

International Monetary Fund

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

Press Release:

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Completes Second
Review
Under Cameroon's
PRGF Arrangement
and Approves US\\$4
million Disbursement](#)
December 22, 2006

December 6, 2006

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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).¹ Nonoil revenues will remain at programmed levels. Primary expenditure

¹ 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 (EBS/05/149). 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 SONEL	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 (EBS/06/53).

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
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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
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Publication of the report of the EITI conciliator on oil revenues for 2005 on the website www.spm.gov.cm .	March 31, 2007
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Publication of the quarterly report on execution of the government budget.	Two months after the end of the quarter
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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
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Financial Sector

Completion of the preparatory work by the government for the establishment of a financial subsidiary for CAMPOST. (Performance Criterion)	June 30, 2007
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Public Enterprise Reform

Launching of the invitation for bids for the privatization of CAMTEL. (Performance Criterion)	March 31, 2007
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Launching of the invitation for bids for the management contract of the public-private partnership for SNEC.	March 31, 2007
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**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.

Concessional 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" (SM/96/86), 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 concessional, 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