

International Monetary Fund

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Cameroon: Letter of Intent, Memorandum of Economic and Financial
Policies, and Technical Memorandum of Understanding

Press Release:
[IMF Executive Board
Completes First
Review
Under Cameroon's
PRGF Arrangement
and Approves US\\$3.9
million Disbursement](#)
April 28, 2006

April 5, 2006

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

April 5, 2006

Dear Mr. de Rato:

1. Throughout 2005, the government spared no effort in implementing measures aimed at fiscal consolidation and the deepening and acceleration of structural reforms. These efforts will be continued in 2006 in order to build on the satisfactory results obtained in 2005 and contribute effectively to the improvement of growth prospects with a view to sustainable poverty reduction in Cameroon.
2. The attached memorandum of economic and financial policies (MEFP), which supplements the MEFP attached to the letter of intent of October 13, 2005, reviews achievements in the first six months of implementation of the government's three-year program, supported by the International Monetary Fund under the Poverty Reduction and Growth Facility (PRGF). It also presents the government's economic policies and objectives for 2006.
3. Program implementation at end-December 2005 was generally satisfactory. Efforts to boost revenue and control expenditure led to the attainment of all of the country's fiscal objectives. Moreover, domestic debt payments greatly exceeded program targets, thanks to larger than expected oil revenues. In addition, all the performance criteria and structural benchmarks through end- January 2006 were observed. We therefore request the completion of the first review and the disbursement of the second loan under the arrangement in the amount of SDR 2.65 million.
4. The medium-term economic objectives remain consistent with the macroeconomic framework of the three-year program. To achieve them, the government intends to pursue fiscal consolidation, strengthen governance and the fight against corruption, improve the quality and effectiveness of public investment, and expedite structural reforms, especially in the public enterprise sector. On the fiscal side, the budget law approved by the National Assembly in December 2005 remains the cornerstone of the program for 2006. It calls for continued efforts to boost non-oil revenue by introducing new tax measures and strengthening public expenditure management. To enhance the impact of fiscal policy on economic activity and growth, the government took steps to improve the execution rate of capital expenditure. Government investment will increase significantly in 2006 and beyond

and allow for further progress toward poverty reduction and attainment of the Millennium Development Goals. Special emphasis will also be placed on infrastructure improvement and investment in human capital.

5. The government, aware of the importance of structural reforms in strengthening growth prospects and boosting efficiency in the use of public resources, remains committed to moving forward with initiatives undertaken in 2005 to reduce the government's role in the productive sector, especially with regard to enterprises whose financial problems weigh heavily on the government budget. Accordingly, the measures set out in the action plan for the privatization of CAMAIR and the ongoing reforms of CAMPOST, SNEC, CDC, CAMTEL, and SONARA will be actively pursued. To strengthen the impact of these measures and further improve the business environment, the government will adopt measures to combat corruption and strengthen governance. To this end, the authorities will place particular emphasis on continued reform of the legal system and implementation of the priority action plan of the revised National Governance Program. The government will also ensure that the principles of the Extractive Industries Transparency Initiative (EITI) are implemented in 2006.

6. Since Cameroon achieved the HIPC Initiative decision point, the authorities have spared no effort to implement measures identified as completion point triggers. As all these measures have now been implemented, the government is seeking the remaining financial assistance provided for under that initiative. It also requests multilateral debt relief under the Multilateral Debt Relief Initiative (MDRI). The government undertakes to adopt the measures necessary to ensure the efficient and transparent execution of poverty reduction expenditure financed with debt relief granted to Cameroon. This expenditure will be monitored in the context of the current consultation mechanism with Cameroon's donors.

7. The government of Cameroon believes that the economic and financial policies described in the attached MEFP, which I have the honor of forwarding to you, are adequate to achieve the objectives of its economic program for 2006. However, it will take any further measures that may become necessary for this purpose. The government will consult with the Managing Director of the IMF on the adoption of these measures before any revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultations. Finally, the government of Cameroon authorizes the IMF to make this letter and the attached MEFP available to the public.

8. The government will make every effort to ensure that the second review of the program, which will be based on the quantitative and structural performance criteria for end-June 2006, is completed by mid-November 2006.

Sincerely yours,

/s/

Inoni Ephraim
Prime Minister
Cameroon

Yaoundé, April 5, 2006

Memorandum of Economic and Financial Policies

I. INTRODUCTION

1. During 2005 the government of Cameroon implemented an economic and financial program designed to correct the macroeconomic imbalances of 2004 and strengthen the implementation of major structural reforms. In the second half of 2005 this program was supported by the International Monetary Fund (IMF) through an arrangement under the Poverty Reduction and Growth Facility (PRGF).
2. This memorandum presents the results obtained during the first six months of implementation of the government's PRGF-supported economic program. The actions taken under this program helped to consolidate achievements in the area of fiscal discipline, pave the way for streamlining the public enterprise sector, reduce the government's domestic debt, and strengthen governance. Some actions taken in these areas were among the measures Cameroon had pledged to adopt in order to reach the completion point under the Heavily Indebted Poor Countries (HIPC) Initiative.
3. This memorandum describes the economic objectives and policies for 2006 and complements the one adopted by the government in October 2005 (EBS/05/149). These objectives and measures are consistent with those identified in the medium-term framework of Cameroon's three-year program, based on the priorities of Poverty Reduction Strategy Paper (PRSP). The government regrets the delay in implementing the restructuring of the national postal services and savings bank (CAMPOST), which led to a reprogramming of the actions envisaged under the program. Drawing lessons from the broadly satisfactory results of program implementation thus far, the government intends to further strengthen the transparency dimension in budget execution and the implementation of the good governance framework.

