002: FAD mission follow-up on the personal income tax system.

March 2002: FAD mission on the implementation of the action plan for government revenue and expenditure.

October–November 2001: FAD mission on tax and customs administration.

September 2001: FAD missions on the audit of the treasury and poverty tracking.

June 2000: FAD mission on the modernization of customs.

April 2000: STA mission on General Data Dissemination System (GDDS/ROSC).

November 1999: FAD mission on modernization of the tax department.

June–July 1999: FAD technical assistance mission on customs.

May–June 1999: FAD follow-up mission on value-added tax (VAT) and tax administration.

January–March 1999: Placement of an FAD advisor for the introduction of the VAT.

November 1998: Placement of an FAD resident advisor on public expenditure management.

October–November 1998: STA mission on metadata project.

September 1998: Placement of FAD advisor for the VAT.

July 1998: FAD mission on preparation of a VAT.

February 1998: FAD technical assistance mission on review of public expenditure management.

November 1997: FAD technical assistance mission on preparation for the introduction of the VAT.

January–February 1997: AFR/PDR mission, in collaboration with experts from the World Bank and the French government, on external debt statistics.

May 1996: AFR mission, in collaboration with a team from the French Treasury and the Banque de France, on the system of fiscal reporting and monitoring.

February 1996: FAD mission on direct taxation and agricultural sector taxation.

May–June 1995: STA mission on balance of payments statistics.

XIV. Resident Representatives:

The post of IMF Resident Representative has been maintained in Yaoundé continuously since 1989. Mr. Keller's assignment as Resident Representative ended on October 1, 2004. The new Resident Representative, Ms. Kabedi-Mbuyi, took up her post in July 2005.

Cameroon: Relations with the World Bank

(At October 19, 2006)

Government's Strategy Supported by the World Bank

37. The government's strategy for economic growth and poverty reduction, as described in the poverty reduction strategy paper (PRSP) communicated to the World Bank and the IMF in April 2003, is articulated along seven pillars, as detailed in IDA/SecM2003-0434. Cameroon attained the Enhanced HIPC Completion Point including access to the Multilateral Debt Relief Initiative (MDRI) in end April 2006.

World Bank Lending and Strategy

38. The joint IDA-IFC Country Assistance Strategy (CAS) was presented to the Board on September 11, 2003. The strategy, which covers fiscal year (FY) 04-06, has two main aims: (i) strengthen the institutional framework for improved pro-poor economic management and service delivery; and (ii) support private sector development, to diversify the economy and increase growth. The proposed strategy is results-based; the following outcomes are expected to be achieved during the CAS period: (i) improved transparency and accountability in the mobilization and use of public resources; (ii) improved use of public resources in education, health, and forestry; (iii) improved service delivery in key sectors; (iv) enhanced response of vulnerable groups in over 300 communities to the threat of HIV/AIDS through preventive, curative, or mitigating measures, and strengthened national capacity to respond to the epidemic; and (v) reduced burden on the private sector from regulatory, administrative, and infrastructure constraints. Specific indicators (such as an increase in the percentage of rural communities in targeted provinces that have access to basic socioeconomic services, or a decrease in the percentage of private firms rating specific constraints as major or severe) have been identified to measure progress toward achieving these outcomes. An internal progress report (October 2004) suggests that some encouraging intermediate results have been secured in such critical areas as public finance, transport reform, and HIV/AIDS; and that the building blocks to achieve results in other areas covered by the CAS (forestry, education, local development) are falling into place.

39. An Interim Strategy Note is under preparation and is expected to be presented to the Executive Board of the Bank on December 7, 2006. This will maintain the broad objectives of the CAS but with enhanced emphasis on governance including combating corruption, managing for results, and strengthening partnerships, and alignment and harmonization of external assistance in line with the Paris Declaration for aid effectiveness.

40. The World Bank has been supporting the government with analysis and a policy dialogue in such areas as :

- Monitoring and assisting on the PRSP implementation (i) by providing assistance and formulating sector strategies, sector and global medium-term expenditure frameworks

- to align the national budget to the PRSP development objectives; (ii) with analytical work including a Development Policy Review (DPR) undertaken in FY04, the Poverty Assessment completed in FY05, and an Investment Climate Assessment (ICA) in FY06 to sharpen PRSP policies for economic growth and diversification, and poverty reduction.
- Strengthening the dialogue and action on the governance agenda with an active role in (i) the Multidonor Platform on Public Finance that is working with the Government on improving public financial management, and (ii) working closely with other partners to support the government's efforts to combat corruption. To support these activities a Public Expenditure Management and Financial Accountability Review (PEMFAR) and a Country Procurement Assessment Review have been undertaken. Sectoral corruption diagnostics are planned for FY07 as part of an overall coordinated approach from international partners.

