

# CAMEROON

## Report on the Observance of Standards and Codes (ROSC)

Prepared by:

Staff of The International Monetary Fund and the World Bank

## ABBREVIATIONS AND ACRONYMS

BEAC	Bank of Central African States
CCP	Chèques Postaux
CEMAC	Central African Economic and Monetary Community
CFAF	Franc de la Communauté Financière Africaine
CFC	Crédit Foncier du Cameroon
CIMA	Inter-African Conference on Insurance Markets
CNPS	Caisse Nationale de Prévoyance Sociale
COBAC	Central African Banking Commission
CPSS	Committee on Payments and Settlement Systems
CRCA	Commission Régionale de Contrôle d'Assurance
EPA	Etablissement Public Administratif
FAD	Fiscal Affairs Department
GDDS	General Data Dissemination System
IAIS	International Association of Insurance Supervisions
IOSCO	International Organization of Securities Commission
IMF	International Monetary Fund
OHADA	Organization for the Harmonization of Business Legislation in Africa
PRGF	Poverty Reduction and Growth Facility
ROSC	Report on the Observance of Standards and Codes
SCP	Société à Capital Public
SEM	Société d'Economie Mixte
SNH	Société Nationale des Hydrocarbures

# Fiscal Transparency

Cameroon

Prepared by an IMF staff team from the International Monetary Fund on the basis of information provided by the Cameroonian authorities.

The International Monetary Fund

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## FISCAL TRANSPARENCY MODULE FOR CAMEROON<sup>1</sup>

1. The purpose of this document is to evaluate Cameroon's fiscal management system in light of the requirements of the *Code of Good Practices on Fiscal Transparency—Declaration on Principles*, as prepared by the IMF. The first section describes the current situation on the basis of the Cameroon authorities' response to the questionnaire on fiscal transparency. IMF staff comments are provided in the second section.

### A. Description of Practice

2. **Clarity of roles and responsibilities:** The demarcation between the government sector and the rest of the economy is clearly established in the Republic of Cameroon.

3. With respect to the government sector, the August 17, 1995 *ordonnance* (setting forth the general regulations to govern public and parapublic sector enterprises) distinguishes administrative public entities (*établissements publics administratifs*<sup>3/4</sup>EPA) from other categories of enterprises, such as government-owned corporations (*sociétés à capital public*<sup>3/4</sup>SCP), and semipublic corporations (*sociétés d'économie mixte*<sup>3/4</sup>SEM), established with the aim of engaging (in the public interest) in industrial and commercial activities.

4. Administrative public organizations are legal entities, they are financially autonomous, and they are subject to the rules of government accounting. The same rules apply to local governments (*collectivités publiques locales*). Government-owned corporations and semipublic corporations are governed by the rules of private accounting. The authorities intend to revise the August 17, 1995 *ordonnance* in 1999/2000 with a view to meeting the requirements of efficiency and fiscal transparency.

5. Government accounting legislation requires the central government, local governments, and administrative public entities to produce their operating accounts each fiscal year. However, these accounts are prone to delays, and are insufficiently thorough (particularly the local governments' administrative accounts). In this regard, it is worth noting that no consolidated accounts have been prepared to date. The accounts tracking the operations of the social security system continue to be of poor quality. Government sector involvement in the rest of the economy is regulated by a consistent legal system that complies with the principles of the rule of law. However, the multiplicity and complexity of the legislation and cumbersome bureaucratic procedures account for repeated and undesirable government interventions.

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<sup>1</sup> Prepared by Mr. Abdoun and Mr. Katz (both AFR) and Mr. Toussaint (FAD), in consultation with the Cameroonian authorities.

6. The delegation of powers is governed by the Constitution and the responsibilities of central and local governments are well-defined in procedural terms. However, the enforcement of regulations needs to be improved, particularly with respect to the financial relationships between local and central governments (e.g., transfer of the special municipal surtaxes *<sup>3</sup>/<sub>4</sub>centimes additionnels communaux*, proceeds from business license taxes—*patentes*, and local communities' share of forestry revenues). Furthermore, control over government financial operations ought to be improved and appropriate penalties imposed in cases of regulatory violations. In particular, expenditure control in connection with budgetary appropriations managed by local governments or delegated appropriations (*crédits délégués*) must be strengthened.

7. Financial relations between the central government and the regional central bank (the BEAC) are clearly defined. However, those between the central government and the financial public enterprises, such as the social security company (CNPS), and nonfinancial public enterprises should be further rationalized and made more transparent. This would ensure that the autonomy of such enterprises is strengthened (e.g., the central government does not automatically pay back its contributions to the CNPS).

8. The management of the public investment budget is characterized by delays in project execution and insufficient mobilization of external resources. This is attributable to institutional constraints, a lack of sectoral strategies (leading to poor project design), as well as cumbersome procedures.

9. Overall, fiscal management is governed by a highly elaborate but complex legal framework set out in the February 7, 1962 *ordonnance* and predicated upon the principle of separation of functions between payment authorizing officer (*ordonnateur*) and government accounting officer (*comptable*). The various taxes and duties (as well as their collection mechanisms) are duly provided for in the laws. However, the tax authorities should conduct their operations judiciously and methodically and exercise judgment, with a view to preventing disputes. In this regard, the taxpayer's charter of rights is being prepared. Moreover, the civil service regulations prescribe the rights, benefits, and obligations of government employees.

10. ***Public availability of information:*** Presentation of the budget is governed by the 1962 *ordonnance* which prescribes the principles of unity and universality in budget operations. The various revenue and expenditure items are in principle included in the budget law, off-budget accounts having been abolished since 1986. However, with a view to facilitating the financing of social sectors, administrative fees (*recettes de service*) collected by the entities overseeing these sectors are directly earmarked to cover their operating outlays. The management of these revenues remains weak, and their collection and monitoring need to be improved.

