

## International Monetary Fund

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Policies, and Technical Memorandum of Understanding

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The following item is a Letter of Intent of the government of Cameroon, which describes the policies that Cameroon intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Cameroon, is being made available on the IMF website by agreement with the member as a service to users of the [IMF](#) website.

November 29, 2007

Mr. Dominique Strauss-Kahn  
Managing Director  
International Monetary Fund  
700 19th Street, N.W.  
Washington, D.C. 20431  
U.S.A

Dear Mr. Strauss-Kahn:

1. During the first half of 2007, the government continued its efforts to consolidate the macroeconomic framework and implement structural reforms in the context of its economic program supported by the International Monetary Fund (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 results already obtained and combat poverty more effectively, while improving prospects for growth. The recent cabinet reshuffle reflects the government's strengthened commitment to accelerating economic growth and improving the living conditions of the population.
3. The government's efforts to pursue fiscal consolidation during the period spanning January to June 2007 enabled it to meet most of the program's quantitative criteria and benchmarks at end-June 2007.
4. The implementation of structural reforms in the areas of public finance and transparency also moved forward. In particular, court decisions and administrative sanctions issued against civil servants in the context of the anti-corruption campaign were published on the Prime Minister's web site ([www.spm.gov.cm](http://www.spm.gov.cm)). The second report prepared in the context of the Extractive Industries Transparency Initiative (EITI), covering 2005, was also published on the government's website.
5. Delays occurred in other areas, however, particularly in the financial sector, the civil service, and public enterprises. The government took all measures necessary to compensate for these delays, but nonetheless a waiver is requested for the nonobservance of the performance criterion related to the preparatory work for the establishment of a financial

subsidiary for CAMPOST. This process has proven more complex than expected, given the legal status of CAMPOST and the nature of its activities.

6. The government is aware of the importance of improving the business climate and, in particular, access to credit to boost economic growth and sustainably reduce poverty. To this end, it prepared a business plan evaluating the different options for expanding the financial services offered by CAMPOST throughout the country and is committed to continuing its close supervision of this institution's financial activities to protect its customers' savings.

7. The macroeconomic policies and objectives for the third 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 May 29, 2007. It evaluates the implementation of the government's economic program during the first half of 2007, and presents the economic policies and objectives for the period spanning July 2007 to June 2008.

8. For purposes of the execution of its economic and financial program, the government has set ambitious medium-term objectives, consistent with the macroeconomic framework of the three-year program. In this context, particular emphasis will continue to be placed on enhancing fiscal management, mobilizing nonoil revenues, fighting corruption, and improving the quality of public investment.

9. The government is convinced that the economic and financial policies described in the attached MEFP will help to achieve the objectives of its July 2007-July 2008 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 on the adoption of these measures and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultations.

10. The government will take all necessary measures to ensure that the fifth program review is completed by May 2008 at the latest. This review will be based on the quantitative and structural performance criteria at end-December 2007.

11. Given the results obtained to date and the commitments undertaken in the Memorandum of Economic and Financial Policies, the government requests that the fifth disbursement under the arrangement, an amount equivalent to SDR 2.65 million, be made available upon completion of the fourth review.

12. Finally, the government of Cameroon authorizes the IMF to make this letter and the attached MEFP available to the public.

Sincerely yours,

Inoni Ephraim  
Prime Minister and  
Head of Government

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

**ATTACHMENT I****REPUBLIC OF CAMEROON****Memorandum of Economic and Financial Policies**

Yaoundé, November 29, 2007

**I. INTRODUCTION**

1. In the first half of 2007, the government pursued its efforts to improve budget management and transparency. The implementation of structural reforms was mixed, however: progress was made in strengthening budget management, but delays occurred in financial sector, civil service, and public enterprise reforms. This memorandum reviews the achievements during the January-June 2007 period of the three-year program supported by the IMF under the PRGF and describes the economic and financial objectives and policies for the July 2007 to June 2008 period.

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

2. Nonoil GDP growth in 2006 was revised downward to 2.9 percent following, among other things, the disappointing performance of industrial export crops, agro-industry, and other manufacturing industries, which were adversely affected by the slowdown in the production of cotton and related products (oil, fabrics) due to declining yields. Growth in agro-industry was also hindered by the decline in sugar production. The external current account improved, with stronger imports being offset by oil and nonoil exports. Nonoil exports were partially driven by an accumulation of non-exported timber in 2005.

3. Despite strong growth in net foreign assets in the first half of 2007, monetary growth was contained thanks to a reduction in government liabilities to the banking system. Private sector credit growth continued to slow, the repayment of government arrears enabling the private sector to reduce their outstanding credit to banks and self-finance their operations. Inflation continued its decline as a result of more moderate fuel price increases and reduced taxation of certain essential goods.

4. The overall fiscal surplus was higher than projected in the first half of 2007, despite a revenue shortfall, reflecting lower-than-projected spending. As a result, most quantitative targets for end-June 2007 were met. Nevertheless, shortfalls were recorded in nonoil revenues, because both taxes on international trade and nontax revenues fell short of expectations, due to reduced taxation on some imported goods and delayed payments of dividends. Investment execution was mixed: although domestically-financed investments were close to the budget target, foreign-financed and MDRI/HIPC investments were significantly lower than budgeted due to delays in project planning and preparation.

5. Structural reform implementation in the period January-June 2007 was mixed:
- **Public finance.** The performance criterion for end-June on the interconnection between the IT systems of the General Directorates of the Budget and the Treasury was observed.
  - **Financial sector.** Preparatory work to establish the financial subsidiary of CAMPOST (performance criterion) was not completed, as this process proved more complex than expected, given the legal status of CAMPOST and the nature of its activities. In order to complete this reform, the accounts for the 2004-2005 fiscal years were produced in October 2007, those for the 2006 fiscal year in November 2007; and the draft business plan for CAMPOST financial activities was prepared in November 2007.
  - **Civil service.** The new payroll records have already been used to: (i) calculate the cost of salary adjustments; and (ii) assess the wage arrears stemming from past unpaid promotions. There was a delay in observance of the benchmark on the preparation of a preliminary diagnostic study of the civil service remuneration system (salaries and benefits). The benchmark related to the harmonization of civil service personnel records was observed at 26 ministries, but SIGIPES (Automated Integrated Management System) was not installed in 14 ministries due to the government's decision to change the technology to be used. Contracts for procuring the required equipment were awarded and deliveries are expected from December 2007. User training at the 24 SIGIPES sites will be completed in March 2008.
6. The government continued to implement transparency-enhancing measures, but delays have been experienced in meeting some of the anticorruption commitments:
- **Publication.** The quarterly budget execution reports, the quarterly operating reports of the national oil company (SNH), and the annual financial aggregates of the main public enterprises were published. Statistical data and debt analyses were published on the CAA (National Amortization Fund) website ([www.caa.cm](http://www.caa.cm)). Judicial decisions and administrative penalties against government employees as part of the anti-corruption campaign were also published on the Prime Minister's website ([www.spm.gov.cm](http://www.spm.gov.cm)). The second report under the Extractive Industries Transparency Initiative (EITI) covering 2005 was also published on the government's website.
  - **Fight against corruption.** The National Anti-Corruption Commission (CONAC), established in March 2006, began operations in March 2007 following the appointment of its chairman and members. It has already conducted its first investigations in Douala and Yaoundé. However, the Commission planned as part of the implementation of asset disclosure by senior government officials has not yet

begun its activities, as the implementing regulations under the law have not yet been adopted.