II. RECENT ECONOMIC DEVELOPMENTS AND RESULTS

OF IMPLEMENTATION OF THE PRGF-SUPPORTED PROGRAM

4. Economic activity weakened in 2005 for the second consecutive year. Real GDP growth is estimated at 2.6 percent as compared with 3.7 percent in 2004. This slowdown is explained mainly by a decline in oil production and agro-industry output, as well as a considerable deceleration in forestry sector production. Furthermore, there was a modest acceleration in prices, reflecting in part the pass-through of the increase in world oil prices to domestic prices. Accordingly, average inflation reached 2 percent in 2005, compared with 0.3 percent in 2004. The external current account balance strengthened slightly in 2005,

reflecting an improvement in the terms of trade, which was dominated by the surge in oil prices.

5. Budget execution was satisfactory in 2005. The non-oil primary balance (program definition) turned from a deficit of 1.3 percent of GDP in 2004 to a surplus of 0.9 percent, owing to the ongoing efforts to strengthen revenue collection and contain nonpriority spending. Non-oil revenue grew from CFAF 942 billion in 2004 to CFAF 1,104 billion in 2005. Moreover, oil revenue increased substantially as a result of much higher international oil prices. This enabled the government to register an oil revenue windfall which it used to further reduce its domestic debt and clear arrears in the HIPC account arrears.

6. In order to strengthen the fiscal position, the government tightened expenditure control. As a result, nonpriority current expenditures declined in 2005. Priority expenditures—specifically, those financed by resources from HIPC Initiative debt relief—increased substantially in 2005, reaching 0.8 percent of GDP, compared with 0.5 percent of GDP in 2004. This increase mainly benefited basic infrastructure sectors, health and education. Domestically-financed investment slightly exceeded program projections. However, foreign-financed investment was well below the programmed level, mainly because of the lack of counterpart funds. Expenditures related to public enterprise restructuring were also below the programmed amount, owing in part to delays in the implementation of the social plans for the enterprises targeted by the program. Moreover, salary outlays were lower than expected, reflecting delays in regularizing the administrative status of some public sector employees.

7. Efforts to reduce domestic debt continued. In accordance with the commitments made under the program, domestic debt was reduced on the basis of the medium-term repayment plan finalized in October 2005. Payments under this plan reached CFAF 130 billion, or CFAF 18 billion above the floor defined in the program. These additional payments were financed largely by the higher than programmed oil revenue at end-September 2005, amounting to CFAF 11 billion, and by CFAF 3.2 billion in budgetary assistance from the European Union.

8. The benchmarks and performance criteria of the PRGF-supported program during July-December 2005 and January 2006 were observed. All quantitative performance criteria and benchmarks for end-December 2005 were met (Table 1). In particular, the floor on the non-oil primary balance was observed with a margin of CFAF 10 billion, and net bank credit to the central government was well below the targeted ceiling. The structural performance criteria and benchmarks up to January 2006 were also observed (Table 2).

9. With regard to public finances, the structural performance criterion for presentation to the National Assembly of the 2006 draft budget law in accordance with the program was observed. The budget was presented to the National Assembly within a reasonable time and was adopted in December 2005 as planned. The preparation of data to improve the monitoring of budget execution continued. Accordingly, data recapitulating the expenditure procedure continued to be produced regularly, and two reports on budget execution were

published at end-June and end-September 2005. In order to strengthen cash management, the government completed the process of establishing a single Treasury account at the Bank of Central African States (BEAC). To this end, 185 government accounts were closed, and their credit balances were transferred to the Treasury account.

10. The government took steps to establish a sound basis for further public enterprise restructuring. With regard to the state airline (CAMAIR), it adopted a privatization strategy in December 2005 and issued an invitation for prequalification bids to potential investors in January 2006. In addition, the terms of reference for the CAMAIR liquidator were prepared and transmitted to the World Bank. The modalities for establishing a public-private partnership for the water company (SNEC) were finalized. To that end, the government established an asset management company and an operating company for the public water utility. To identify potential partners, a call for expression of interest was published in January 2006. Moreover, a financial model for the determination of rates in that sector was developed. On the basis of this model, the government increased the water rates by 8 percent in November 2005. The process of restructuring the telecommunications sector and privatizing CAMTEL was marked by the adoption of a sectoral strategy. The government also began to implement the recommendations stemming from an audit of the Special Intercommunal Equipment and Loan Fund (FEICOM) conducted in May 2005. In this context, it established a provisional administration to implement the action plan resulting from the audit, and commissioned studies on reducing the costs and streamlining the staff of FEICOM. In the agro-industrial sector, the government adopted in October 2005 a strategy specifying the modalities for the privatization of the rubber tree and palm oil sectors of the agro-industrial complex (CDC). This strategy will be finalized following a round-table discussion in which the selected privatization scheme will be vetted with the private sector.