11. The information available on the stock of domestic arrears is insufficient, and those arrears that are identified generally lack the documentation required by fiscal regulations. The authorities have accordingly undertaken a number of audits of these arrears. Moreover, the

main tables annexed to the budget law as specified by the 1962 *ordonnance* are generated each year and submitted to parliament at the same time as the budget law. The economic and financial report, which aims at explaining fiscal policy in the context of the budget law, outlines central government financial developments. This report accordingly compares the initial estimates and budgets for the two preceding fiscal years with respect to the current year. Dissemination of government finance data is expected to show gradual improvement beginning in 1999/2000, particularly with reference to the priority sectors (see section 2).

12. ***Open budget preparation, execution, and reporting:*** The draft budget law is accompanied by an economic and financial report explaining fiscal policy and summarizing the economic situation. However, to fulfill its specific function, this economic and financial report should endeavor to achieve a more effective presentation of the macroeconomic framework, with a view to better reflecting the medium-term economic outlook. In the budget presentation, new tax measures and budgetary allocations are clearly specified, and each budget law makes provision for using *ordonnances* to correct any fiscal risks.

13. Revenues and expenditures are presented on a gross basis and are distinguished from financing operations. Expenditures are presented by administrative category; however, their economic and functional classifications are insufficient and overly broad. The only available financial balances are those of the central government (*administration centrale*), specifically, the overall balance and the primary balance; the primary balance is the key aggregate in the government's PRGF-supported program. An integrated and comprehensive accounting framework (including accrual basis accounting, distinguishing among operations by fiscal year, and identifying payment arrears) is being introduced with a view to recording and presenting central government financial operations. The authorities are committed to ensuring that government finance operations (including budgetary operations) are presented in the context of the above-mentioned integrated and comprehensive accounting framework. Steps have been taken in this direction in the context of the PRGF-supported program.

14. Government procurement is regulated pursuant to decree (*décret*) No. 95/101 dated June 9, 1995 setting forth regulations with respect to government contracts. The procedures in place have been subject to an audit, the recommendations of which will be implemented.

15. Expenditure execution is subject to a number of *ex ante* control procedures, the efficiency of which is in need of improvement. The establishment of an independent central audit agency (the *Cour des Comptes*) is envisaged by the January 26, 1996 Constitution. Overall, monitoring of budget execution needs to be improved. In this context, work has begun on producing the balances for the consolidated Treasury accounts for central government, notwithstanding the volume of operations to be regularized.

16. For the present, central government financial operations are monitored in a monthly performance indicators table prepared for this purpose, although improvements for making the table more comprehensive have been identified and are under way. Lastly, the final budget execution law (*loi de règlement*) is produced each year and incorporated into the budget law to provide an account of revenue and expenditure performance under the

previous budget. The final budget execution law will henceforth be obtained from the balance of consolidated Treasury accounts for the period.

17. ***Independent assurances of integrity:*** Under the 1962 *ordonnance*, provision was made for verification of the transparency and thoroughness of government accounts by means of an independent central audit office (*Cour des Comptes*). The establishment of this office, as envisaged by the January 1996 Constitution, will be carried out gradually, in line with the fiscal reform timetable. Macroeconomic projections and financial assumptions are transmitted regularly to IMF staff. The statistics directorate currently reports to the Ministry of Economy and Finance; consideration is now being given to strengthening this directorate's staffing levels and enhancing its autonomy, pursuant to GDDS recommendations.

### **B. IMF Staff Commentary**

18. While Cameroon has a legal framework that meets a number of transparency criteria, the complexity and cumbersomeness of the system (and enforcement thereof) are such that Cameroon is at present unable to fulfill the various principles set forth in the Code of Good Practices on Fiscal Transparency. Major efforts to achieve compliance have already been made, however. The authorities are aware of the existence of significant constraints in public expenditure management. These constraints have been demonstrated on numerous occasions, including by the FAD technical assistance mission which visited Yaoundé at the government's request in February 1998. In December 1998, on the occasion of the review of the second year of the PRGF program, the authorities adopted an action plan to improve expenditure management and governance, on the basis of recommendations contained in that mission's report. The Fiscal Affairs Department sent a resident expert to Yaoundé to assist in the preparation and implementation of the measures contained in the action plan. The progress achieved thus far has been encouraging:

- Preliminary Treasury balances have been produced since July 1999, although improvements are needed to expand their coverage and enhance their accuracy; the expenditure execution system has been simplified; and new arrangements for the management of delegated appropriations have been prepared and will soon be implemented. Furthermore, an audit to determine the actual numbers of government employees is getting under way, and is expected to be completed by end-December 2000.
- An audit of procurement procedures, as well as of the ten largest contracts awarded during 1998/99 (a performance criterion under the program), has been carried out. A new system will be put in place with the appointment of a special commission to run procurement activities.
- A system for the periodic auditing of capital projects will be implemented during FY 1999/2000.

- An annual audit of the *Société nationale des hydrocarbures* (SNH)—a major taxpayer—has been carried out by an independent firm since 1997/98. This will soon be followed by an operational audit to evaluate the technical and financial performance of SNH, and to enhance the transparency of its financial operations, specifically, the transfer to the Treasury of oil royalty revenues. In addition, as a first step to enhance transparency in its financial operations, SNH adopted international standards of accounting in May 2000.
- A manual of procedures for safeguarding the collection of forestry revenues has been adopted with the aim of enhancing performance.
- Those responsible for the management of budget appropriations are henceforth to be fully accountable and are increasingly shouldering responsibility for their operations.
- A strategy for reforming the social security system is being devised, and will be implemented during 1999/2000.