### **III. ECONOMIC AND FINANCIAL POLICIES FOR 2007 AND 2008**

#### **A. Macroeconomic Framework**

7. The economic outlook should improve in 2007 and 2008, partly due to the beneficial impact of external debt relief under the HIPC Initiative and the MDRI. Nonoil real GDP growth is projected to about 3.4 percent in 2007 and 4.5 percent in 2008, mainly as a result of the recovery in the agriculture and service sectors and increased public investment. The inflationary pressures evident in 2006, driven mainly by higher oil prices, should ease in 2007, but could re-emerge in 2008 if the prices of food imports remain high.

#### **B. Fiscal Reforms and Fiscal Policy**

8. Overall, the main fiscal objectives of the 2007 program remain unchanged. Projected oil revenues will exceed the programmed level by CFAF 60 billion.<sup>1</sup> In light of the underperformance of nonoil revenues during the first half of the year, the government redoubled its efforts to improve revenue administration by enhancing ex post controls and stepping up the fight against smuggling. Projected nonoil revenues were nonetheless revised downward due to the lower-than-expected nonoil GDP.

9. The draft 2008 budget is part of a medium-term fiscal strategy of increasing priority spending to accelerate growth and poverty reduction while preserving macroeconomic stability. The government is aware that observance of the budget preparation timetable is essential for improving budget execution. Accordingly, it plans to present the draft 2008 budget to Parliament within the period prescribed in the Cameroonian Constitution (benchmark).

10. Total revenue (excluding grants) in 2008 should fall by 0.2 percent of GDP in comparison with 2007, on account of a decline in oil revenues (0.5 percent of GDP), which reflects an increase in production costs, which will be only partly offset by the improved mobilization of nonoil revenue. In order to improve the administration of the value-added tax (VAT), the government will continue to ensure that VAT credits are refunded within the time limits provided by law.

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<sup>1</sup> The program's approach of using conservative oil price projections is maintained; oil prices have been estimated at a constant prudence factor of US\$7 per barrel below the IMF's World Economic Outlook (WEO) projections (excluding the US\$3 per barrel discount on Cameroonian crude).

11. The mobilization of nonoil revenue is a major challenge for Cameroon. To achieve its revenue targets, the government is committed to accelerating the implementation of several administrative measures: (i) streamlining of taxpayer identification, reforming the single taxpayer identification number (IDU), and safeguarding the single taxpayer file will be completed by end-December 2007 (benchmark); (ii) the implementation of a tax-related information management software (AREN) will also be completed by end-November 2007; and (iii) by end-December 2007, the number of taxpayers covered by tax centers in Yaoundé and Douala for medium-sized enterprises will grow by some 40 percent compared with the tax rolls as at January 1, 2007, and by 45 percent at end-June 2008; and (iv) the number of tax centers for small taxpayers will be reduced with the establishment of initial experimental pilot sites in Yaoundé and Douala by end-March 2008.

12. Should administrative measures prove insufficient to mobilize nonoil revenue, the government will take additional steps (including at the tax policy level) to achieve the program's revenue targets. The following tax measures could be considered: (i) reduction of the 30 percent wage allowance to 20 percent and limiting it to the first CFAF 5 million; (ii) limiting exemptions for interest income to one account per taxpayer; (iii) taxing all in-kind benefits at their market value or at the cost of the employer providing them; and (iv) suspending tax exemptions that breach CEMAC rules.

13. As part of the 2007 budget, the following tax measures aimed at stimulating investment and reducing the impact of price increases on consumer purchasing power were implemented: a reduction, for a maximum of three years, in 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; exemption from registration fees of share certificates and transactions on the stock market; a reduction in the CET applicable to capital goods for the agriculture, livestock farming, fisheries, industry, tourism, handicrafts, and energy sectors from 10 to 5 percent; and the decategorization of some imported goods by reducing the CET from 20 and 10 to 5 percent. To preserve the tax base, the government will refrain from introducing new tax exemptions or incentives that would result in a revenue loss, that are not well-targeted, or that would introduce economic distortions until a diagnostic study is conducted on the budgetary impact of existing exemptions and the options for streamlining the current system.

14. Finally, in April 2007, the government created a commission to review domestic and foreign trade taxation, in an effort to improve the mobilization of nonoil revenue. This commission, comprised of government departments, economic operators, and civil society, will submit a summary report on its work and recommendations by end-December 2007. Based on that report, a medium-term taxation reform plan will be adopted during the first half of 2008. The objective of this plan is to improve the fairness and efficiency of the

current tax system and mobilize nonoil revenue. The first round of reforms will be proposed in the draft 2009 budget.

15. To increase forestry revenue, the government is planning to reestablish the Program to Secure Forestry Revenue (PSRF) as the sole point of contact for the forestry sector for tax purposes. Protocols for collaboration will be defined between the PSRF and all other entities involved in monitoring the forestry sector, and will state clearly the data required from the entities, as well as the periodicity, deadlines, and modalities for transferring the data. In addition, the government intends to establish an online connection between the Ministry of Forests and Wildlife and the Ministry of Finance by end-June 2008. This is essential for restoring the capacity to monitor sectoral economic data and control the tax base.

16. In 2008, the government will concentrate its expenditures in the priority areas of the PRSP and accelerate public investment. Thus, capital expenditure will increase by 1 percentage point of GDP from its 2007 level, primarily due to an increase in domestically-financed investment. Public investment will be channeled mainly into infrastructure development, the agricultural, health and education sectors. Current expenditure will rise by 0.1 percentage point of GDP to accommodate the wage bill increase and expenditures on goods and services. Subsidies and transfers as a percentage of GDP will fall, partly reflecting the continued efforts to restructure public enterprises.