11. To restore the financial situation of the state oil refinery, SONARA, the government raised the prices of petroleum products by CFAF 5 per liter per month during the last quarter of 2005. At the same time, it observed the commitment made under the program to carry out budget transfers amounting to CFAF 16 billion.

12. Reforms in the financial sector continued. The government proceeded to draw up a list of microfinance institutions and to close in December 2005 those not licensed by the monetary authority. Nevertheless, delays were incurred in the restructuring of CAMPOST as the bidding process for the recruitment of a team of consultants turned out to be unsuccessful. Since the consulting firms which responded to the invitation for expression of interest did not prove credible in terms of their capacity to carry out the task effectively, the government, on the recommendation of the World Bank, issued a second invitation for expression of interest.

13. During the second half of 2005, the government took a number of steps to strengthen transparency and governance, namely: (i) the adoption of a priority action plan for 2006, based on the revised National Governance Program (PNG II) adopted in November 2005. This action plan and the PNG II document were disseminated on the government's website (www.spm.gov.cm); (ii) the finalization of the action plan aiming at the application of the principles of the Extractive Industries Transparency Initiative (EITI). The draft action plan

was disseminated to the media to solicit comments from the public at large and was the subject of a vetting seminar. In addition, quarterly data on the petroleum sector continued to be published on the websites of the state oil company Société Nationale des Hydrocarbures (SNH) (www.snh.cm) and the government; (iii) the establishment of a list of performance indicators designed to strengthen the monitoring of the public procurement system; and (iv) the launch of activities of the Audit Chamber of the Supreme Court with an examination of the management accounts of government accountants as of 2004, and those of the anti-money laundering agency (ANIF).

III. ECONOMIC AND FINANCIAL POLICIES FOR 2006

A. Macroeconomic Framework

14. The general economic situation is expected to improve in 2006 and the overall medium-term prospects remain broadly unchanged relative to the forecasts in the initial memorandum of economic and financial policies. In 2006, economic growth in the non-oil sector should be close to 4.1 percent, owing to the recovery of activity in the forestry sector and increased public investment. Growth in the oil sector should also improve as a result of expected new investment. For the period 2006-08, average growth in the non-oil economy should be around 4.6 percent per year and inflation should remain moderate. The external current account deficit (excluding grants) should be around 3 percent of GDP in 2008.

B. Fiscal Policy

15. Fiscal policy will aim at consolidating the results achieved in 2005, and continue to be directed towards the attainment of the medium-term program objectives. The non-oil primary balance should decline to 2.3 percent of non-oil GDP, owing largely to a rise in priority expenditure.

16. Non-oil revenue should stabilize at 12.2 percent of GDP, while oil revenue should register a strong upturn, on account of the expected production increase. The 2006 budget contains tax measures designed to broaden the indirect tax base, particularly for excise taxes, align the tax system more closely with CEMAC provisions on customs duties and indirect taxes, and improve the effectiveness of the tax system. Accordingly, the excise tax base was broadened, the minimum tax rate paid by enterprises not covered by the “régime réel” was raised, the property tax was restructured, and forestry taxation was modified to strengthen the measures used in the fight against illegal exploitation and to reduce the risks of fraud. In order to improve the value-added tax (VAT) management system, the government will ensure that VAT credits are refunded within the time limits provided by law.

17. Expenditure policy will remain prudent. Nevertheless, in order to strengthen poverty reduction efforts in line with the objectives outlined in the PRSP, the government budget envisages to increase total spending from 14.3 percent of GDP in 2005 to 16.9 percent in 2006, with more pronounced growth in capital expenditure. The government is of the view that making budget appropriations available very early in January 2006 will help to improve the execution rate of investment projects. It also intends to enhance the quality of projects

beginning with 2006 by systematically developing pre-execution projects. Current spending would increase from 11.8 percent to around 12.2 percent of GDP, partially reflecting additional poverty reduction expenditures financed by budgetary assistance from France under the *Contrats de désendettement et de développement* (C2D) debt initiative, and by financial assistance expected from multilateral creditors under the Multilateral Debt Relief Initiative (MDRI). Poverty reducing expenditures will increase from 5.3 percent of GDP in 2005 to 6.9 percent in 2006.

18. The government undertakes to maintain a prudent wage policy. Accordingly, the increase in the wage bill will not exceed 7.8 percent in 2006. It would reach CFA 446 billion, or 4.7 percent of GDP. This ceiling will allow for new recruitment in priority sectors, which will help improve, in particular, the provision of social services. Moreover, the government intends to continue strengthening the payroll management and monitoring systems. Preliminary studies conducted in 2005 revealed major irregularities in payroll procedures (ANTILOPE), the elimination of which would result in payroll savings. The government plans to expand these studies in 2006 and discuss their results with IMF staff. Furthermore, the work related to the development and implementation of a new payroll management software in the Ministry of the Economy and Finance started with the aim of having the new system operational in 2007.