19. The authorities are committed to implementing the following measures for enhancing fiscal transparency in the context of the third year of the PRGF-supported program:

- Publishing regular reports on the audits of financial operations and staffing levels of the main government agencies, in addition to having all major public enterprises undergo financial audits by independent firms.
- Preparing quarterly reports by ten Ministries<sup>2</sup> on the status of execution of their respective budgets, effective March 2000<sup>3</sup>; midterm publication of information on delegated credit itemized by appropriation (education, health, and agriculture, respectively).
- Involving an independent expert in the process of awarding forestry concessions, effective June 1999.
- Exercising heightened supervision over managers of budget appropriations, and imposing penalties in cases of regulatory violations.
- Strengthening the resources and authority of the *Contrôle Supérieur de l'Etat* and other inspection agencies, to enable them to carry out regular verification of the financial operations of government agencies and public enterprises.

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<sup>2</sup> Education, Health, Agriculture, Justice, Economy and Finance, Social Affairs, Public Investments, Mines and Energy, Transportation, and Public Works.

<sup>3</sup> Preparation of reports by the Ministries of Education and Health started in October 1999.

20. In conclusion, the authorities are determined to overcome the constraints observed in connection with fiscal management and transparency. The implementation of the adopted measures, particularly in the context of the PRGF-supported program, is expected to achieve significant improvements in this regard. However, to facilitate compliance with the principles of the *Code*, these efforts should be complemented with bold measures, designed *inter alia* to:

- Simplify the legal framework and scale back the government's involvement in the economy.
- Reorganize and clarify the financial relationships between the central government and the financial and nonfinancial public enterprises, as well as the social security agencies.
- Disseminate fiscal information, particularly regarding budget laws and budget execution, and explain the macroeconomic assumptions underlying budget decisions.
- Enhance budget execution and control procedures.

# Transparency of Monetary and Financial Policies

Cameroon

Prepared by a staff team from the International Monetary Fund and the World Bank in the context of a Financial Sector Assessment Program (FSAP), on the basis of information provided by the Cameroonian authorities.

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**CAMEROON: CONSISTENCY WITH CODE OF GOOD PRACTICES ON TRANSPARENCY IN  
MONETARY AND FINANCIAL POLICIES<sup>1</sup>**

1. Overall, monetary and financial policies in the CEMAC are rather transparent—a situation that is to some extent the result of institutional arrangements prevailing in the economic and monetary union. Such arrangements would be impossible to implement to the satisfaction of all countries involved without a large degree of transparency. A tabular summary of consistency with the Code of Good Practices on Transparency is provided in Table 1. Transparency practices in the following domains are reviewed: (i) monetary policy; (ii) financial policies, including banking supervision and payment system oversight.

**Table 1. Cameroon: Consistency with Code of Good Practices on Transparency**

Section	Practice	Full	Part	NC	Comments
<b>Monetary Policy</b>					
Clarity of roles, responsibilities, and objectives	Objectives, institutional framework, relationship between monetary and fiscal operations, and agency roles are clearly defined in the statutes of the BEAC and in the international treaties on the Central African Monetary Union.	X			The rules that determine how the BEAC can intervene in the rest of the economy are not made public.
Open process for formulating and reporting policy decisions	The monetary policy framework and decision making process are defined in broad terms in the statutes of the BEAC. Policy changes are promptly communicated and clearly explained. Fundamental modifications are, in practice if not in law, preceded by consultations with the parties concerned.		X		The monetary policy framework could be better explained to the public, and the monetary policy decisions should be explained better within the context of that framework. There is a tendency to limit the communication of policy measures to the affected parties, instead of to the public at large.
Public availability of information	Implementation of the GDDS is in process. The BEAC has a broad range of publications as well as a network of local branches to inform the public. Emergency assistance to banks is kept secret.		X		The publications suffer from sometimes long delays.

<sup>1</sup>This module was prepared in consultation with the Cameroonian authorities, the BEAC, and the COBAC in the context of an FSAP mission conducted in Cameroon in March 2000. The work of the FSAP mission was coordinated by a joint IMF-World Bank team led by Mr. Durand (IMF) and Ms. A.C. Rennie (World Bank). The main contributors were Mr. Driessen and Mr. Fonteyne (both IMF).

Section	Practice	Full	Part	NC	Comments
Accountability and assurances of integrity	Governor is accountable to the Board, a Ministerial Committee and the Heads of State of the CEMAC. Financial statements are audited by an internal committee of censors. The code of conduct for BEAC staff is partially published in the BEAC statutes.		X		Financial statements will be audited by external auditors from FY2000 onwards. The elaborate version of the code of conduct for BEAC staff is an internal document. BEAC staff do not enjoy special judicial protection.
<b>Banking Supervision and Payment System Oversight</b>					
Clarity of roles, responsibilities, and objectives	Objectives, institutional framework, relationship between financial agencies are clearly defined in the Convention creating COBAC.	X			In the area of payment system oversight, BEAC could increase its efforts in communicating general policy principles to participants in the payment system.
Open process for formulating and reporting policy decisions	Overall conduct of policies is transparent. Fundamental modifications are, in practice if not in law, preceded by consultations with the parties concerned, and communicated in a timely manner. There is regular reporting on the achievement of its objectives.	X			The consultation process that currently takes place could be formalized.
Public availability of information	COBAC issues periodic reports on progress in achieving objectives and regulatory initiatives. A compendium of regulations has been issued recently.		X		Delays in the publication of reports hinders the availability of information. A public information service would be useful to correct this problem..
Accountability and assurances of integrity	The President of COBAC is also Governor of BEAC, and is accountable to the Board of Governors, a Ministerial Committee and the Heads of State of the CEMAC.	X			

## A. Monetary Policy

2. Monetary policy in Cameroon is conducted by the BEAC, and aims to maintain the external and internal value of the currency. Foreign reserves function as an intermediary monetary target, while the operational target consists of a series of BEAC refinancing limits for each country of the union. The interest rates charged on these refinancing operations are used as instruments. A maximum degree of transparency in such a policy framework can be beneficial, but is not crucial, especially not given the nascent stage of financial market development and the limited monetization of the CEMAC economies. As a result, transparency towards the general public has traditionally not been a top priority for the BEAC. However, the BEAC has ensured a high degree of transparency towards the governments of its member states.