41. As of October 19, 2006, the IDA portfolio comprises eight active projects with a total commitment of US\$185.5 million, of which US\$113.1 million are not yet disbursed, in education, transport, environment, forestry, HIV/AIDS, local development, and public-private partnerships. Progress on all but one project is rated satisfactory. The reforms in the forestry sector, initiated under SAC III, will be further consolidated through the Forestry and Environment Policy Development Credit (FESP), approved by the Board in February 2006. The IFC portfolio totals US\$206 million, of which US\$85 million in the energy sector.

IDA Total	185.5
Douala Infrastructure	55.6
Community development	20.0
Public-private partnership	13.5
Environment capacity building	4.7
Forestry	25.0
HIV/AIDS multisector	34.5
Education	18.2
Railway Concession	
IFC Total	206.0
Energy	85.1
Finance	0.9
Logistics	1.3
Textiles	2.3
Wholesale & retail	1.4
Other	0.2
Undisbursed loans	17.6
Loans booked by IFC on behalf of other institutions	97.2
MIGA: No investment guarantees issued.	

IMF–World Bank Collaboration in Specific Areas

42. The IMF and World Bank staffs collaborate on (i) the HIPC Initiative and the PRSP process and specifically worked jointly on the documents for the HIPC completion point and the JSAN of the PRSP progress report, which were presented to the Boards in April 2006; (ii) analyses and reforms in public financial management; and (iii) other governance reforms, including the customs and legal systems. Table 2 briefly describes each area and the specific policy advice support provided by the two institutions.

Table 2: Cameroon: Bank/Fund Collaboration

Area	Description	Specialized Advice/ Reforms Supported by Fund	Specialized Advice/ Reforms Supported by Bank
Public financial management	Bank and Fund missions analyzing aspects of fiscal management	Tax analysis and policies, strengthening of control organs; expenditure management, treasury management, transparency and reporting in budget operations	Expenditure policies and budget allocations, budget planning and programming, including elaboration of global and sector MTEFs, budget execution, monitoring and evaluation Public procurement reform Budget tracking in key sectors
Other governance reforms	Coordination of Bank/Fund staff work with UNDP on developing implementation plans	Customs reform	Anticorruption agenda, Decentralization and EITI Judicial reform
Structural reforms	Continuation of the structural reforms initiated under SACIII	Trade policies	Reforms in education, health, transport, rural infrastructure, and forestry Restructuring and privatization of public enterprises, including CAMAIR, CAMTEL, SNEC, and CAMPOST Institutional and human capacity building, including the reform of the civil service Private sector development and trade policies
HIPC completion point and PRSP related activities	Joint tracking of HIPC-Related Spending and the preparation of the HIPC Completion Point documents and JSAN of PRSP Progress Reports		

43. The Fund takes the lead on policy advice and reforms related to (i) macroeconomic policy and short- and medium-term financial programming; (ii) tax policy and administration; (iii) information and financial management systems for government revenue and expenditure; (iv) budget accounting; and (v) treasury procedures. Bank staffs participate in the meetings of Fund missions with the authorities in these areas.

44. The World Bank takes the lead on (i) institutional and human capacity building for public sector management; budget planning and programming including formulation of sectoral strategies and medium-term expenditure frameworks; analysis of poverty and sources of growth to support the PRSP process, (ii) advice on sector development particularly the social sectors, infrastructure, agriculture, and forestry; and (iii) the design, implementation and monitoring of the structural reform program including the privatization of public enterprises.

45. Both the Bank and Fund have responsibility for policy advice on (i) budgetary procedures, government expenditure management systems, and expenditure execution, including tracking of poverty-reducing expenditures; (ii) the functioning of internal and external budget control institutions; (iii) customs reform; (iv) trade policy; (v) financial system reform; and (vi) governance. The two institutions also jointly support and monitor the HIPC Initiative and PRSP process. Finally, the Bank and the Fund are presently conducting a joint FSAP for the CEMAC region, to which Cameroon belongs.