19. The medium-term domestic debt and arrears repayment plan will continue to be implemented rigorously in 2006. In addition, the government undertakes to use any additional oil revenue to accelerate the reduction of the government's domestic debt. The debt agency Caisse Autonome d'Amortissement (CAA) will continue to provide coordination and monitoring of the payments made and consolidate the information relating thereto. The government undertakes to start repaying during 2006 the outstanding VAT credits not refunded at end-December 2005.

C. Monetary and Financial Sector

20. Monetary policy is carried out at the regional level. In 2006, a modest increase in net credit to the central government is envisaged, thus preserving the potential for private sector credit growth. Broad money will grow slightly faster than nominal GDP, in part because the expected increase in oil revenue will lead to a sharp expansion of foreign assets. The actions which began in 2005 to strengthen the financial system and deepen financial intermediation will be continued. Accordingly, in collaboration with the regional bank supervision agency, COBAC, the government will remain vigilant regarding the strengthening of supervision of microfinance institutions. Concerning the housing credit agency, a new management team was put in place in September 13, 2005 and an inspection mission by COBAC took place during October 19 to December 23, 2005 with the goal of evaluating the results of the first year of operation of the company since its restructuring. The government will undertake the necessary measures to implement the mission's recommendations. These include mainly the adoption of more transparent and effective management methods, the restructuring of the financial, accounting and information systems, and the strengthening of the system of internal controls.

21. With regard to CAMPOST, the difficulties described above in the recruitment process for a consulting team led to delays in attaining the program objectives. Furthermore, the preparatory work for the creation of a financial services subsidiary will require fulfillment of the conditions decreed by COBAC, namely, production of the company's financial statements and certified accounts for fiscal years 2004 and 2005, and a capital contribution totaling between CFAF 0.5 billion to CFAF 1 billion. The plan is for this preparatory work to be completed by December 2006.

D. External Debt

22. The government reaffirms its commitment to implement a prudent external debt management policy. During the second half of 2006 it will prepare, in consultation with IMF staff, a debt strategy comprising the following elements: (i) continuation of the policy of more frequent recourse to grants and concessional loans; (ii) preparation of regular analyses of the sustainability of external debt to ensure that new loans are compatible with external debt sustainability over the medium and long term; and (iii) payment of external debt service obligations within the agreed time limits to avoid the accumulation of external arrears. Furthermore, the government will continue its efforts to find a favorable solution to litigation pursued by some of its creditors. It will continue to negotiate in good faith with all creditors without losing sight of the principle of comparability treatment.

IV. STRUCTURAL POLICIES

23. The government is aware that attainment of the program's macroeconomic objectives requires the effective implementation of structural reforms. It will therefore pursue them in 2006, with a renewed focus on the strengthening of fiscal management, public enterprise restructuring, good governance, and transparency (Tables 2 and 4).

A. Public Finances

24. The government will maintain its commitment to strengthen the monitoring of public expenditure. It expects to improve the presentation of budget execution on a commitment, payment order, and cash bases in order to enhance the monitoring of priority spending. The government further undertakes to accelerate reforms relating to the monitoring of central government spending procedures up to the payment level using the functional classification. It will also continue to strengthen the existing overall and sectoral medium-term expenditure frameworks (MTEF) and their use in the budget preparation process during preparation of the 2007 draft budget law. Furthermore, it intends to prepare an action plan to improve the system of budget execution controls and the physical and financial monitoring of central government expenditure. The government is aware that observance of the budget preparation timetable is essential for addressing the problems identified during budget implementation. Accordingly, it plans to distribute the budget preparation timetable by end-May 2006.

25. On the basis of the recommendations resulting from the survey in the monitoring of budget execution and assessing beneficiary satisfaction, the government began in 2005 to post the lists of projects in administrative divisions. The list of the 2006 budget projects is

already posted. In order for beneficiaries to participate effectively in monitoring the projects, the government intends to institute periodic reviews of budget execution in partnership with civil society and representatives of the beneficiaries (deputies, municipal councilors) in the administrative departments in which the lists are posted. The departmental comptrollers will transmit reports based on these reviews to the Minister of Finance, who will publish a summary report covering the physical and financial execution of the projects. To this end, the government plans to prepare and distribute by end-April 2006 the standard format of the reports that will be used in the 2006 budget assessment. These reviews will also focus on foreign-financed investment projects. Concerning projects financed by HIPC resources, the government intends to operationalize the special task force to monitor expenditure execution.

26. The government intends to strengthen implementation of the public procurement reform in Cameroon. It intends to: (i) develop a national strategy for strengthening public procurement capacity; (ii) design and install in 2007 a computerized system for the planning, execution, monitoring, and control of public contracts and make it accessible to the public via the Public Procurement Regulatory Agency (ARMP) website; and (iii) assess, on an annual basis, the reliability and performance of the national procurement system, using a set of performance indicators defined in collaboration with the World Bank. In addition, the government intends to impose penalties on violations in the public procurement system. In this context, it will ensure effective application of the statute barring any individual or legal entity from bidding in the event of proven infractions committed during a procurement phase. To this end, it undertakes to publish systematically the penalties imposed in the context of the fight against corruption, such as legal proceedings and sanctions against offenders.