3. For the four broad areas covered in the Code of Good Practices on Transparency in Monetary and Financial Policies (clarity of roles, responsibilities, and objectives; the process for formulating and reporting of policy decisions; public availability of information; and accountability and assurances of integrity), the BEAC overall demonstrates a fairly high degree of transparency.

4. The *roles, responsibilities and objectives* of the BEAC, are clearly defined in its statutes, in the Treaty on the Central African Monetary Union and in the Treaty on Monetary Cooperation between the member states of the BEAC and the Republic of France. The only practice that is not fully observed is the requirement that central bank involvement in the rest of the economy should be conducted in an open and public manner (1.2.4). The rules for such involvement are kept internal.

5. There is room for improvement in the area of *open process for formulating and reporting monetary policy decisions*. In particular, the BEAC could better communicate the monetary policy framework (instruments and final, intermediary, and operational targets as well as the relationships between those), and explain its general monetary policy stance and specific decisions within that framework. The publication of a reference paper explaining and motivating that framework in detail could be a useful tool to enhance the transparency of the monetary policy decision making process. Some practices are not fully implemented (advance publication of the calendar of Board meetings, publication of practical rules and procedures regarding monetary instruments and relations with counterparties). An evaluation of progress towards the realization of monetary policy objectives is completed only once a year, in the annual report. It would be useful if the BEAC could increase the frequency of these evaluations, and, for example, publish one after every Board meeting is held. The current practice of organizing consultations prior to substantive technical changes in the structure of monetary regulations could be formalized.

6. With regard to the *public availability of information*, the BEAC has an appropriate range of publications, but some of these publications have been issued with lengthy delays in the recent past, and thus have not been very useful as a means of providing the public with timely information. To avoid unnecessary delays, the BEAC should establish firm deadlines for the monthly bulletin. Consideration could be given to separating the monthly statistics from the research papers. To avoid that overdue research papers delay the publication of statistics. The BEAC should also consider publication of its accounting guidelines, to the extent possible without releasing confidential information. Communication with the general public could be enhanced by introducing sessions in the parliaments of the member states for the governor to explain monetary policy and developments.

7. There are some areas for improvement with regard to *accountability and public assurances of integrity*. In general, the BEAC could make available non-sensitive parts of its internal regulations for public scrutiny. This would reinforce confidence in the BEAC, and would give an incentive to control the quality of internal regulations. The BEAC member states could consider granting some kind of immunity to all BEAC staff, for their decisions taken in the exercise of their duty.

## B. Financial Policies

8. This section provides an overall assessment of transparency practices in financial policies with respect to banking supervision by the Banking Commission and of payment system oversight by BEAC. For the four broad areas covered in the Code of Good Practices on Transparency in Monetary and Financial Policies (clarity of roles, responsibilities, and objectives; the process for formulating and reporting of policy decisions; public availability of information; and accountability and assurances of integrity), COBAC overall demonstrates a fairly high degree of transparency. Although the Code has only a few explicit references to payment system oversight, BEAC could implement improvements in transparency practices in this area.

9. The *roles, responsibilities and objectives* of the COBAC are clearly defined in its founding convention. With regard to clarity of roles in the payment system oversight area, BEAC could enhance the communication to and consultation with payment system participants, in particular concerning risk management features of the payment system.

10. Similarly, COBAC has an *open process for formulating and reporting financial policy decisions*. The current practice of organizing consultations prior to substantive technical changes in the structure of financial regulations could be formalized.

11. With regard to the *public availability of information*, COBAC has an appropriate range of publications. However, some of these publications have been issued with lengthy delays, and thus have not been very useful as a means of providing the public with timely information. To avoid unnecessary delays, COBAC should establish firm deadlines for its bulletin and annual report. The upcoming move to new headquarters could provide an opportunity to improve its public information services, including a website.

12. COBAC displays overall observance of the Code with regard to *accountability and public assurances of integrity*. Its president, who is also Governor of the BEAC, is accountable to the Board of Directors of BEAC and the Council of Ministers of the CEMAC. Codes of conduct regarding financial affairs of staffs are made public. COBAC does not maintain separate accounts from BEAC.

# Banking Supervision

Cameroon

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**CAMEROON: OBSERVANCE OF THE BASEL CORE PRINCIPLES  
FOR EFFECTIVE BANKING SUPERVISION<sup>1</sup>**

1. Since the late-1980s, the authorities have forcefully implemented a program of liquidation, recapitalization, and privatization during two waves of bank restructuring, and have reinforced regulatory and supervisory capacity. As a result, a large part of the banking system—dominated by foreign-owned banks—now respects prudential ratios. Nevertheless, some banks are still in a precarious situation, there is a high degree of indirect credit risk and loan concentration, and there is important liquidity risk. Also, the scarce information available on the financial situation of microfinance institutions points to soundness issues.

2. The mission assessed observance of the Basel Core Principles for Effective Banking Supervision, and found that Cameroon—and other countries that share the same regional supervisory arrangement—complied only partially. The regulatory framework in Cameroon is relatively well-developed for the state of development of the financial markets of the country, but there are important shortcomings. Improvements are needed in the area of adequacy of staffing of the regional banking commission (COBAC), and coverage of nonbank deposit-taking financial institutions by the regulatory framework. In addition, the required capital adequacy ratio of five percent is too low for the level of risk with which the Cameroonian economy is confronted.