Questions may be addressed to Abdoulaye Seck (Tel. 237-220-3815) or Katrina Sharkey (Tel. 202-473-6288).

CAMEROON: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE

(at November 16, 2006)

	Date of latest observation	Date received	Frequency of Data ⁷	Frequency of Reporting ⁷	Frequency of publication ⁷
Exchange Rates	Oct 2006	Nov 2006	M	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	Aug 31, 2006	Oct 20, 2006	M	M	M
Reserve/Base Money	Aug 31, 2006	Oct 20, 2006	M	M	M
Broad Money	Aug 31, 2006	Oct 20, 2006	M	M	M
Central Bank Balance Sheet	Aug 31, 2006	Oct 20, 2006	M	M	M
Consolidated Balance Sheet of the Banking System	Aug 31, 2006	Oct 20, 2006	M	M	M
Interest Rates ²	Oct 2006	Nov 2006	M	M	M
Consumer Price Index	June, 2006	Sept 11, 2006	Q	Q	Q
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government	September 30, 2006	Oct 30, 2006	M	M	Partial data published monthly.
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	Aug 31, 2006	Oct 20, 2006	M	M	M
External Current Account Balance	2003	Oct 10, 2006	A	A	NA
Exports and Imports of Goods and Services ⁶	June 30, 2006	Sept 11, 2006	M	M	NA
GDP/GNP	Dec 31, 2005	Sept 11, 2006	A	A	NA
Gross External Debt	NA	NA	NA	NA	NA

¹Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

²Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³Foreign, domestic bank, and domestic nonbank financing.

⁴The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵Including currency and maturity composition.

⁶Goods only, data on trade in services are not available.

⁷Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); Not Available (NA).

**Statement by the IMF Staff Representative on Cameroon
December 22, 2006**

This statement provides an update on recent economic developments based on information received after the staff report was issued. This information does not alter the thrust of the staff appraisal.

1. **The rise in inflation is continuing, primarily reflecting the impact of higher fuel prices.** Inflation in the 12-month period through September was 5.0 percent, up from 3.9 percent in June.
2. **Fiscal performance in the first nine months of 2006 was broadly satisfactory, although nonoil revenues were lower than expected in the third quarter.** Based on very preliminary data, the overall fiscal balance was significantly higher than projected owing to higher oil prices and strict control over expenditures. The underperformance in nonoil revenues in the third quarter reflected lower-than-projected direct and nontax revenues. The decline in nonoil revenue was mostly offset by lower spending. Nonetheless, the structural benchmark on the nonoil primary balance, as defined under the program, was missed by 0.1 percent of GDP. The shortfall in the primary balance does not reflect a loosening of fiscal policy, and the authorities are taking steps to (i) strengthen nonoil revenue collection by tightening controls and (ii) monitor spending closely.
3. **Structural reform implementation proceeded broadly as planned.** The 2007 budget was approved by Parliament in line with the program (performance criterion for end December). Based on preliminary information, the new customs management system in the coastal province (which accounts for about 95 percent of imports) is expected to be in use by year end as planned (structural performance criterion). The authorities have completed the census of government employees and have been cleaning up the payroll records based on the data collected (structural benchmark). Publication of the first EITI report is on track and expected by end-December, as planned (structural benchmark).



Press Release No. 06/300
FOR IMMEDIATE RELEASE
December 22, 2006

International Monetary Fund
Washington, D.C. 20431 USA

**IMF Executive Board Completes Second Review
Under Cameroon's PRGF Arrangement and Approves US\$4 million Disbursement**

The Executive Board of the International Monetary Fund (IMF) completed the second review of Cameroon's economic performance and a financing assurances review under a three-year Poverty Reduction and Growth Facility (PRGF) arrangement. Completion of the reviews enables the release of an amount equivalent to SDR 2.65 million (about US\$4 million), bringing total disbursements under the arrangement to an amount equivalent to SDR 7.95 million (about US\$12 million).

The three-year PRGF arrangement for Cameroon was approved by the Executive Board in October 2005 (see [Press Release No. 05/236](#)) in an amount equivalent to SDR 18.57 million (about US\$28 million).