27. With regard to revenue, the government intends: (i) to prepare a note outlining the options for improving the personal income tax (IRPP) yield based on data collected from enterprises by March 2006; (ii) operationalize the tax centers for small and medium-sized enterprises in Yaoundé and Douala by July 31, 2006; (iii) extend implementation of the Automated System for Customs Data (SYDONIA) to the customs sectors of Littoral province (which accounts for 95 percent of customs revenue) by December 31, 2006; and (iv) eliminate the “minimum administrative values” by June 2007 and begin taxing imported goods on the basis of CEMAC customs valuation rules.

B. Public Enterprise Restructuring

28. The government intends to pursue the actions under way to reduce the role of government in the productive sector. To this end, the timetable for privatization of the state airline (CAMAIR) and other measures to restructure the public enterprise sector will be carried out as planned, and the cost of these operations will be covered by the budget resources provided for that purpose, in consultation with IMF and World Bank staff. The efforts to contain CAMAIR operating costs will continue along with the actions planned for its privatization. In this connection, a liquidator will be appointed by end-March 2006 as planned. As to the state telecommunications company, CAMTEL, following consideration of the status of the privatization process and the recommendations of the Government Council concerning this transaction, the company’s offer for sale remains scheduled for June 2006 as

planned. A social plan for CAMTEL is scheduled to be adopted in May 2006 and implemented by end-July 2006. The privatization process for CAMTEL will take place in line with the strategy adopted in December 2005 by agreement with the World Bank. The call for bids for the leasing of the water company (SNEC) will be issued at end-July 2006 in accordance with the strategy adopted by the government.

29. The policy of adjusting the prices of petroleum products, which began in 2005, will be continued as described in paragraph 38 of the memorandum of economic and financial policies of October 13, 2005 (IMF Country Report No. 05/413). In particular, the government will adjust the retail prices of petroleum products to reflect changes in international prices. The price of domestic natural gas will be raised on a quarterly basis to further reduce cross subsidies between fuels and domestic natural gas.

30. The government intends to pursue the implementation of measures to bolster the financial position of SONARA, as described in paragraph 38 of document IMF Country Report No. 05/413. The government will conduct an audit of SONARA operations before end-April 2006 in order to ascertain the economic costs of the refinery in its current configuration, seek ways to ensure its medium-term viability, and attract private investors in the modernization of this strategic production facility. By end-June 2006 the government will adopt an action plan to expedite the company's reorganization, based on the audit recommendations. The implementation of this plan will get under way by end-July 2006.

C. Transparency, Governance, and the Business Climate

31. The government intends to strengthen its program to promote transparency in government budget execution; accordingly, the following documents will be published on the government's website (www.spm.gov.cm): (i) the EITI conciliator's report on oil revenue for 2001-2004 before end-October 2006; (ii) the quarterly report on execution of the overall government budget (within two months following the end of the quarter); (iii) the quarterly report on investment budget execution (within two months); and (iv) the principal financial data on the 20 public enterprises selected by the government for regular monitoring of their activities (on an annual basis, end-June publication).

32. The government remains determined to strengthen governance and combat corruption in order to improve the business climate and the effective use of public resources. It intends to pursue the ongoing judicial reform and plans to implement the following measures to enhance the effectiveness of the judicial system: (i) submission to Parliament of the drafts on the organization of the judiciary and the organization and strengthening of the Supreme Court, the lower courts in contentious administrative matters, and the lower audit offices for government finances; and (ii) strengthening, as from August 2006, the collegial administration in commercial matters before the courts of major jurisdiction of Wouri (Douala) and Mfoudi (Yaoundé). The government further undertakes to translate into English and publish the Uniform Acts of the Treaty on the Harmonization of Business Law in Africa (OHADA Treaty) in the Official Gazette. It also plans to strengthen the system to monitor enforcement of the code of criminal procedure, step up oversight of the courts, and publish

on the government's website (www.spm.gov.cm) the criminal code, court decisions and disciplinary sanctions related to the fight against corruption.

33. The implementation of EITI principles will be effective in 2006. The government will ensure the implementation of the action plan prepared in 2005 by the EITI Committee. In particular, it will proceed with recruitment of the data conciliator and the publication of the conciliator's report for 2001-2004 at end-October 2006. Moreover, the preparation of the SNH annual audits will continue, with the publication at end-September 2006 of the 2005 audit of operations. Information on SNH operations, including total oil production, selling prices, and oil revenue received by the Treasury, will continue to be published on the SNH website (www.snh.com) on a quarterly basis.

34. The government will take steps to improve the business climate. By October 30, 2006, it will prepare, in partnership with the private sector and with the assistance of the World Bank, a strategic plan for strengthening the business environment based on the business climate survey results, which are expected in June 2006.