3. The assessment of observance of each of the 25 Core Principles (30 after subdividing the first Core Principle into six sub-principles) has revealed a number of weaknesses (Table 1). The legal and regulatory framework appear to be compliant or largely compliant with 18 of the 26 Core Principles that are relevant (four Core Principles are not applicable to Cameroon).

**Table 1. Cameroon: Observance of the Basel Core Principles**

CP	Principle	C <sup>1/</sup>	BC <sup>2/</sup>	BNC <sup>3/</sup>	NC <sup>4/</sup>	NA <sup>5/</sup>	Comments and Corrective Actions
1.1	Clear Supervisory Responsibilities	X					Further possible improvements are the introduction of a regular review of the supervisory process and a modernization of the activities of the COBAC.
1.2	Independence and Resources			X			COBAC has insufficient (human) resources. The situation risks deteriorating further as a result of the decision to move COBAC to Libreville, and the possibility it will be given new responsibilities without commensurate

<sup>1</sup> This module was prepared in consultation with the Cameroonian authorities, the BEAC, and the COBAC in the context of an FSAP mission conducted in Cameroon in March 2000. The work of the FSAP mission was coordinated by a joint IMF-World Bank team led by Mr. Durand (IMF) and Ms. A.C. Rennie (World Bank) with assistance from Mr. Driessen and Mr. Fonteyne (both IMF). The main contributors were Mr. Laurin (World Bank) and Mr. Maes (formerly Belgian Banking Commission).

CP	Principle	C <sup>1/</sup>	BC <sup>2/</sup>	BNC <sup>3/</sup>	NC <sup>4/</sup>	NA <sup>5/</sup>	Comments and Corrective Actions
							new resources. COBAC's needs should be given priority in BEAC's budget.
1.3	Legal Framework		X				Further substantial improvement is possible in the microfinance sector. A regulation is being drafted.
1.4	Supervisory Powers		X				COBAC should use more rapidly its regulatory powers and draft a regulation on market discipline and corporate governance.
1.5	Legal Protection	X					COBAC staff enjoy immunity from prosecution for their job-related acts.
1.6	Information Sharing		X				Further improvement would consist of stricter procedures for information gathering and confidentiality.
2	Permissible Activities		X				Further action to take: enforce the regulation on misuse of the word "bank" and sale of banking products and services by institutions without a banking license.
3	Licensing of Banks		X				Further action to take: it would be better if COBAC had sole responsibility for bank licensing.
4	Transfer of Ownership	X					
5	Acquisitions and Investments		X				
6	Capital Requirements			X			The current minimum solvency ratio is too low, and does not take the significant operational risks into account. It should, as a first stop be raised to the international level of 8 percent.
7	Loan Policies			X			
8	Loan Classification		X				New rules are a big improvement, but banks still have to make more efforts to classify loans on a case by case basis. COBAC could make better use of external auditors by reviewing systematically their reports and debriefing them after missions.
9	Management Information on Risk Concentration		X				Further improvement: COBAC should formalize and better organize risk management information systems.
10	Connected Lending				X		Legal provisions are insufficient, although COBAC has been making efforts against malpractices.
11	Country Risks					X	
12	Market Risks			X			
13	Other Material Risks				X		Many important risks have not been considered in the regulations.
14	Internal Controls		X				Texts and regulations could be further perfected to include rules on audit committee, director's independence.
15	Money Laundering				X		There are no legal provisions in this area, but COBAC is doing efforts to check on suspect money.
16	On-site/Off-site Supervision		X				COBAC's lack of resources is hampering its supervision efforts, reducing the frequency of on-site supervision. More resources and better use of external auditors could improve the situation.
17	Understanding Banks' Operations		X				Communications are somewhat hampered by the geographical vastness of the area under

CP	Principle	C <sup>1/</sup>	BC <sup>2/</sup>	BNC <sup>3/</sup>	NC <sup>4/</sup>	NA <sup>5/</sup>	Comments and Corrective Actions
							supervision. COBAC could improve things by requiring banks to report their own irregularities with respect to prudential regulation.
18	Prudential Reporting	X					
19	Independent Examination of Prudential Information		X				COBAC should try to improve its communication and cooperation with the supervisory boards and the external auditors of the banks.
20	Consolidated Supervision					X	
21	Accounting and Disclosure			X			Increasing the role of the external auditors would be helpful in accounting as well. The BEAC should issue publication and disclosure requirements for banks.
22	Corrective Action		X				COBAC could take more vigorous action in certain cases. Sometimes it is a bit too reluctant to implement corrective measures.
23	Global Supervision					X	
24	Cooperation with Foreign Supervisors					X	
25	Foreign Banks' Branches Total	X					COBAC intends to conclude more treaties with foreign supervisors, after having agreed upon such a treaty with the French authorities.

<sup>1/</sup> Compliant.

<sup>2/</sup> Broadly compliant.

<sup>3/</sup> Broadly non-compliant.

<sup>4/</sup> Non-compliant.

<sup>5/</sup> Not applicable.

4. The Basel Core Principles assessment was based on an examination of key documents and discussions with the supervisory authorities. The documents examined included the self-assessment prepared by the COBAC Secretariat, the Compendium of Laws and Regulations for the financial and banking system, the basic CEMAC treaties and conventions, as well as numerous other documents obtained from the Secretariat (e.g., annual reports, bulletins, internal papers describing the work processes of the supervisory departments, general reflections and thoughts on supervisory issues). In addition, discussions were held with staff of the BEAC, the Ministry of Economy and Finance, management and staff of four banks in Yaoundé and Douala and with an international auditing firm. The assessment team enjoyed the full cooperation of its counterparts and received all the information required.