17. The authorities plan to pursue a prudent hiring policy and gradually increase salaries within a stable and sustainable medium-term macroeconomic framework to enhance the efficiency of the civil service, combat corruption, and improve the economic welfare of civil servants. To this end, the government (i) regularized the status of some 13,000 contractual employees in 2007 by incorporating them into the civil service; (ii) began to adjust salaries and reduce the wage arrears stemming from the past unpaid promotions; and (iii) recruited new staff in priority sectors. The government also plans to correct wage differences based on a more in-depth diagnostic study of the civil service remuneration system. This study will include the following components: (i) the identification of resources to ensure that adjusted salaries are paid over time and that improved working conditions are implemented; and (ii) an assessment of the advantages and other in-kind benefits given to civil servants and the possibility of incorporating them into wages. Furthermore, as indicated below, the government plans to implement measures to continue containing the wage bill and staffing levels.

18. Aware of the key importance of an organic budget law for fiscal reforms, the government will present the draft constitutional by-law regarding budget procedures at the ordinary session of Parliament by end-2007.

19. The government intends to pursue efforts to reinforce the budget information system. In this regard, it will hold discussions with its technical and financial partners on the production, over the medium term, of the government financial operations table (TOFE) on a

commitment basis. To accomplish this objective, it will conduct a diagnostic study by end-March 2008 on the measures and the critical path for preparing the TOFE on a payment order basis for all expenditures, with a detailed costing of required investments, particularly for equipping the various offices throughout the country. On this basis, the TOFE for the 2007 budget execution will be produced by end-May 2008. In the meantime, the government will continue its efforts to contain the outstanding payment orders. Furthermore, the government will formulate a plan by end-December 2007 to intensify its public expenditure management initiatives as part of the platform developed with its technical and financial partners.

20. To improve the execution of poverty reduction expenditure, the government will take steps to ease the constraints on HIPC and C2D financing by involving donors in discussions in the budget consultation process. The government will also take measures to accelerate the execution of capital expenditure while also implementing safeguards to ensure the quality of each project, including by prioritizing projects based on cost-benefit analyses. To this end, it created the Ministry of Economy, Planning, and Regional Development, which will be responsible, in the area of public investment, for designing the public investment program; ensuring the monitoring and control of investment programs and projects in collaboration with the sectoral ministries and the Ministry of Finance; strengthening the government's capacity for planning, preparing, evaluating, and executing projects; ensuring the availability of counterpart funds; and preparing a roadmap for the multiyear execution of the investment budget. In addition, the government will continue to strengthen the existing overall and sectoral medium-term expenditure frameworks (MTEF) and their use in the budget preparation process.

21. Starting with the 2008 budget, expenditure items that have been committed, but for which payment has not been authorized by the end of a fiscal year, will be entered as priority items in the budget for the following year. In addition, the government has established a legal framework for the general rules governing public-private partnership (PPP) contracts to stimulate investment in large-scale projects. The government plans to resort to this type of partnership provided that: (i) the project has been subjected to an economic analysis determining that it will generate net gains for the economy and showing that the project is the lowest-cost option in the sector; (ii) it is financially more profitable than a traditional public investment; and (iii) budgetary risks have been assessed.

22. The government intends to pursue its public procurement reforms by periodically assessing the public procurement system and systematically publishing the penalties imposed on those who fail to comply with these regulations. To this end, the government implemented the standard bid documents and procedural manuals on August 29, 2007. In addition, by end-December 2007 the government plans to (i) publish the audit report on public procurement activities in 2005; (ii) adopt the implementing regulations on amicable settlement under the Public Procurement Code; (iii) evaluate public procurement reforms to enhance transparency

and effectiveness (thereby reducing costs and delays) in the public procurement system; and (iv) annually assess the reliability and performance of the national public procurement system, using a set of performance indicators defined in collaboration with the World Bank.

23. The government is committed to continue using any windfall in oil revenue exclusively for one-off purposes, particularly to: (i) accelerate payments on domestic debt and arrears; (ii) buy back debt held by external commercial creditors who did not take part in the commercial debt repurchase initiative (London Club); and (iii) finance investment projects in the sectors defined in the PRSP, including the counterpart funds for jointly-financed projects such as infrastructure development (notably roads, energy) and investment in major sectoral programs (education, health, and rural and urban development).

### **C. Civil Service**

24. The government will continue its ongoing civil service reforms to establish a solid basis for determining staffing levels and the payroll, secure and harmonize the related records, and increase the efficiency of the civil service. Following the clean-up of the payroll file, measures were taken to maintain the accuracy of these records in order to further contain the wage bill and staffing levels. Payroll records will be harmonized throughout the civil service by end-2007. An integrated management system for the civil service and the payroll (SIGIPES) will be set up at 24 ministries, covering 80 percent of government workers, by end-June 2008 (benchmark). The system will be expanded to include the rest of the civil service by end-2008. The government is also planning to replace the current IT system used for the payroll with a more efficient one, particularly in terms of security and access rights. In this regard, it will audit the current system by December 2008 with the assistance of the World Bank, and work with the Bank to devise a strategy for civil service reform in the context of the next Country Assistance Strategy.

### **D. Fuel Pricing Policy**

25. The policy of adjusting retail fuel prices, which began in 2005 as part of Cameroon's financial program, will be pursued. However, the expected increase in crude prices will be fully reflected in an increase in fuel prices so that budgetary transfers to SONARA are kept within the planned envelope, which will be capped at CFAF 25 billion in 2008. The government will gradually eliminate fuel price subsidies. It will use the resulting budget savings to improve the social safety net. In this regard, a study will be conducted to determine the modalities and mechanisms for implementing this process.

26. The government is committed to adopting a system for full pass-through of fuel prices. In this regard, it will adopt by end-December 2007 a formula for adjusting SONARA ex-refinery prices (reflecting international prices and allowing an automatic adjustment) and a simplified price structure (reducing or eliminating the cross-subsidies and tax distortions of the current pricing regime) (performance criterion) and start implementation in January 2008.

To this end, a study will be conducted in December 2007 to assess the possible fiscal implications of this reform.

27. The government also intends to pursue the implementation of measures to bolster the financial position of SONARA and reduce budget transfers. To this end, it is conducting a feasibility study that will determine the cost of the investments required to improve the refining system, their economic viability, and their financing modalities. In particular, the government will make no further investments unless they are proven to be economically viable and they can be financed within the framework of a sustainable fiscal policy.

### **E. External Debt Management and Trade Liberalization**

28. The government will pursue a prudent debt policy and ensure that its debt is managed in a sustainable manner. With this objective in mind, it will finalize the preparation of a new comprehensive public debt management strategy in accordance with the regulation of the Council of Ministers of the Central African Economic and Monetary Community (CEMAC) approved in March 2007. This strategy will be adopted by November 30, 2007 at the latest by the Public Debt Coordination and Monitoring Unit, and will be developed and implemented on an annual basis and be attached to the Budget Law. The strategy will be consistent with macroeconomic framework, the medium-term fiscal objectives, and in particular, will include the following:

- A maximum ceiling on annual indebtedness;
- The contracting of loans on concessional terms;
- A detailed study of projects requiring loan financing; and
- A debt sustainability analysis, conducted at least once a year and before signing any loans amounting to more than 0.5 percent of GDP.

