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Cameroon: Letter of Intent

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LETTER OF INTENT

December 11, 2008

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. In the first half of 2008, the government continued its efforts to consolidate the macroeconomic framework and implement structural reforms as part of the program supported by the International Monetary Fund (IMF) under the Poverty Reduction and Growth Facility (PRGF).
2. The government's efforts in the area of public finance during the period January-June 2008 made it possible to meet most quantitative criteria and benchmarks by end-June 2008 (Table 1). However, the government is requesting a waiver for noncompliance of the performance criterion related to the nonoil primary balance, owing to the poor performance of nonoil revenue in the first half of 2008, in particular, lower than expected nontax revenue.
3. The government recognizes that mobilization of nonoil revenue is a key objective for the country. To that end, it is committed to stepping up its efforts to strengthen tax and customs administration, particularly by (i) extending to all taxpayers the measures taken in the first half of 2008 to secure the large taxpayer file and implementing the new unique and secure software for registering taxpayers by end-June 2009; (ii) improving the collection and use of information through the interconnection between the tax and customs departments, completed in June 2008, and the information management software AREN; (iii) modernizing audit selection; and (iv) consolidating the progress recently made in reorganizing the taxpayer management units by size (extending the geographic coverage of medium-sized taxpayer units, establishing units to manage small taxpayers on an experimental basis in Yaoundé and Douala, and improving tax compliance in the existing units). Furthermore, the government is committed to introducing an import duty sticker for tobacco and alcohol to more effectively combat smuggling. These measures were included in the 2009 draft budget law and should help mobilize additional revenue amounting to 0.2 percent of nonoil GDP.

4. Implementation of structural reforms was overall satisfactory, despite delays in some sectors (Table 2):

- The measures related to government finance and the financial sector were implemented, albeit with delay in some cases. A quarterly report on the financial operations of CAMPOST (Cameroon Postal Services) in the last quarter of 2007 was produced (performance criterion) and a medium-term tax reform strategy was adopted. As the necessary equipments were not delivered on time, there were delays in (i) the connection of the information systems of the General Directorate of Taxes and the General Directorate of Customs; and (ii) the deployment of the new civil service computerized management system (SIGIPES) in an additional 20 departments.
- Measures to improve the business climate have not all been completed. The electronic one-stop-shop at customs has been set up and is operational. However, the budget allocation provided was insufficient to cover the subsidies needed by SONARA (the national oil refinery) to offset losses incurred as a result of the fuel price freeze. The technical work on e-commerce legislation was completed, but the draft law has not yet been submitted to Parliament.

5. The government is committed to stepping up its efforts in these areas to make up for the delays. In particular, it has undertaken to submit the draft law on e-commerce to Parliament by June 2009 at the latest. The government has also issued a supplementary budget whereby subsidies can be disbursed to SONARA. This supplementary budget also includes the emergency policy package adopted by the government in March 2008 to respond to the population's complaints about the cost of living (reevaluation of civil servant salaries, suspension or reduction of customs duties and taxes on certain common consumer items, and freeze on the retail prices of fuel). The supplementary budget envisages an allocation for additional investments, including the purchase of an airplane and the financing of the government's share in a cobalt and nickel mining project.

6. With respect to the air transport sector, the government intends to continue the reforms undertaken to (i) promote the development of an effective and reliable transportation service; (ii) improve public service; and (iii) reduce the burden of the sector on public finances. To that end, CAMAIR ceased operations in May 2008 and its liquidation will be accelerated so that it can be completed by April 2009. Under these circumstances, and in order to settle the dispute resulting from the financial leasing contracts signed by CAMAIR, the government had to buy back the only remaining aircraft in the fleet and plans to use it to establish CAMAIRCo. Moreover, the disruption in service on the country's north-south route after CAMAIR's liquidation drove the authorities to speed up efforts to enable CAMAIRCo to commence operations sooner. The government is determined to pursue privatization of CAMAIRCo by launching a call for bids in 2009 to select a strategic partner, based on the

report of the financial advisor recruited for that purpose and the privatization strategy drawn up in consultation with the World Bank.

7. With regard to the cobalt and nickel mining venture, given its importance for Cameroon's economic development and the setbacks already incurred, the government has decided to acquire an equity participation in the company to accelerate its startup. Part of this equity will be handed over to the private sector later. The government is committed to implementing the terms of this contract, including the handover, in a transparent manner in order to safeguard public assets. More generally, the government considers the mining sector to be an important source of economic growth. With a view to maximizing the contribution of this sector to Cameroon's economy, the government will start discussions with the World Bank by early 2009 on the preparation of a proper development strategy.

8. The government remains convinced that continued implementation of the economic policies and measures to which it is committed under the PRGF arrangement will make it possible to consolidate the results already achieved and to combat more effectively poverty, while bolstering growth prospects. To that end, the government has submitted a budget law to Parliament for 2009 that seeks to maintain fiscal sustainability and economic stability while increasing the priority spending required to accelerate growth and reduce poverty. In this regard, the government will use the opportunity of the decline in international oil prices to gradually eliminate subsidies on retail fuel prices and redeploy the budgetary resources released to priority expenses.