5. The assessment of observance of each of the 25 Core Principles (30 after subdividing the first Core Principle into six sub-principles), revealed that the most important weaknesses are situated in the regulatory framework, and more specifically in the insufficiency of the available human resources. This has delayed, among other things, the Secretariat's efforts to adapt and modernize its working processes and instruments. The scope and frequency of the bank examinations, as well as the follow up of their conclusions, has suffered as a result. Finally, the shortage of human resources at the Secretariat should be tackled in a fundamental way to enable the institution to address the challenges it will face in the future. To this end, the mission, without modifying the institutional arrangements between COBAC and BEAC,

would recommend that COBAC be given a specific budget consistent with its need and that the latter be ranked top priority. In addition, the costs involved by the transfer of the COBAC's headquarters from Yaoundé to Libreville, since it results from a political decision, should be funded as a specific regional project independent from BEAC's and COBAC's resources.

**Core Principle 1: Responsibilities, objectives, operational independence, resources, legal framework or powers, protection for supervisors, information sharing**

6. Banking supervision in Cameroon is organized at the regional level to cover the six CEMAC countries. COBAC, the regional institution, has been assigned nearly the full range of powers that national prudential supervisory authorities have in other countries. It is in charge of off-site and on-site supervision and issues prudential regulation. It shares responsibility with the national ministries of finance for the licensing of new banks, and it has the authority to sanction credit institutions, to revoke banking licenses and to decide on liquidation of banks.

7. Nevertheless, the division of responsibilities between a supranational institution and national authorities can lead to frictions. Although a clear legal hierarchy has been established under which supranational provisions override the national legal framework, in practice COBAC has to rely on the respective national authorities' willingness to cooperate for the implementation and enforcement of its decisions.

8. COBAC and its Secretariat have acquired a credibility and expertise unanimously recognized by the CEMAC member states as well as by the banking community. COBAC has become a well-respected and authoritative institution, and it has demonstrated its efficiency through good management of a number of crisis situations.

9. The banking crises of the 1990s resulted in two comprehensive rounds of restructuring which affected almost every bank in some way. All banks are now privatized, and all the larger ones now have foreign ownership. After the nonperforming loan experience of the past decade, banks now concentrate their credit activity on a limited number of highly credit-worthy customers. This has left an opportunity for the development of microfinance, a sector which operates to a considerable extent outside the boundaries of the legal and regulatory framework for financial intermediation. This implies that the security of transactions carried out by the sector is not guaranteed. A legal and supervisory framework is currently under development that should allow the normalization and restructuring of the microfinance sector. However, assigning prudential supervision for the sector to COBAC risks further straining its already overburdened human resources. The regulation should aim at making sure that the mutual credit sector only lends to members. The rules should be designed to make it easy to determine when any institution is moving beyond that and into the nearbank sphere. One element of the solution is to define closely the scope of permissible activities for credit cooperatives, essentially ensuring that they stay within a certain size parameter and within some kind of affinity group.

10. Although legally independent, COBAC is intimately related to BEAC. The Governor of the central bank is *de jure* chairman of COBAC, and he recommends the nomination of the members of the banking commission to the BEAC's board. Furthermore, COBAC depends on the BEAC for its financial and human resources. In this respect, it should be mentioned that the persistent shortage of human resources has only recently been addressed to some extent through a recruitment effort.

11. In 1997, the Secretariat estimated it needed 16 additional people. BEAC reduced this figure to nine and eventually recruited six, the last three of which joined COBAC only recently. If given responsibility for supervision of the microfinance sector, COBAC estimates it will need at least 10 additional staff, in addition to the 10 people requested but not obtained earlier. Given the need for a gradual integration of new staff, recruitment efforts will have to be spread out over a period of three to four years, which makes it all the more important to start the recruitment efforts without delay.

12. **Assessment:** COBAC's credibility and recognized expertise among the CEMAC member states is commendable. However, it is not entirely in observance of Core Principle 1, owing to its insufficient human resources and the absence of supervision on microfinance institutions engaged in banking activities.

### **Core Principles 2–5: Licensing, ownership**

13. The 1992 Convention gives joint responsibility for issuing banking licenses between the national authorities and COBAC, with the latter having prime responsibility. COBAC's consent is needed for every licensing act for banks and bank directors. However, this two-level licensing process can cause unnecessary delays, and concomitant judicial validity and enforceability problems for management decisions taken while a licensing decision remains pending.

14. Microfinance institutions are not yet subject to a real licensing procedure. The recently introduced registration procedure is very superficial and needs to be further amended and reinforced. At this stage, the procedure aims only at eliminating the worst cases and officially registering the others.

15. **Assessment:** COBAC is largely compliant. Currently, microfinance institutions are not licensed for deposit-taking, and some use the protected "bank" nomenclature. However, this situation is currently being addressed as part of the microfinance census and subsequent relicensing.

### **Core Principles 6–15: Prudential regulations and requirements**

16. A number of prudential rules (including capital requirements, risk concentration, and internal controls, etc.) are less stringent than international standards. These rules were

established several years ago in a context in which the banking systems in the region were facing sizable problems. COBAC has already decided to strengthen the risk concentration rules and told the mission it intends to review the capital requirements and the internal control regulation in the near future. The authorities' aims are to eventually approach international standards.

17. Given the high operational risk the banking sector faces in a fragile legal and judicial environment, capital requirements should be higher than in other countries with a more reliable legal system. Furthermore, the diverse risk profiles of individual banks would seem to suggest that COBAC should be able to tailor capital requirements to individual situations. Finally, capital requirements should take the substantial macroeconomic risks facing the Cameroon economy into account. As a first step the minimum solvency ratio should be raised to the international level of 8 percent.