29. In addition to the implementation of the Public Debt Coordination and Monitoring Unit, the government plans to take the following actions before end-2007: (i) clarify the legal and institutional framework of debt policy and management (define the respective roles of the concerned administrations, notably the Treasury, Budget, Economic Affairs, the CAA, and the CTS); (ii) set an indebtedness ceiling and define priorities for debt management. Finally, the government will request technical assistance from the International Monetary Fund in the area of debt management.

30. The government also plans to finalize the signing of agreements with bilateral creditors. It will continue to negotiate in good faith with its private creditors to clear its arrears, without overlooking the principle of comparable treatment.

31. As part of the CEMAC institutional reform program and the consolidation of subregional integration, Cameroon will propose that CEMAC member countries: (i) assess and reduce obstacles to the development of sub-regional trade, including the issue of the free circulation of goods in the CEMAC zone; (ii) pursue efforts to manage and reduce exemptions; and (iii) address this issue on the agenda for the next meeting. In addition, after having consulted with the community organizations that will meet in N'Djamena in June 2008, Cameroon will continue to support CEMAC reforms by gradually reducing the Common External Tariff (CET) from 30 to 20 percent. Furthermore, after eliminating minimum values on fish and salt, Cameroon plans to also eliminate the minimum administrative values for all imported products by end-June 2008. To facilitate foreign trade operations and in light of the implementation of the electronic one-stop shop the government will complete its project to link participants involved in port transactions by end-June 2008. Finally, Cameroon will work towards ensuring that Central Africa signs an economic partnership agreement (EPA) with the European Union by end-December 2007; and that the EPA is balanced, promotes development, and takes account of both losses in tax revenue that must be offset as well as the need to build capacities and upgrade businesses.

#### **F. Financial Sector**

32. Based on the joint IMF-World Bank mission's recommendations in the context of the Financial Sector Assessment Program (FSAP), the government will prepare an action plan for strengthening financial intermediation by end-December 2007.

33. In the interim, the government is committed, at the national level, to supporting initiatives to facilitate credit access by reducing the constraints in the business environment, notably through: (i) a significant improvement in financial reporting; (ii) simplification of the procedures for calling in collateral; and (iii) the establishment of a commercial court. Thus, the government will work with the Bank of Central African States (BEAC) to expedite the process of updating the list of clients in default of liquidated or restructured banks included in the central credit register. In an effort to better protect depositors, the list of accredited microfinance institutions (MFIs) will be regularly published beginning in January 2008. In addition, the government will propose that the Central African Banking Commission (COBAC) issue a regulation requiring that the subregion's lending establishments regularly publish information on the financial status of banks to ensure the transparency of lending operations. At the regional level, the government is also committed to supporting the BEAC in finalizing the establishment of the central credit register (computerization, payment problems bureau, financial analysis center).

34. To provide an alternative source of financing to meet the needs of the economy, the government will pursue its efforts to develop the securities market by allowing secondary market transactions on zero-coupon treasury bonds in the financial market by end-December 2007 (benchmark). In 2008, it also plans to limit the use of all new statutory advances and

issue publicly-traded government securities. Transactions in government securities will take place under the supervision of the Financial Markets Commission (CMF).

35. Based on the results of the business plan for CAMPOST financial activities, the government is planning to hold detailed discussions to determine the most appropriate method for CAMPOST to offer financial services throughout the country. In order to ensure the rebuilding of CAMPOST's assets, the authorities will continue to ensure the financial supervision of CAMPOST by the staff of the Ministry of Finance responsible for monitoring nonbank financial institutions, who will produce a quarterly supervision report. The next report, which will focus on operations during the final quarter of 2007, will be available by end-June 2008. Furthermore, transfers to CAMPOST will be limited to the minimum amount needed to meet the required annual working capital, estimated at CFAF 22.5 billion. In addition, the social organs of CAMPOST will be notified of the requirement to report the financial activity accounts separately from those of the postal activities.

### **G. Transparency, Good Governance, and the Business Climate**

36. The government is resolute in its decision to enhance good governance and combat corruption in an effort to improve the business environment and the quality of public expenditure. To that end, it will keep publishing on the Internet the summary of the reports of the local committees monitoring the physical and financial implementation of the investment projects in the central government budget, as well as the judicial decisions and the administrative sanctions against civil servants. The government will also ensure that the Commission planned to implement the asset disclosure process for senior government officials is operational by end-2007. In addition, following a joint OECD-DAC donors mission in 2006, the joint CHOC program (Change Habits-Out with Corruption) of the government and donors was adopted in February 2007. This will be used as a basis for the government's preparation of an anti-corruption strategy by end-December 2007. An action plan to assess corruption among staff at the Ministry of Finance will be prepared by March 2008, and completed by end-December 2008.

37. The government will take steps to improve the business climate. By March 2008, it will prepare a private-sector development strategy in partnership with the private sector and in collaboration with its development partners. Also, by end-December 2007, the government will implement a one-stop shop for business creation to reduce the time and expense involved in setting up a business.

38. The government will continue to pursue public enterprise reforms, though progress has been slow, given the complexity of the problems facing these enterprises and the underlying social issues involved. In collaboration with the World Bank, the government will continue implementing its public enterprise privatization and restructuring programs. Regarding CAMTEL, the government prepared financial information for 2006 and incorporated investors' suggestions for improving the transaction structure initially proposed.

The objective is to complete the selection of a provisional successful bidder by end-December 2007. For the SNEC, the government selected a provisional successful bidder for the management contract (contrat d'affermage) in September 2007. Negotiations with the provisional successful bidder and the contract signing will be completed by end-December 2007. In the airline sector, the government remains committed to eliminating government subsidies to airline companies, including CAMAIR, and improving service quality in the air transport sector. To this end, the government is splitting up and liquidating CAMAIR and will limit transfers and subsidies to the amounts agreed with the IMF in the 2007 budget framework. It will also prepare a calendar for the gradual elimination of subsidies by June 2008. The government will complete the process of selecting a financial advisor for the privatization of CAMAIRCO by November 2007 and will issue a tender for the selection of a private strategic partner by April 2008.

#### **IV. MONITORING PROGRAM IMPLEMENTATION**

39. Program monitoring from July 2007 to end-June 2008 will be based on the performance criteria and quarterly indicative targets and structural benchmarks indicated in Tables 3 and 4. The government will report the data necessary for program monitoring to the IMF, in accordance with the Technical Memorandum of Understanding.