Following the Executive Board's discussion on Cameroon, Mr. John Lipsky, First Deputy Managing Director and Acting Chair, stated:

“The Cameroonian authorities are to be commended on their satisfactory program implementation, including in the areas of fiscal policy and public finance management, which has contributed to macroeconomic stability. Progress was also made, after some delay, in public enterprise reform. In the period ahead, a return to sustained growth and poverty reduction will depend on strategy implementation, with a focus on preserving fiscal sustainability and improving the business environment.

“The authorities' ability to mobilize additional revenues in the face of the expected depletion of oil reserves, and to resist pressures for excessive expenditures, especially ahead of parliamentary elections in 2007, will be critical to the maintenance of fiscal sustainability. Safeguarding priority spending will be key to boosting growth and lowering poverty. Given this, efforts to expand the tax base should be accelerated, including, if necessary, additional measures at the level of tax policy to safeguard fiscal objectives.

“The authorities should pursue a prudent debt management strategy in the post-HIPC period. Borrowing over the medium term should continue to be on concessional terms.

“Public expenditure management should continue to focus on monitoring budgets and tracking expenditures, building on recent progress. Improved transparency in the use of budget resources, including oil and debt relief, remains a priority.

“Strengthening the business environment requires concrete improvements in the areas of governance, public enterprise, financial and trade sector reforms. Governance reforms, in particular efforts to reduce corruption, are a key priority. Strengthening the judiciary and ensuring the effective and consistent application of laws are essential for attracting investment and overcoming negative perceptions of governance.

“Public enterprise reforms, including the privatization of the national airline, should be completed in 2007, in a transparent manner. This will be essential for limiting the burden on public finances and enhancing efficiency and growth prospects.

“Financial deepening is essential for accelerating growth and steps should be undertaken to implement the recommendations of the recently completed regional Financial Sector Assessment Program (FSAP),” Mr. Lipsky said.

The PRGF is the IMF's lower cost loan facility for low-income countries. PRGF-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners and articulated in the [Poverty Reduction Strategy Paper \(PRSP\)](#). This is intended to ensure that PRGF-supported programs are consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5½-year grace period on principal payments.

**Statement by Laurean W. Rutayisire, Executive Director for Cameroon
December 22, 2006**

1. On behalf of my authorities, I would like to thank Executive Directors and Management for their continued support to Cameroon. I would also like to thank staff for the constructive policy dialogue and fruitful exchanges during their recent visit to Yaoundé.
2. My authorities are committed to preserving macroeconomic stability and accelerating the implementation of structural reforms under the current PRGF-supported program. Their sustained efforts in this regard have enabled them to meet all quantitative performance criteria and benchmarks at end-June 2006. They have also made progress on the structural reforms agenda despite the delays encountered in public enterprise reforms. They have since then taken the necessary measures to complete the delayed reforms.
3. Building on the recent achievements that enabled Cameroon to reach the HIPC completion point and qualify for the MDRI, the authorities are convinced that the PRGF-supported program will also help them to improve the country's prospects for broad-based growth while preserving fiscal sustainability. This should, in turn, enhance their poverty reduction and job creation objectives. Hence, they consider the PRSP as the reference framework for their medium- and long-term development strategy, and the main tool for harmonizing and aligning donors' actions around their development priorities.
4. My authorities are aware of the important challenges ahead and the need to strengthen structural reforms to enhance growth prospects and boost efficiency in the use of public resources. Accordingly, it is their intention to reinforce public finance management, improve the business climate, promote good governance, and restructure public enterprises. The authorities remain determined to implement these reforms steadfastly and transparently.
5. In view of overall satisfactory program performance and the commitments made for the period ahead, including the ongoing negotiations with the private holders of Cameroon's debt, I request, on behalf of my Cameroonian authorities, the Board's support for the completion of the second PRGF review, the completion of the financing assurances review, and the elimination of the performance criterion on the replenishment of the HIPC account from future reviews on the grounds of Cameroon having reached the HIPC completion point. My authorities continue to count on the support of the international community to accompany their efforts going forward.

I. Recent Economic Developments

6. Economic indicators at end-June 2006 show that growth in the non-oil sector had reached 2.9 percent in 2005 due to the downturn in agro-industrial and forestry production. In June 2006, consumer prices recorded a year-on-year increase of 3.9 percent, which primarily reflected the impact of the upward adjustment in oil prices. The money supply was

substantially higher at end-June 2006 as a result of the increase in net foreign assets from higher oil revenues.