18. The internal control regulation should be reviewed in light of the current situation of limited professional training and expertise in the banking sector. In addition, the rules regarding connected lending are too lenient and should be reinforced. Also, the international guidelines on money laundering should be incorporated in the current regulation.

19. **Assessment:** A number of practices in this category are not in compliance, in particular the capital adequacy and risk concentration ratios; however, the authorities intend to reach international standards in the future so as to comply fully with these principles.

#### **Core Principles 16–20: Supervision approach, ongoing supervision**

20. The banking crises of the 1990s have led COBAC to prioritize the on-site-supervision of banks. To cope with the limited number of staff, significant changes have been made to the off-site-supervision process and instruments. In particular, the accounting system has been modernized and prudential data submissions from the banks are now processed electronically, which will benefit the quality of off-site-supervision.

21. Given the size of the geographic area to be supervised, and the current low frequency of inspection visits, it is of paramount importance to contemplate increasing the involvement of external auditors in the prudential supervision process.

22. **Assessment:** Despite its human resource constraints, COBAC should continue to reinforce its supervision efforts, by adjusting supervision to the risk profile of the individual banks, and by relying when and if appropriate more heavily on external auditors. Furthermore, relations with the boards of directors of banks should be intensified in order to foster the strengthening of the corporate governance culture and to improve internal supervision by the board.

### **Core Principle 21: Information requirements**

23. COBAC has no legal authority to determine the contents of banks' annual reports. National governments are responsible for legislation and regulation in this area. Also, at present, external auditors are not required to communicate with banking supervisors.

24. In order to strengthen market discipline, COBAC has adopted a policy of publicizing extensively all decisions taken against financial institutions for infringement of legal and regulatory requirements.

25. **Assessment:** as indicated earlier, a closer collaboration with the external auditors should be worked out. Indeed, the efficiency of the contribution of the external auditors will depend on adequate regulation. It is recommended that the authority for issuing rules and guidelines for the public reporting of financial information by banks be transferred to COBAC since this institution has the most expertise in this field. This should facilitate as well regional harmonization as well.

### **Core Principle 22: Corrective actions**

26. COBAC is duly mandated to impose corrective action on banks. However, national authorities may be tempted to interfere in the decision process or in the application of corrective measures. COBAC's discretionary powers give it the necessary flexibility for handling crisis situations, but also make it vulnerable for external pressure and interference.

27. COBAC can only prevent a bank from distributing dividends if it does not comply with minimum capital requirements, in which case COBAC has extensive power to enforce the reconstitution of the capital base. However, COBAC does not have the authority to remove a member of the board of directors.

28. **Assessment:** More stringent and automatic rules to handle infringements and/or crisis situations would enhance COBAC's efficiency and shield it better from external pressure and interventions.

### **Core Principles 23–25: Cross-border supervision**

29. COBAC has recently signed a convention with the French prudential authorities to facilitate the exchange of information.

**Assessment:** Although this convention is a step in the right direction, the growing importance of foreign institutions in CEMAC banking systems increases the need for cooperation and extensive information exchanges, with the home country supervisors as well as with the parent institutions of those banks.

# Insurance Supervision

Cameroon

Prepared by a staff team from the International Monetary Fund and the World Bank in the context of a Financial Sector Assessment Program (FSAP), on the basis of information provided by the Cameroonian authorities.

The International Monetary Fund  
May 2000

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**CAMEROON: REVIEW OF INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS  
(IAIS) PRINCIPLES<sup>1</sup>**

1. The assessment of IAIS Supervisory Principles applicable to the regional insurance supervision council CRCA (Commission Régionale de Contrôle d' Assurance) has demonstrated substantial shortcomings in supervisory practices (Table 1).
2. Since the founding of the CRCA in 1992 to implement the CIMA (Inter-African Conference on Insurance Markets) Treaty , regional insurance regulations (the CIMA Code) has been harmonized, and supervision has been strengthened considerably. Nevertheless, the insurance sector in Cameroon is still in engaged in an ongoing restructuring process. The insurance sector remains small, with turnover smaller than 1 percent of GDP in 1997/98, mainly concentrated in the property and casualty sector.

**Table 1. Cameroon: Observance of the IAIS Principles**

CP	Principle	FC <sup>1/</sup>	BC <sup>2/</sup>	PC <sup>3/</sup>	NC <sup>4/</sup>	Mat NC <sup>5/</sup>	Comments and Corrective Actions
1.	Organization		X				CIMA Secretariat needs additional human and financial resources.
2(1)	Licensing	X					
2.(2)	Licensing Fit and proper	X					
2.(3)	Licensing Reliance on Other Jurisdiction		X				There is no routine contact with other jurisdictions.
3.	Changes in Control	X					Transfer cannot occur if not authorized by the Minister and supported by a positive opinion from CRCA.
4	Corporate Governance					X	Code does not prescribe rules for Board of Directors. Is this relevant for Cameroon?
5	Internal Controls					X	There is no evidence of any internal controls.
6	Assets			X			There is no requirement for an investment policy statement from the Board of Directors and no rules concerning safekeeping.
7(1)	Liabilities		X				No requirement for actuarial evaluation of liabilities.
7(2)	Liabilities: Technical Provisions		X				CIMA professionals are seeking to develop appropriate techniques for verification
7(3)	Liabilities Reinsurance Credit			X			CRCA does not have a practice of reviewing reinsurance arrangements

<sup>1</sup> This module was prepared in consultation with the Cameroonian authorities and the CRCA in the context of an FSAP mission conducted in Cameroon in March 2000. The work of the FSAP mission was coordinated by a joint IMF-World Bank team led by Mr. Durand (IMF) and Ms. A.C. Rennie (World Bank) with assistance from Mr. Driessen and Mr. Fonteyne (both IMF). The main contributor was Mr. Mac Isaac (World Bank).