Table 1. Cameroon: Quantitative targets for March–June, 2007<sup>1</sup>  
(Billions of CFA francs; cumulative from July 1, 2006, unless otherwise indicated)

	End-Mar. 07					End-Jun. 07				
	Quantitative benchmarks	Adjustor	Adjusted benchmark	Outturn	Status	Performance criteria <sup>6</sup>	Adjustor	Adjusted target	Estimated outturn	Status
Ceiling on the increase in net claims of the banking system on the central government	-8	-58	-67	-38	not met	59	-73	-13	-64	met
Floor on the nonoil primary budget balance	8	14	22	30	met	-21	15	-6	24	met
Ceiling on the accumulation of external payments arrears of the central government <sup>2,3,4</sup>	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 <sup>2,4</sup>	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 <sup>2,4,5</sup>	0	none	0	0	met	0	none	0	0	met
Floor on nonoil revenue of the central government	913	none	913	892	not met	1209	none	1209	1191	not met
Ceiling on spending on goods and services	307	none	307	301	met	419	none	419	397	met
Ceiling on cash spending by SNH										
Payments on account of the government (interventions directes)	0	none	0	0	met	0 <sup>2</sup>	none	0	0	met
Other operating costs (autres charges)	14	none	14	14	met	18	none	18	18	met
Floor on reduction of domestic debts										
Structured debt	136	none	136	132	not met	164	none	164	167	met
Nonstructured debt	78	none	78	87	met	93	none	93	109	met
Floor on payments to utility companies										
SNEC	6.0	none	6.0	6.0	met	8.0	none	8.0	8.0	met
AES SONEL	5.3	none	5.3	5.3	met	7.0	none	7.0	7.0	met
CAMTEL	9.8	none	9.8	9.9	met	13.0	none	13.0	13.1	met
CAMRAIL	3.0	none	3.0	3.3	met	4.0	none	4.0	4.3	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; and IMF staff estimates.

<sup>1</sup> Definitions included in the Technical Memorandum of Understanding.

<sup>2</sup> Applied on a continuous basis.

<sup>3</sup> Excluding reschedulable external payments arrears.

<sup>4</sup> Millions of U.S. dollars.

<sup>5</sup> Excluding normal, import-related credit.

<sup>6</sup> The following were quantitative benchmarks: floor on nonoil revenue; ceiling on goods and services spending; ceiling on cash spending by SNH/other operating costs, and floors on utility payments. The other targets will be quantitative performance criteria.

Table 2. Cameroon: Structural Performance Criteria and Benchmarks for the Period July 2006 to June 2007

Measure	Date	Status
<b>Government Finance</b>		
Submission to Parliament of the 2007 budget law in accordance with the program and adoption by end-2006 <b>(performance criterion)</b> .	December 31, 2006	Completed
Implementation of the Customs Management System in the customs sectors of the Littoral province <b>(performance criterion)</b> .	December 31, 2006	Completed
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 through payment—on a functional basis for the January-April 2007 period <b>(performance criterion)</b> .	June 30, 2007	Completed
Diagnostic study of the budget and treasury nomenclature to assess its consistency with GFS standards and preparation of an analytical report.	March 31, 2007	Completed
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	Completed
Preparation of consistent monthly budget execution tables on cash and commitment bases and a monthly expenditure table, broken down by economic function, to track spending for priority sectors.	Ongoing	Completed
Adjustment of the retail prices of petroleum products and payment of budgetary transfers to SONARA as agreed with Fund staff.	Ongoing	Completed
<b>Civil Service</b>		
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.	December 31, 2006	Completed

Preparation of a diagnostic study on the civil service remuneration system (salaries and benefits).	March 31, 2007	Not completed
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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 at 14 ministries, and installation of the personnel management system in these ministries.	June 30, 2007	Not completed
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### **Transparency and Governance**

Publication of the report of the Extractive Industries Transparency Initiative (EITI) administrator on oil revenues for 2001 to 2004 on the government website ( <a href="http://www.spm.gov.cm">www.spm.gov.cm</a> )	December 31, 2006	Completed
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Publication of the report of the EITI conciliator on oil revenue for 2005 on the website <a href="http://www.spm.gov.cm">www.spm.gov.cm</a> .	March 31, 2007	Completed
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Publication of the quarterly report on execution of the government budget.	Two months after the end of the quarter	Completed
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Publication on the website <a href="http://www.spm.gov.cm">www.spm.gov.cm</a> as part of the anti-corruption campaign of: (i) judicial decisions; and (ii) administrative sanctions against civil servants.	Ongoing	Completed
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### **Financial Sector**

Completion by the government of the preparatory work for the establishment of a financial subsidiary for CAMPOST ( <b>performance criterion</b> ).	June 30, 2007	Not completed
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### **Public Enterprise Reform**

Launching the invitation for bids for the privatization of CAMTEL ( <b>performance criterion</b> ).	March 31, 2007	Completed
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Launching the invitation for bids for the management contract of the public-private partnership for SNEC.	March 31, 2007	Completed
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Table 3. Cameroon: Quantitative targets for Sept. 2007–June, 2008<sup>1</sup>  
(Billions of CFA francs; cumulative from January 1, unless otherwise indicated)

	End-Sep. 07	End-Dec. 07	End-Mar. 08	End-Jun. 08
	Quantitative benchmarks	Performance criteria 6/	Quantitative benchmarks	Performance criteria 6/
Ceiling on the increase in net claims of the banking system on the central government	-16	-78	-38	-81
Floor on the nonoil primary budget balance	-72	-46	24	-2
Ceiling on the accumulation of external payments arrears of the central government <sup>2, 3, 4</sup>	0	0	0	0
Ceiling on new medium- and long-term nonconcessional external debt contracted or guaranteed by the central government <sup>2, 4</sup>	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 <sup>2, 4, 5</sup>	0	0	0	0
Floor on nonoil revenue of the central government	908	1250	356	678
Ceiling on spending on goods and services	343	418	111	228
Ceiling on cash spending by SNH				
Payments on account of the government (interventions directes) <sup>2</sup>	0	0	0	0
Other operating costs (autres charges)	14	18	4.5	9.0
Floor on reduction of domestic debts				
Structured debt	99	143	27	54
Nonstructured debt	54	71	9	18
Floor on payments to utility companies				
SNEC	6.0	8.0	2.0	4.0
AES SONEL	5.3	7.0	1.8	3.5
CAMTEL	9.9	13.1	3.3	6.5
CAMRAIL	3.0	4.0	1.0	2.0
SONARA	4.5	6.0	1.5	3.0

Sources: Cameroonian authorities; Bank of Central African States; and IMF staff estimates.

<sup>1</sup> Definitions included in the Technical Memorandum of Understanding.

<sup>2</sup> Applied on a continuous basis.

<sup>3</sup> Excluding reschedulable external payments arrears.

<sup>4</sup> Millions of U.S. dollars.

<sup>5</sup> Excluding normal, import-related credit.