D. Forestry Sector

35. In order to foster sustainable development in the forestry sector and improve revenue collection, the government intends to clarify the respective roles and responsibilities, as well as the relationships, between the Ministry of Economy and Finance (Directorate-General of Taxes, Directorate-General of Customs) and the Ministry of Forests and Wildlife, and to establish a computerized link between the automated management system (SIGIF) at the Ministry of Forests and Wildlife and the fiscal receipts monitoring software at the Ministry of Economy and Finance. This measure is essential to restore the capacity to monitor sectoral economic data and control the tax base. The government undertakes to continue to combat illegal logging via the following measures: (i) the withdrawal of all tax provisions that might contribute to the legalization of fraudulent forestry operations and effective enforcement of the article in the general tax code which provides a penalty of 400 percent on forestry operators unable to document payment of domestic logging taxes, without prejudice to timber seizures; (ii) the adoption during the second half of 2006 of a system to track timber from the forest to the port; (iii) the installation in the Ministry of Justice and the Ministry of Economy and Finance, at end-June 2006, of a management and monitoring system for forestry infractions and disputes (SIGICOF), already in place at the Ministry of Forests; and (iv) the quarterly publication of the outcomes of these disputes. The government also intends to repay the government arrears to the staff of the former National Office of Forestry Development (ONADEF) during the first half of 2006.

E. Statistical Data and Technical Assistance

36. The government intends to take full advantage of the technical assistance provided by the IMF during the first quarter of 2006 to reduce delays in the production of balance of payment statistics and improve their quality. It also plans to increase available material and

human resources in the departments responsible for gathering and processing foreign trade data.

V. HIPC INITIATIVE COMPLETION POINT

37. The government believes that all the measures required for Cameroon to reach the enhanced HIPC Initiative completion point were implemented in a satisfactory manner. In addition, the government updated sectoral policies in the key social sectors and proceeded with updating the PRSP. Reaching the enhanced HIPC Initiative completion point will enable Cameroon to benefit from the remaining amount of HIPC debt relief, determined at the time when the country reached the decision point under this initiative; debt relief by the IMF, the International Development Agency (IDA) and the African Development Fund (AfDF) under the MDRI; and additional relief from Cameroon's bilateral partners. The debt sustainability analysis shows that these measures will reduce Cameroon's external debt to sustainable levels.

38. The government intends to use the resources stemming from these initiatives to strengthen spending that will contribute to the implementation of the PRSP. In order to ensure effective and transparent use of these resources, the government undertakes to improve the current system of managing the use of HIPC resources in collaboration with donors. Accordingly, it will continue to deposit the proceeds of HIPC debt relief into the HIPC account at the BEAC. The government will also open an account at the BEAC to deposit the resources stemming from debt relief under the MDRI. It will closely monitor related expenditures, using the functional classification of public spending.

VI. PROGRAM MONITORING

39. In 2006 program monitoring will be based on the performance criteria and quarterly quantitative and structural benchmarks shown in Tables 1-4. The government will communicate to the IMF the information required for program monitoring consistent with the Technical Memorandum of Understanding prepared in the framework of the three-year program approved by the IMF Executive Board on October 24, 2005 (attached to IMF Country Report No. 05/413).

Table 1. Cameroon: Quantitative Performance Criteria and Benchmarks during the First Year of the PRGF-Supported Program
(In billions of CFA francs; cumulative from July 1, 2005, unless otherwise indicated)

	End-Sep. 05					End-Dec. 05					End-Mar. 06	End-Jun. 06
	Indicative targets	Adjustor	Adjusted target	Outturn	Status	Performance criteria 15/	Adjustor	Adjusted target	Outturn	Status	Quantitative benchmark	Performance criteria 15/
Ceiling on the increase in net claims of the banking system on the central government 1/	44	-20	23	29	not met	97	-53	44	-39	met	56	80
Floor on the non-oil primary budget balance 2/	0	-2	-2	-5	not met	-14	-2	-16	-6	met	41	38
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	0	0
Ceiling on new medium- and long-term non-concessional external debt contracted or guaranteed by the central government 3/ 5/ 6/	0	none	0	0	met	0	none	0	0	met	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 3/ 5/ 7/	0	none	0	0	met	0	none	0	0	met	0	0
Floor on non-oil revenue of the central government 8/	252	none	252	255	met	513	none	513	530	met	829	1110
Ceiling on spending on goods and services 9/	76	none	76	73	met	155	none	155	151	met	237	336
Ceiling on cash spending by SNH 10/												
Payments on account of the government (interventions directes)	20	none	20	18	met	30	none	30	24	met	30	30
Other operating costs (autres charges)	8	none	8	4	met	16	none	16	6	met	21	25
Floor on reduction of domestic debts 11/												
Structured debt	46	none	46	56	met	65	none	65	70	met	104	133
Non-structured debt	30	none	30	29	not met	47	none	47	59	met	82	113
Floor on the replenishment of the HIPC account 12/	23	none	23	26	met	47	none	47	55	met	67	82
Floor on payments to utility companies 13/												
SNEC	1.8	none	1.8	2.0	met	3.5	none	3.5	3.7	met	5.5	7.5
AES SONEL	1.5	none	1.5	2.0	met	3.0	none	3.0	3.5	met	4.8	6.5
CAMTEL	3.0	none	3.0	3.0	met	6.0	none	6.0	6.0	met	9.3	12.5
CAMRAIL	1.0	none	1.0	1.0	met	2.0	none	2.0	2.0	met	3.0	4.0
SONARA	1.5	none	1.5	1.5	met	3.0	none	3.0	3.0	met	4.5	6.0
Memorandum items (non-cumulative)												
Oil revenue	102			113		113			147		112	134
Oil windfall profit	...			11		...			45	
Assumed external debt relief	35			38		70			79		33	114
External program financing	0			0		24			8		0	11
of which: IMF (disbursement)	0			0		2			2		0	2
Privatization proceeds	0			0		0			0		0	0
Stock of net bank credit to the central government 14/	392			377		445			309		405	428

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/ In 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 spending.