7. The authorities have continued to pursue **fiscal consolidation** in 2006. During the first half of the year, non-oil revenue reached expected levels, while rising world oil prices led to higher-than-expected oil revenue. More recent data, albeit preliminary, based on the first nine months of 2006 points to lower-than-projected direct and nontax revenues. The shortfall in the primary balance does not reflect a loosening of fiscal stance, and my authorities are taking the necessary steps to monitor spending closely and strengthen non-oil revenue collection through tighter controls. The rate of capital expenditure execution in the first half of the year was lower than expected, primarily because of the insufficient absorptive capacity and the low level of external financing disbursements. Domestic debt was substantially reduced through the satisfactory implementation of the debt clearance plan and the use of windfall oil revenues.

8. The authorities took steps in 2006 to further improve the collection of non-oil revenue. The General Directorate of Taxes took measures to strengthen audits of the personal income tax (IRPP) receipts in order to improve the poor performance of this tax. Actions for a better management of VAT were also undertaken. A team was assembled to set up the automated system for customs data in Douala, as part of efforts to expand the use of this tool. In addition, the authorities began the work aimed at reinstating CEMAC customs valuation rules for a number of products including cigarettes. In the forestry sector, the authorities selected the Program to Secure Forestry Reserves as the tax point of contact for the sector, and began to consolidate the automated management system of the Ministry of Forests and Wildlife.

9. Despite mixed results, the authorities continued to implement structural reforms and measures designed to strengthen governance and transparency. In addition, they have taken steps to further develop the financial system. The Cameroonian authorities should be credited for the numerous actions undertaken.

10. On **structural reforms**, implementation is broadly proceeding as planned. The important measures already taken in 2006 include: (i) *the strengthening of government finance*. The preparation of data to improve tracking of budget execution continued. Accordingly, data recapitulating the expenditure chain continued to be produced regularly, including expenditure for poverty reduction; (ii) *the selection of a provisional successful bidder for the privatization of Cameroon Airlines (CAMAIR)*, with the assistance of the IFC. Negotiations with the provisional bidder began in mid-November 2006 and the authorities intend to complete the process as soon as possible; (iii) *the announcement in June 2006 of the sale of the national telecommunications company (CAMTEL)* at the end of the prequalification process. The privatization timetable was delayed to allow the consultant responsible for preparing the bid documents the necessary time to incorporate the recommendations made by the government and the World Bank on the initial documents;

(iv) *further steps taken in connection with the call for bids for the lease management contract for the water company (SNEC)*. Assets were inventoried and the legal documents for the transaction were prepared in coordination with the World Bank; (v) *the effective recruitment of the management team for the national postal service (CAMPOST)*, initially planned for February 2006, but completed in October 2006.

11. More recently, the 2007 budget has been approved by Parliament in line with the program; the new customs management system in the Littoral region that accounts for the bulk of imports is expected to be operational by end-2006 as planned; the census of civil servants has been completed; and the payroll records are being cleaned up based on the information collected in the census.

12. On **governance and transparency**, progress was also made, notably on: (i) the *publication in newspapers and on the government's website* of the budget execution reports at end-March and end-June, the summary quarterly operating accounts of the national oil company (SNH), the annual financial aggregates for the main public enterprises, numerous administrative sanctions against public officials who had committed acts of corruption, as well as judicial decisions and information on pending court cases; (ii) *the implementation of the EITI principles* for which a consortium was recruited to prepare the reconciliation report for oil revenue data covering 2001-04. Publication of the first EITI report is on track and expected by end-2006 as envisaged; (iii) *the fight against corruption*. In April 2006, the authorities enacted a law defining the modalities for the disclosure of assets by senior government officials, consistent with the Cameroonian Constitution; (iv) *the reform of the judicial system*, including the adoption and publication on the government's website of the criminal code.

13. The authorities have also taken steps to strengthen the **financial system**. Cameroon's state-owned housing bank, *Crédit Foncier*, continued to implement the recommendations of the Central African Banking Commission (COBAC)'s inspection mission. In particular, three audits were conducted: one on the organization and the staff, the second on the accounting and financial system, and the third on information technology. A number of measures have already been implemented internally, most notably the formulation of management and performance indicators, which have been widely disseminated throughout the agencies and directorates. In the microfinance sector, the steps taken by the authorities to improve supervision include the intensification of control missions to ascertain the closure of the 205 microfinance institutions that were not given a license, and the initiation of the process of evaluating the capital base and viability of the 508 microfinance institutions that had been granted a license.