<sup>6</sup> The following will be quantitative benchmarks: floor on non-oil revenue; ceiling on goods and services spending; ceiling on cash spending by SNH/other operating costs; and floors on utility payments. The other targets will be quantitative performance criteria.

Table 4. Cameroon: Structural Performance Criteria and Benchmarks from July 2007 to June 2008

	Deadline
<b>Public Finance and Civil Service</b>	
Completion of the work related to streamlining taxpayer identification, upgrading the single identification software, and safeguarding the single taxpayer file.	December 31, 2007
Adoption by the government of a formula for the revision of SONARA exit refinery prices and a simplified structure of petroleum product prices to facilitate automatic adjustment ( <b>performance criterion</b> ).	December 31, 2007
Submission to Parliament the 2008 Budget Law in accordance with the program.	December 31, 2007
Completion of the work to connect the information system of the General Directorate of Taxes (MESURE) to that of the General Directorate of Customs (ASYCUDA).	March 31, 2008
Installation of the Automated Integrated Management System (SIGIPES) covering civil servants and the payroll in 24 ministries.	June 30, 2008
Adoption of a medium-term tax reform plan building upon the recommendations of the Review Commission of Domestic and Foreign Trade Taxation.	June 30, 2008
Adjustment of retail prices of petroleum product and payment of budgetary transfers to SONARA as agreed with Fund staff.	Ongoing
<b>Financial Sector, Trade, and the Business Climate</b>	
Transfer of secondary-market transactions on zero-coupon treasury bonds to the financial market.	December 31, 2007
Presentation to Parliament of the Law on Electronic Communications and Electronic Payments of Banks.	June 30, 2008
Complete and implement the electronic one-stop shop to facilitate foreign trade.	June 30, 2008
Financial supervision of CAMPOST by the unit of the Ministry of Finance in charge of the monitoring of nonbank financial institutions, and production by this unit of the quarterly supervisory report covering the operations of the final quarter of 2007 ( <b>performance criterion</b> ).	June 30, 2008

**Table 5. Cameroon: Central Government Operations, 2007**

(Billions of CFA francs, unless otherwise indicated)

	Jan-Mar		Apr-Jun		Jul-Sep		Oct-Dec		Year	
	Prog.	Actual	Prog.	Actual	Prog.	Proj.	Prog.	Proj.	Prog.	Proj.
	EBS/06/165		EBS/07/56		EBS/07/56		EBS/07/56		EBS/07/56	
Total revenue and grants	474	431	495	503	466	485	530	560	1,925	1,979
Total revenue	468	401	443	457	453	473	468	498	1,791	1,830
Oil sector revenue	126	74	140	159	146	192	150	156	521	580
Nonoil sector revenue	342	328	303	299	307	281	318	342	1,270	1,250
Total grants	6	30	53	46	13	12	62	62	134	149
Total expenditure	391	316	433	351	412	499	459	431	1,695	1,597
Current expenditure	276	267	311	281	292	345	320	294	1,198	1,188
Wages and salaries	117	98	120	101	121	121	121	145	479	465
Goods and services	105	107	118	97	117	156	126	96	466	457
<i>of which: Prog. def (excl. HIPC and C2D)</i>	99	105	112	96	109	142	104	75	425	418
HIPC	3	2	3	2	4	4	11	10	20	18
C2D	3	0	3	0	4	11	11	11	21	21
MDRI	3	0	2	0	3	3	9	10	18	13
Subsidies and transfers	49	52	54	67	49	59	53	39	205	216
Interest due	5	10	19	16	5	10	19	15	49	50
Capital expenditure	115	52	122	67	120	145	140	145	496	410
Domestic investment	70	38	79	47	79	105	99	105	327	294
<i>of which: Prog. def (excl. HIPC and C2D)</i>	36	28	46	39	56	66	60	66	198	198
Own-resource financed	31	28	41	39	51	61	55	61	178	188
Debt-relief financed	39	10	38	9	28	44	44	44	149	107
HIPC	22	10	21	9	11	11	27	26	80	56
C2D	12	0	12	0	12	28	12	13	49	41
MDRI	5	0	5	0	5	5	5	5	20	10
Foreign-financed investment	27	10	27	19	27	27	27	27	110	84
Restructuring and rehabilitation of public companies	17	5	16	1	14	13	13	13	60	32
Net lending	0	0	0	0	0	9	0	-9	0	0
Unclassified expenditure	0	-3	0	3	0	0	0	0	0	-1
Overall balance, excluding net change in arrears										
Excluding grants	78	85	10	106	41	-26	8	67	97	233
Including grants	84	114	63	152	54	-14	71	129	230	382
Net change in arrears	-10	-15	-15	-21	-20	-18	-15	-18	-59	-71
Overall balance, cash basis										
Excluding grants	68	70	-5	85	21	-44	-6	50	37	161
Including grants	74	99	48	131	34	-31	56	111	171	310
Financing	-74	-99	-48	-131	-34	31	-56	-111	-172	-310
External financing, net	19	-16	-12	-18	19	12	-12	-5	13	-27
Amortization	-6	-24	-37	-22	-5	-12	-37	-30	-84	-87
Drawings	24	8	24	4	24	24	24	24	97	61
Project	24	8	24	4	24	24	24	24	97	61
Budget	0	0	0	0	0	0	0	0	0	0
Domestic financing, net	-93	-83	-36	-113	-53	19	-44	-106	-185	-284
Banking system	-63	-60	-6	-81	-23	51	-14	-74	-66	-164
Banking system, excluding HIPC and C2D	-81	-23	24	-27	-33	33	-7	-62	-58	-78
Net HIPC flows	3	-26	2	-23	-7	14	16	11	16	-23
Net C2D flows	15	-11	-32	-31	16	3	-23	-24	-23	-63
Amortization	-27	-23	-27	-35	-27	-26	-27	-26	-110	-110
Nonbank financing	0	-1	0	3	0	-1	0	-1	0	0
Reserves	-3	0	-3	0	-3	-5	-3	-5	-10	-10
Memorandum items:										
Nonoil primary balance <sup>1</sup>	-16	31	-83	-17	-72	-181	-94	-46	-266	-213
Nonoil primary balance (program definition) <sup>2</sup>	41	48	-29	-6	-28	-114	-20	26	-36	-46

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

<sup>1</sup> Excludes grants, interest, and foreign-financed capital expenditures.<sup>2</sup> Excludes restructuring, HIPC- and C2D-financed expenditures, in addition to grants, interest, and foreign-financed capital expenditures.