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

11/ Defined in paragraphs 6-8 of the TMU.

12/ Defined in paragraph 15 of the TMU.

13/ Defined in paragraph 16 of the TMU.

14/ Excluding HIPC and C2D accounts.

15/ 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 payments.

Table 2. Cameroon: Structural Performance Criteria and Benchmarks for the First Year of the Program

Target	Status
Structural performance criteria	
Submission to Parliament of the 2006 budget law consistent with the program and adoption by end-December 2005.	Met
Adoption of privatization strategy of CAMAIR by end-December 2005 and launching of invitations for bids by 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 for priority sectors (monitored on a continuous basis).	Met
Completion of the single Treasury account by limiting sovereign accounts in commercial banks to one account per entity and closing all other accounts (with the exception of project-related and debt payment-related accounts of the CAA, and accounts of court clerks needed in the context of court proceedings) by end-December 2005.	Met
Launching of the invitation for bids for the management contract of the public-private partnership for SNEC by end-July 2006.	
CAMPOST	
Recruitment of a management contract team for CAMPOST by end-February 2006.	Delayed
Completion of preparatory work to establish a financial subsidiary by end-June 2006.	

CAMTEL	
Finalization and adoption of privatization strategy of CAMTEL by end-December 2005, based on the sectoral strategy on telecommunications finalized by end-October 2005.	Met
Offering the company for sale by end-June 2006.	
Petroleum products	
Adjustment of retail fuel prices as agreed with Fund staff (continuous basis).	Met
Subsidy payments to SONARA as agreed with Fund staff (continuous basis).	Met ¹
Completion of licensing process for microfinance institutions by end-October 2005 and closure of all institutions without license by end-2005.	Met
Finalization of the update of the National Governance Program by end-November 2005.	Met

¹ The subsidies programmed for end-October were paid in mid-December 2005.

Table 3. Cameroon: Indicative quantitative targets for July-December 2006
(In billions of CFA francs; cumulative from July 1, 2006, unless otherwise indicated)

	End-Sep. 06 Indicative targets	End-Dec. 06 Indicative targets 15/
Ceiling on the increase in net claims of the banking system on the central government 1/	-26	-27
Floor on the non-oil primary budget balance 2/	3	-15
Ceiling on the accumulation of external payments arrears of the central government 3/ 4/ 5/	0	0
Ceiling on new medium- and long-term non-concessional external debt contracted or guaranteed by the central government 3/ 5/ 6/	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 3/ 5/ 7/	0	0
Floor on non-oil revenue of the central government 8/	280	563
Ceiling on spending on goods and services 9/	92	182
Ceiling on cash spending by SNH 10/		
Payments on account of the government (interventions directes)	0	0
Other operating costs (autres charges)	5	9
Floor on reduction of domestic debts 11/		
Structured debt	37	66
Non-structured debt	17	33
Floor on the replenishment of the HIPC account 12/	15	31
Floor on payments to utility companies 13/		
SNEC	2.0	4.0
AES SONEL	1.8	3.5
CAMTEL	3.3	6.5
CAMRAIL	1.0	2.0
SONARA	1.5	3.0
Memorandum items (non-cumulative)		
Oil revenue	136	136
Oil windfall profit
Assumed external debt relief	1	1
External program financing	0	16
of which: IMF (disbursement)	0	0
Privatization proceeds	0	0
Stock of net bank credit to the central government 14/	402	401

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/ In 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, C2D and MDRI spending.

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

11/ Defined in paragraphs 6-8 of the TMU.

12/ Defined in paragraph 15 of the TMU.

13/ Defined in paragraph 16 of the TMU.

14/ Excluding HIPC and C2D accounts.

15/ The following could be quantitative benchmarks for end-December 2006: floor on non-oil revenue; ceiling on goods and services spending; ceiling on SNH spending; and floors on utility payments. The other targets for end-December 2006 could be quantitative performance criteria.

Table 4. Cameroon : Structural Benchmarks and Proposed Structural Conditions for the Second Half of 2006¹

Target	Date
Public finances	
Prepare and implement measures to improve the execution oversight system and physical and financial monitoring of central government expenditure.	July 31, 2006
Complete reform of the monitoring of the central government expenditure procedure, using functional classifications up to the payment level; prepare a table relating thereto.	December 31, 2006
Extend the Automated System for Customs Data (SYDONIA) to the customs sectors of Littoral province (accounting for 95 percent of customs revenue).	December 31, 2006
Prepare consistent monthly budget execution tables on a payment order and cash basis and a monthly expenditure table broken down by economic function to monitor spending for priority sectors. ²	Continuous basis
Adjust the retail prices of petroleum products and pay subsidies to SONARA as agreed with Fund staff. ²	Continuous basis
Transparency and governance	
Publish the report of the Extractive Industries Transparency Initiative (EITI) conciliator on oil revenue for 2001-2004 on the website www.spm.gov.cm .	October 30, 2006
Publication of the quarterly report on execution of government budget within two months following the end of the quarter	Two months following the end of the quarter
Publish judicial decisions and sanctions aimed at combating corruption on the website www.spm.gov.cm . ²	Continuous basis
Public enterprise restructuring	
CAMTEL	
Implement the social plan adopted in May 2006. ²	July 31, 2006
SNEC	
Launching of the invitation for bids for the management contract of the public-private partnership for SNEC. ²	July 31, 2006
CAMPOST	
Finalize the preparatory work for the establishment of a financial subsidiary.	December 31, 2006

¹ See TMU for details.