II. Economic Policies and Structural Reforms Going Forward

14. For the period ahead, the authorities have set ambitious medium-term objectives, consistent with the PRGF macroeconomic framework. They will continue to place particular

emphasis on enhancing fiscal management, reforming the judicial system, combating corruption, and improving the quality of public investment. Aware of the importance of structural reforms for improving growth prospects in Cameroon, the authorities intend to accelerate the implementation of these reforms, especially in the public enterprise sector.

15. In 2007, economic growth in the non-oil sector should reach 4 percent, thanks mainly to a recovery in forestry sector activities and increased public investment. The continued rise in international oil prices will help strengthen Cameroon's external position. The inflationary

16. pressures of 2006, which were caused mainly by the rising prices of petroleum products, could persist in 2007. Nevertheless, macroeconomic objectives of the program are based on very conservative oil price and revenue assumptions.

A. Fiscal Policy and External Debt Management

17. The fiscal outlook for the second half of 2006 is positive. Rising prices will cause projected oil revenues to exceed the programmed level while non-oil revenues will remain at programmed levels. Primary expenditure (excluding externally-financed spending) will remain within the planned envelope for the program. However, to address urgent priorities, the authorities envisage additional spending of 0.1 percent of GDP to support the development of infrastructure in Bakassi and the improvement of university facilities. Thus, the primary balance in 2006 is expected to increase by 1.3 percentage points of GDP over program projections.

18. The new customs management system, which should be operational by end-2006, will contribute to boosting non-oil revenues. In 2007, those revenues will increase to 12.3 percent of GDP, while oil revenues should record a marked upturn following the expected increases in production and prices. The 2007 budget law, which was approved recently by Parliament, contains a number of tax measures that aim to stimulate investment and reduce the impact of recent price increases on consumer purchasing power. These measures include a reduction, for a period not exceeding three years, of the income tax of individuals and legal entities reinvesting in Cameroon. Already in October 2006, the authorities took measures to reduce custom duties on a number of essential products, consumed primarily by the most vulnerable groups of the population, and to exempt them from VAT. As these measures are expected to lead to a loss of fiscal revenues, the authorities will closely monitor non-oil revenues and stand ready to take remedial actions if and when required. Indeed, if non-oil revenues through end-March 2007 fall short of the target specified under the program, the authorities, in consultation with the IMF, will take additional measures starting in the second quarter of 2007 to ensure that non-oil revenues remain at the level envisaged for 2007. The authorities will also consider expenditure measures, if needed, to safeguard the fiscal stance.

19. Spending policy will remain prudent while encouraging priority expenditures. To accelerate poverty reduction under the PRSP, the government budget contains provisions for increasing non-interest expenditure by 1.5 percentage points of GDP over 2006 levels, about

half of which is for investment expenditures. The sectoral ministries will endeavor to improve project quality by systematizing the preparation of preliminary execution reports and by using their Medium-Term Expenditure Frameworks (MTEFs) to prepare their budgets. A circular is currently being adopted on how to prepare a budget that is harmonized with the PRSP. Current expenditure (excluding interest) should increase, due in part to additional poverty reduction spending financed by budgetary assistance from France under the *Contrat de Désendettement et de Développement* (C2D), and through financial assistance expected from multilateral creditors under the MDRI. Poverty reduction expenditure will increase from 6.7 percent of GDP in 2006 to 7.5 percent in 2007.

20. The authorities plan to pursue a prudent policy of gradually increasing salaries in a stable macroeconomic framework sustained over the medium term to enhance the efficiency of the civil service, combat corruption, and improve the economic welfare of civil servants. It is worth noting that public sector salaries have still not been increased to the levels prevailing before the 1994 devaluation of the CFA franc. The authorities also intend to continue implementing measures to further control the wage bill and staffing levels. Already, initiatives are being undertaken to reduce fraudulent wage payments and make the civil service more efficient, including the completion of the public payroll census and the regularization of civil servants who for years have been denied the financial benefits of promotions.

21. With the expected upsurge in international oil prices, Cameroon should continue to earn windfall oil revenues. The authorities also intend to continue applying these revenues exclusively to one-off purposes. This includes payments on domestic debt and arrears of which the financing of repurchase of debt held by external commercial creditors who did not take part in the commercial debt repurchase initiative (London Club), and the financing of investment projects in the sectors defined in the PRSP, after consultation with IMF staff.