9. In view of the results obtained so far and the commitments made in this letter, the government requests that the seventh disbursement under the PRGF arrangement, in the amount of SDR 2.67 million, be made available upon conclusion of the sixth review.

10. Finally, the government of Cameroon authorizes the IMF to publish this letter.

Sincerely yours,

/s/

Inoni Ephraim
Prime Minister and
Head of Government

Table 1. Cameroon: Quantitative Targets for January–June, 2008¹
(Billions of CFA francs; cumulative from January 1, unless otherwise indicated)

| | End-March 2008 | | | | | End-June 2008 | | | | |
|--|-------------------------|----------|--------------------|---------|---------|---|----------|-----------------|-------------------|---------|
| | Quantitative benchmarks | Adjustor | Adjusted benchmark | Outturn | Status | Revised Performance criteria ^{6,7} | Adjustor | Adjusted target | Projected Outturn | Status |
| Ceiling on the increase in net claims of the banking system on the central government | -38 | -34 | -72 | -134 | Met | -152 | -6 | -158 | -165 | Met |
| Floor on the nonoil primary budget balance | 24 | 4 | 28 | 73 | Met | -63 | 36 | -27 | -46 | Not met |
| Ceiling on the accumulation of external payments arrears of the central government ^{2, 3, 4} | 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 ^{2, 4} | 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 ^{2, 4, 5} | 0 | none | 0 | 0 | Met | 0 | none | 0 | 0 | Met |
| Floor on nonoil revenue of the central government | 356 | none | 356 | 362 | Met | 694 | none | 694 | 674 | Not met |
| Ceiling on spending on goods and services | 111 | none | 111 | 93 | Met | 222 | none | 222 | 217 | Met |
| Ceiling on cash spending by SNH | | | | | | | | | | |
| Payments on account of the government (interventions directes) ² | 0 | none | 0 | 0 | Met | 0 | none | 0 | 0 | Met |
| Other operating costs (autres charges) | 4.5 | none | 4.5 | 3.6 | Met | 9.0 | none | 9.0 | 5.9 | Met |
| Floor on reduction of domestic debts | | | | | | | | | | |
| Structured debt | 28 | none | 28 | 23 | Not met | 48 | none | 48 | 56 | Met |
| Nonstructured debt | 9 | none | 9 | 9 | Met | 18 | none | 18 | 20 | Met |
| Ceiling on the stock of treasury float | | | | | | 134 | none | 134 | 66 | Met |
| Floor on payments to utility companies | | | | | | | | | | |
| SNEC | 2.0 | none | 2.0 | 2.0 | Met | 4.0 | none | 4.0 | 4.0 | Met |
| AES SONEL | 1.8 | none | 1.8 | 1.8 | Met | 3.5 | none | 3.5 | 3.5 | Met |
| CAMTEL | 3.3 | none | 3.3 | 3.3 | Met | 6.5 | none | 6.5 | 6.5 | Met |
| CAMRAIL | 1.0 | none | 1.0 | 0.6 | Not met | 2.0 | none | 2.0 | 1.2 | Not met |
| SONARA | 1.5 | none | 1.5 | 1.5 | Met | 3.0 | none | 3.0 | 3.0 | Met |

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

¹ Definitions included in the Technical Memorandum of Understanding.

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 nonoil revenue; ceiling on goods and services spending; ceiling on cash spending by SNH/other operating costs; ceiling on the stock of treasury float; and floors on utility payments. The other targets will be quantitative performance criteria.

⁷ Beginning in 2008, support provided to SONARA through lower taxes is replaced by an explicit subsidy, with an equivalent increase in nonoil revenues.

Table 2. Cameroon: Structural Performance Criteria and Benchmarks from July 2007 to June 2008

| | Deadline | Status |
|--|-------------------|----------------|
| Public Finance and Civil Service | | |
| Completion of the work related to streamlining taxpayer identification, upgrading the single identification software, and safeguarding the single taxpayer file. | December 31, 2007 | Completed |
| 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 (performance criterion) . | December 31, 2007 | Completed |
| Submission to Parliament of the 2008 Budget Law in accordance with the program. | December 31, 2007 | Completed |
| 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 | Met with delay |
| Installation of the Automated Integrated Management System (SIGIPES) covering civil servants and the payroll in 24 ministries. | June 30, 2008 | Met with delay |
| 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 | Met with delay |
| Adjustment of retail prices of petroleum product and payment of budgetary transfers to SONARA as agreed with Fund staff. | Ongoing | Not met |
| Financial Sector, Trade, and the Business Climate | | |
| Transfer of secondary-market transactions on zero-coupon treasury bonds to the financial market. | December 31, 2007 | Completed |
| Presentation to Parliament of the Law on Electronic Communications and Electronic Payments of Banks. | June 30, 2008 | Not met |
| Complete and implement the electronic one-stop shop to facilitate foreign trade. | June 30, 2008 | Completed |
| 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 (performance criterion) . | June 30, 2008 | Completed |