**Table 6. Cameroon: Central Government Operations, 2008**  
(Billions of CFA francs, unless otherwise indicated)

	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Year
	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	471	506	470	566	2,012
Total revenue	460	473	459	533	1,924
Oil sector revenue	103	151	140	174	568
Nonoil sector revenue	356	322	319	359	1,356
Total grants	11	33	11	33	89
Total expenditure	417	449	461	483	1,811
Current expenditure	296	318	319	341	1,273
Wages and salaries	115	120	130	147	510
Goods and services	119	125	125	131	501
<i>of which: debt-relief financed</i>	13	13	13	13	51
HIPC	2	2	2	2	9
C2D	6	6	6	6	24
MDRI	5	5	5	5	18
Subsidies and transfers	52	58	54	52	215
Interest due	10	15	10	11	47
Capital expenditure	122	132	143	142	538
Domestic investment	81	86	97	96	359
Own-resource financed	51	50	60	56	216
Debt-relief financed	30	36	37	40	143
HIPC	12	18	18	21	69
C2D	14	14	14	14	56
MDRI	4	4	5	5	18
Foreign-financed investment	30	35	35	35	135
Restructuring and rehabilitation of public companies	11	11	11	11	44
Unclassified expenditure	0	0	0	0	0
Overall balance, excluding net change in arrears					
Excluding grants	42	23	-3	50	113
Including grants	54	57	8	83	202
Net change in arrears	-9	-9	-9	-9	-35
Overall balance, cash basis					
Excluding grants	34	15	-11	41	78
Including grants	45	48	-1	74	167
Financing	-45	-48	1	-74	-167
External financing, net	30	10	31	3	74
Amortization	-8	-22	-12	-30	-71
Drawings	38	32	43	32	146
Project	27	32	32	32	125
Budget	11	0	11	0	21
Domestic financing, net	-75	-59	-31	-77	-241
Banking system	-50	-34	-6	-52	-142
Banking system, excluding HIPC and C2D	-38	-43	8	-61	-134
Net HIPC flows	1	1	1	1	2
Net C2D flows	-13	9	-14	9	-10
Amortization	-20	-20	-20	-20	-79
Nonbank financing	0	0	0	0	0
Reserves	-5	-5	-5	-5	-20
Remaining financing needs	0	0	0	0	0
Memorandum items:					
Nonoil primary balance <sup>1</sup>	-21	-77	-97	-77	-273
Nonoil primary balance (program definition) <sup>2</sup>	24	-26	-46	-23	-71

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

<sup>1</sup> Excludes grants, interest, and foreign-financed capital expenditures.

<sup>2</sup> Excludes restructuring, HIPC- and C2D-financed expenditures, in addition to grants, interest, and foreign-financed capital expenditures.

## ATTACHMENT II

### **Technical Memorandum of Understanding on the Definitions of the Performance Criteria and Benchmarks of the PRGF-supported Program for July 2007-June 2008 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). External debt is defined on the basis of residency.

##### **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 official and commercial creditors with whom a debt rescheduling or restructuring agreement has been concluded. The nonpayment of debt service to bilateral official 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 official and commercial creditors.

##### **Concessionalality of external debt**

5. Medium- and long-term debt is considered to be debt with an initial maturity of one year or more. Debt with a maturity of one year or more 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" (Country Report No. 07/285), approved by the IMF Executive Board on April 15, 1996. Thus, for debt maturing in 15 years or more, the OECD 10-year CIRR is used as the discount rate to assess concessionality. The following margins are added to the two CIRRs for the various repayment periods: 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 are not part of the performance criteria for the issuance or guarantee of nonconcessional debt.

### **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—Debt Reduction and Development Contract). 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 (CAA). The stock of this debt (excluding the 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, nonstructured debt is limited to the stock of nonstructured 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 nonstructured 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 nontax 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 Debt Reduction and Development Contract (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 C2D, 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.

### **Public enterprise 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 thereafter.

#### **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 costs). Some of this is related to SNH's mission, (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, times the volumes sold by SONARA in the domestic market in the course of a given month. 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. The transfer to SONARA to cover the fuel subsidy for consumers will not exceed CFAF 6.25 billion at the end of the third quarter of 2007, CFAF 6.25 billion at the end of the fourth quarter of 2007, CFAF 6.25 billion at the end of the first quarter of 2008, and CFAF 6.25 billion at the end of the second quarter of 2008. If, based on this mechanism, the quarterly budget transfer does not suffice to cover in full the consumer 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 Automatic Adjustment of Targets**

21. The floor on the nonoil primary balance will be adjusted 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, buy back external debt owed to commercial creditors, or finance one-off investment projects (EBS 06/165, ¶15 of the MEFP);
- 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 in 2007 and CFAF 7.5 billion in the first half of 2008; for the purpose of the adjuster, budget support is defined as all untargeted grants and loans, excluding C2D, HIPC Initiative and MDRI grants;
- 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), excluding payments of the structured debt held by the domestic banking system, as entered in the line “Domestic financing, net – Banking System – Banking system excl. HIPC and C2D” in the “Central Government Operations” table).

23. Higher-than-programmed oil revenue and all privatization proceeds will be allocated to repayments of domestic debt (as defined above), buyback external debt owed to commercial creditors, or the financing of one-off investment projects (EBS 06/165, ¶15 of the MEFP). The domestic debt 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 CFAF 20 billion, 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\$1.5315 per SDR and CFAF 479.22 per U.S. dollar for the third quarter of 2007; US\$ 1.5356 per SDR and CFAF 478.18 per U.S. dollar for the fourth quarter of 2007; US\$1.5356 per SDR and CFAF 478.38 per U.S. dollar for the first quarter of 2008; US\$ 1.5370 per SDR and CFAF 477.85 per U.S. dollar for the second quarter of 2008. 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 pertaining to the adoption of a formula for revising the SONARA exit refinery price as well as of a simplified pricing structure for petroleum

products allowing for automatic adjustment will be deemed to have been observed provided by end-December 2007 the fuel price formula reflects international prices, excludes the economic adjustment in favor of SONARA, allows for an automatic adjustment of fuel prices, and simplifies the tax structure.

27. The performance criterion on supervision of CAMPOST will be considered observed if, by end-June 2008, the Ministry of Finance staff responsible for monitoring nonbank financial institutions prepare a report comprising the following data on the final quarter of 2007: (i) number of accounts opened, (ii) their allocation through the CAMPOST network, (iii) trends in balances, (iv) volume of saving invested and by partner, (v) the various characteristics of the investments, (vi) the interest charged on the investments, and (vii) the existence of minimum cash flow sufficient to accommodate withdrawals by savers at any time.

#### **F. Structural Benchmarks**

28. The benchmark pertaining to the completion of efforts to streamline taxpayer identification, upgrade the single identification software (IDU), and safeguard the single taxpayer file shall be considered observed if by end-December 2007 the following actions have been carried out: (1) the taxpayer registration software is operational; (2) this software is the sole electronic application for registering taxpayers (no other application can register or change the information pertaining to a taxpayer, whether at the central government level or in the provinces); and (3) the IDU application is accessible from the MESURE application for purposes of updating the large enterprise database (DGE database).