² Structural benchmark.

Addendum to the Technical Memorandum of Understanding

1. This addendum supplements the Technical Memorandum of Understanding of October 13, 2005 (IMF Country Report No. 05/413).

2. The period of application of the Technical Memorandum of Understanding of October 13, 2005 is extended to December 2006. The memorandum is amended as follows for the period beginning July 2006 through end-December 2006.

3. The following paragraph replaces paragraph 5:

“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 relief in the form of rescheduling, forgiveness, restructuring or grants under the Heavily Indebted Poor Countries (HIPC) Initiative, the Multilateral Debt Relief Initiative (MDRI), and bilateral initiatives.”

4. The following is added at the end of paragraph 7:

“Debt on refunds of value-added tax (VAT) credits as at end-June 2006 will be included in the stock of nonstructured debt by July 15, 2006.

5. The following paragraph replaces paragraph 20:

“20. The floor on the non-oil primary balance will be adjusted:

- upward by the amount of lower-than-programmed receipt of budget support grants (excluding the EU-funded grants earmarked to domestic debt payments for an amount of CFAF 12.9 billion);
- upward by the amount of lower-than-programmed transfers made to SONARA.”

6. The following paragraph replaces paragraph 21:

“21. 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; the revision upward will be capped at 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).”

7. The following paragraph replaces paragraph 24:

“24. Exchange rates to be applied for the conversion of amounts in SDR or U.S. dollars are US\$1.4525 per SDR and CFAF 542.79 per U.S. dollar for the third quarter of 2005, US\$1.4540 per SDR and CFAF 541.55 per U.S. dollar for the fourth quarter of 2005, US\$1.4544 per SDR and CFAF 541.44 per U.S. dollar for the first quarter of 2006, US\$1.4554 per SDR and CFAF 541.13 per U.S. dollar for the second quarter of 2006, US\$1.4329 per SDR and CFAF 553.874 per U.S. dollar for the third quarter of 2006, and US\$1.4330 per SDR and CFAF 553.458 per U.S. dollar for the fourth quarter of 2006. Liabilities to the IMF, which are included in the definition of net claims on the government by the banking system, 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 at the BEAC, and to a similar adjustment of the ceiling on net claims on the Government by the banking system.”

8. The following paragraphs will be inserted after paragraph 34:

“34a. The benchmark on the completion of the reform for tracking the government expenditure process until the payment stage, with a breakdown by function, will be considered observed if by end-December 2006 (i) tables are produced indicating the amount of allocations, commitments, payment orders, and payments broken down by function, and if (ii) these tables are consistent with the TABORD and the expenditure tracking tables broken down by chapter and account.

34b. The benchmark on the application of the Automated System for Customs Data (SYDONIA) to the customs sectors of Littoral province will be considered observed if by end-December 2006 the customs offices in the Littoral province sectors are using SYDONIA to record all import and export activities and to manage all duties and taxes collected by Customs.

34c. The benchmark on the preparation and implementation of an action plan to improve the government expenditure control and physical/financial expenditure tracking system will be considered observed if by July 31, 2006 (i) a technical memorandum is prepared by the Ministry of Economy and Finance detailing the weaknesses of the current system for internal control of expenditure execution, taking into account the work done on the “public finance platform”; (ii) an action plan based on this memorandum proposing measures to strengthen the physical/financial tracking of expenditure is adopted by the government; and (iii) among these controls, a standard form is prepared and provided to administrative units to collect data for the physical/financial tracking of projects.

34d. The benchmark on the preparation of monthly budget execution tables will be considered observed if by the 25th of the month following the reporting month, the following are sent to the IMF: (i) the TABORD, the Treasury balances, and the

expenditure tracking tables broken down by chapter and account and by function (to the payment order level and for central services only); (ii) the TABORD contains an annex showing payment orders and payments broken down by economic function (for the central services 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.

34e. The benchmark on the implementation of the social plan for CAMTEL to be adopted in April 2006 will be considered observed if as of end-July 2006 all lay-offs and reassignments included in the social plan for CAMTEL have been completed, the related compensation and benefit payments have been made, and the persons concerned no longer work for CAMTEL.

34f. The benchmark on the finalization of the preparatory work for the establishment of a financial subsidiary of CAMPOST will be considered observed if at end-December 2006 (i) the following tasks have been completed and their results have been adopted by the government: draft legislation; list of shareholders and directors; proposed activities, establishment, and organization; financial statements and accounts audited by the external auditors and adopted by the Board of Directors and Annual General Meeting; and (ii) the capital of the financial subsidiary is ready to be paid up in accordance with COBAC standards.”