22. The authorities will pursue a prudent debt policy and ensure that their debt management safeguards sustainability. They undertake to seek mainly grants and concessional loans for externally-financed investment.

B. Structural Reforms

23. Beginning in 2007, the authorities plan to implement new reforms aimed at strengthening *trade liberalization* and boosting the volume of foreign trade, particularly with a view to consolidating sub-regional integration, in which Cameroon plays a lead role. Most of the issues in CEMAC trade that were raised in the recent regional surveillance report, notably discrepancies between the common external tariff, nationally applied tariffs, import surcharges, and export taxes, have already been addressed by the Cameroonian side. Nevertheless, the expected revenue losses from lower tariffs need to be addressed, and we call on the Fund to assist the authorities in this endeavor.

24. As regards *fuel pricing*, the authorities plan to adopt a system for the full pass-through of petroleum prices over the medium term. To this end, they will request technical assistance from the IMF to assess how this measure will affect poverty and possible related measures. In addition, the authorities intend to pursue the implementation of measures to bolster the financial situation of the national refinery, SONARA.

25. The authorities are committed to continuing the ongoing *civil service reforms* to establish a solid basis for determining staffing levels and the payroll, as well as to secure related data and increase the efficiency of the civil service. They have recently completed the census of civil servants and are cleaning up the payroll records based on the data compiled in the census.

C. Transparency, Good Governance, and the Business Climate

26. It is my authorities' strong commitment to continue to make inroads in promoting transparency in government budget execution. To this end, they will continue to regularly publish the following information on their website: (i) the quarterly report on the execution of the government budget; (ii) the main annual financial data of the 20 public enterprises selected by the government for monitoring; and (iii) the main results of SNH's oil operations, particularly production, selling prices, and oil revenue transferred to the Treasury. In addition to this information and as part of the implementation of the EITI principles, the government will publish the conciliator's reports on its website. Publication of the first EITI report on oil revenues for the period 2000-04 is on track and expected by end-December as planned, while the second report, for the 2005 financial year, will be published by end-February 2007 at the latest. As for the quarterly investment-budget execution report, it will be published within two months after the end of the reporting period.

27. We take note that, according to the World Bank's studies as well as Transparency International, Cameroon's rankings in doing business, governance and quality of institutions need to be improved. My authorities remain determined to strengthen governance and combat corruption in order to improve the business climate and the effective use of public resources. Already, the actions engaged in this area are starting to bear fruit. Furthermore, my Cameroonian authorities are committed to make operational the National Anti-Corruption Commission (CONAC) created in March 2006, and to take the measures necessary to enable the commission envisaged under the high public official asset disclosure framework to begin its work. Also, the authorities, in partnership with the private sector, are preparing a strategic plan for improving the business climate. This plan will give priority to addressing the main problems identified in the World Bank's 2006 "Doing Business" study, in particular, corruption, the lack of infrastructure, and the burdensome tax regime.

28. On the issue of competitiveness, my authorities are convinced that the weakening external competitiveness of the economy owes to a large extent to non-price factors, which in their view would be best addressed by the structural measures they are taking in the domains

of trade liberalization in the context of sub-regional integration, restructuring of public enterprises, governance and business climate.

Conclusion

29. My authorities have once again demonstrated their commitment to policies and reforms defined in the PRGF-supported program. There have been commendable achievements since the HIPC completion point. In particular, the actions engaged by my authorities to fight corruption will take time to yield the expected results. Nevertheless, the initial actions have started to bear fruit, and my authorities will pursue and strengthen them steadfastly. Their ownership of the needed measures in this area and others remain intact.

30. In view of the satisfactory fiscal performance in the first nine month of 2006, the broadly smooth implementation of the structural reform agenda, the overall satisfactory

31. program performance as reconfirmed in the most recent staff update, and the renewed commitments made by the Cameroonian authorities on policy and reform implementation for the period ahead, I will appreciate the Board's support for the completion of the second review under the PRGF for Cameroon. In addition, in light of the appropriate debt policies pursued by my authorities, including prudent borrowing policies and their good-faith efforts to reach agreements with the private holders of the country's debt, I also request the Board's support for the completion of the financing assurances review.