29. The benchmark for the 2008 budget law will be deemed to have been met if before end-December 2007, the law (i) is presented to Parliament, and (ii) is compatible with the fiscal program for 2008.

30. The benchmark related to completion of the work to connect the General Directorate of Taxes (MESURE) to the General Directorate of Customs (ASYCUDA) will be considered observed if by end-March 2008, the physical infrastructure for information exchanges between the General Directorate of Taxes and the General Directorate of Customs is operational, and either module in these systems can share a specific dataset on the imports or exports of individuals or legal entities as well as on their commercial or industrial activities on the Cameroon market.

31. The benchmark pertaining to the installation of the automated integrated management system covering civil servants and payroll (SIGIPES) in 24 ministries will be considered observed if at end-June 2008: (i) the equipment, the protocol for communication between the various SIGIPES sites, and the SIGIPES application are in place in each of these ministries; (ii) staff have been trained in their use; (iii) the SIGIPES is operating effectively in the said

ministries; and (iv) the personnel data of these ministries in the SIGIPES are consistent with the data in the payroll management system. The 24 ministries scheduled for SIGIPES 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 Economy, Planning, 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, (14) the Ministry of Water and Energy, (15) the Ministry of the Civil Service, (16) the Ministry of Basic Education, (17) the Ministry of Health, (18) the Ministry of Finance, (19) the Ministry of Secondary Education, (20) the Ministry of External Relations, (21) the Superior Audit Office (*Contrôle Supérieure de l'Etat*), (22) the Ministry of Urban Development and Housing, (23) the Ministry of Social Affairs, and (24) the Office of the General Delegation to the Sûreté Nationale.

32. The benchmark pertaining to the adoption of a medium-term tax reform plan will be considered observed if by June 30, 2008 the following actions have been taken: (1) the commission for the review of domestic and trade taxes has officially submitted its final report, including recommendations, to the Ministry of Finance; (2) a plan for the gradual implementation of the recommendations approved by the authorities is prepared and adopted. This plan will seek to achieve: (i) greater fairness in the tax system; (ii) greater efficiency; and (iii) greater mobilization of nonoil revenues.

33. 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 (pertaining to subsidies for fuel consumers). Fuel prices are to be raised on the first business day of the month.

34. The benchmark related to the transfer of secondary-market transactions on zero-coupon Treasury bonds to the financial market will be considered met if by end-December 2007 all transactions (purchases, sales, repurchases) involving such bonds between individuals and legal entities, or between the government and other entities (including public enterprises) can take place on the financial market. By end-December 2007, the CAA will be capable of publishing each day the volume and prices for all transactions on the website: [caa.gov.cm](http://caa.gov.cm).

35. The benchmark related to the presentation to Parliament of the law on electronic communications and electronic payments of banks will be considered met if by end-June 2008 the government has submitted to Parliament a law defining the regulatory framework

for electronic communications and payments in consultation with World Bank staff, including transactions between individuals or legal entities on the one hand and banks on the other.

36. The benchmark related to completion and implementation of the electronic one-stop-shop at the port of Douala to facilitate foreign trade will be considered met if, by end-June, 2008, the following operations can be truly carried out by e-users at the port of Douala: (i) access to the GUCE portal; (ii) release of the manifest; (iii) settlement of customs taxes and duties; and (iv) production of statistics on port passage times.

### **G. Reporting Requirements**

37. 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 <sup>th</sup> of the month for the previous month's data for the preliminary series
			25 <sup>th</sup> 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 <sup>th</sup> of the month for the previous month's data for the preliminary series
			25 <sup>th</sup> 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 <sup>th</sup> of the month for the previous month's data
	Status report on all Government deposits at the BEAC	Monthly	10 <sup>th</sup> of the month for the previous month's data
	Changes to domestic and custom taxes (budget law and others)	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 (head office) 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 authorized 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
	Report on the implementation of the domestic debt settlement plan	Monthly	25 <sup>th</sup> of the month for the previous month's data

Table 1. Cameroon: Data-Reporting Requirements

Category of Data	Table/Report	Frequency	Target Date
	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 <sup>th</sup> 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 (commitments, authorizations, payments)	Monthly	25 <sup>th</sup> 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 other costs), commitments, transferable balances, spending advances ( <i>interventions directes</i> ), and balances transferred (cash basis), dividends received, and dividends transferred.	Monthly	25 <sup>th</sup> 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 <sup>th</sup> of the month for the previous month's data
	Payments made to or on account of CAMAIR (for bills, subsidies, loans, arrears, etc.)	Monthly	20 <sup>th</sup> 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 <sup>th</sup> of the month for the previous month's data
Real sector data	Consumer price index, Yaoundé and Douala	Monthly	20 <sup>th</sup> 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		
	• Flash series	Annual	Eight months after the end of the year
	• Provisional series	Annual	Eighteen months after the end of the year
	• 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 <sup>th</sup> 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

Table 1. Cameroon: Data-Reporting Requirements

Category of Data	Table/Report	Frequency	Target Date
	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 after debt relief	Monthly	25 <sup>th</sup> of the month for the previous quarter's data
	Debt service paid	Monthly	25 <sup>th</sup> 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 <sup>th</sup> of the month for the previous quarter's data
	Grants and loans projected for the next eight quarters	Quarterly	25 <sup>th</sup> of the month for the previous quarter's data

Table 2. Cameroon — Petroleum Product Prices

(in FCFA per liter, unless otherwise indicated)

	July-05			Jun-08		
	Super	Petrol	Gasoil	Super	Petrol	Gasoil
1. Price structure that would be necessary for SONARA to break even on domestic operations in a given month (net outturn of 0)						
1a. Import parity/price of product (in USD per liter)						
1b. Exchange rate (CFAF/USD)						
1c. Import parity/price of product						
1d. Customs duties, incl. VAT						
1e. Economic adjustment						
1f. Coastal transportation, incl. VAT						
1g. Petroleum products excise						
1h. SONARA refinery-gate price (=1c=1d=1e=1f)						
1i. Port fees, depot, refitting Nsam depot, coloration, fight against fraud, incl. VAT						
1j. Transport equalization						
1k. Depot-gate price (=1h=1i=1j)						
1l. Overhead costs, financial costs, benefits, leakage, amortization and maintenance, town delivery, dealer's margin, incl. VAT						
1m. Retail price (=1k+1l)						
2. Prices actually applied						
3. Volume sold (in million liters)						
4. SONARA net outturn before budgetary transfer (in CFAF billion)						
5. Budgetary transfer to SONARA (in CFAF billion)						
6. SONARA net outturn after budgetary transfer (in CFAF billion)						

Sources: Cameroon authorities.