CP	Principle	FC <sup>1/</sup>	BC <sup>2/</sup>	PC <sup>3/</sup>	NC <sup>4/</sup>	Mat NC <sup>5/</sup>	Comments and Corrective Actions
8	Capital Adequacy and Solvency	X					
9	Derivatives and “off-balance sheet” items						Not relevant.
10	Reinsurance					X	CRCA does not gather information on reinsurance companies; and makes no contact with authorities in other countries.
11	Market Conduct			X			Tariff of automobile insurance rates is not being enforced.
12	Financial Reporting	X					
13	On-site Inspection		X				Human and financial follow up procedures need to be improved.
14	Sanctions	X					

<sup>1/</sup> FC: Fully compliant

<sup>2/</sup> BC: Broadly compliant

<sup>3/</sup> PC: Partially compliant

<sup>4/</sup> NC: Non-compliant

<sup>5/</sup> Mat. NC: Materially non-compliant

### **Principles 1 (Organization) and 13 (On-site Inspection)**

3. In order to carry out both on-site inspections and desk analysis of more than 100 companies across 14 countries, the CRCA needs additional staff and other resources. In order for the work of supervision to be effective, the findings of inspections and analysis must be pursued and this follow-up also requires additional resources.

### **Principles 2(3) (Licensing) and 10 (Reinsurance)**

4. In order to be fully compliant with these principles, the CRCA will need to establish a program of regular communication with insurance supervisors in countries outside the franc zone. They will likely be obliged to enter into contracts (“Concordat”) with other supervisors, that call for the exchange of information, subject to appropriate confidentiality rules.

### **Principles 4 (Corporate Governance), 5 (Internal Controls) and 6 (Assets)**

5. The IAIS Principles presume that supervised financial institutions will practice good corporate governance. Under such a system, boards of directors are obliged to establish special committees from among their members, making these committees responsible for controlling important aspects of the business of the financial institution, such as investment policy, internal controls and proper market conduct.

6. These board responsibilities are not discussed in the CIMA Code. Nor did the mission find that insurance companies based in Cameroon had established such committees or had any such expectations of requests for creating these committees from board members.

**Principle 7 (1) Liabilities**

7. The existing CIMA Code does not require that mathematical provisions for life insurance policy liabilities be computed and certified by a qualified actuary. Life insurance business does not represent a significant proportion of the business of Cameroon insurance companies at the present time. However this situation would be altered significantly with reforms in the area of social security. Under the circumstances, it would be preferable if local companies began to make use of the services of professional actuaries—in the calculation of premiums as well as in the preparation of technical provisions for liabilities.

**Principles 7(3) (Liabilities) and 10 (Reinsurance)**

8. Reinsurance of large risks is essential for insurance companies operating in Cameroon. In reality, their ability to settle claims submitted by their clients will be directly impacted by the claims-paying practices and the financial condition of their reinsurance companies.

9. As specified in the IAIS principles, it is essential that supervisory authorities monitor closely the reinsurance contracts undertaken by local companies. In order to do that properly, they should ask the companies to forward to the supervisory staff copies all reinsurance contracts. The supervisory staff should have the authority and the means to obtain information concerning the financial condition of the reinsurance companies. They should also have the authority to communicate directly with the supervisory authorities in those foreign jurisdictions where the reinsurance companies have their headquarters. There is no mention of these activities nor of these powers in the CIMA Code.

# Payment System

Cameroon

Prepared by a staff team from the International Monetary Fund and the World Bank in the context of a Financial Sector Assessment Program (FSAP), on the basis of information provided by the Cameroonian authorities.

The International Monetary Fund  
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**CAMEROON: REVIEW OF COMMITTEE ON PAYMENTS AND SETTLEMENT SYSTEMS (CPSS)  
CORE PRINCIPLES FOR SYSTEMICALLY IMPORTANT PAYMENT SYSTEMS<sup>1</sup>**

1. Cameroon's payments system is part of that for the CEMAC zone. The system consists of two parts: clearing centers at the level of the BEAC branches for high-volume, small-value payments and settlement through regional BEAC current accounts for large value payments.
2. For small amounts, daily clearing sessions are held in each BEAC branch, during which banks exchange their instruments (checks, transfers, paper) and arrange settlement of their net positions using the current accounts they maintain at that particular BEAC branch. Since 1987, there have been "pre-clearing" sessions to verify whether checks are covered—practices aimed at eliminating the automatic granting of central bank credit. Clearing is strictly local: paper not payable locally must be sent for collection, which can cause significant delays. There is no national consolidation of local clearing sessions at the moment.
3. There are currently no subregional clearing organizations. The central bank executes transfer orders of account holders on its books within the CEMAC zone and abroad. Although the BEAC uses the SWIFT network, at times there are administrative delays in the international transfers it processes, and some banks use alternative routes to transfer funds to and from their correspondent accounts; individuals often avail themselves of services provided by nonbanks, such as Western Union.
4. An assessment of the CPSS Draft Core Principles for Systemically Important Payment Systems found that there is less than full observance for most of the principles (Table 1). In particular, the new legal framework is not yet adopted, there is no guaranteed settlement finality, the payment system is not efficient and practical for participants, and there is scope for improvement in security procedures.

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<sup>1</sup> This module was prepared in consultation with the Cameroonian authorities in the context of an FSAP mission conducted in Cameroon in March 2000. The work of the FSAP mission was coordinated by a joint IMF-World Bank team led by Mr. Durand (IMF) and Ms. A.C. Rennie (World Bank) with assistance from Mr. Driessen and Mr. Fonteyne (both IMF). The main contributor was Mr. Spiri (Bank of France).

**Table 1. Cameroon: Observance of the CPSS Draft Core Principles for Payment Systems**

CP	Principle	FC <sup>1/</sup>	PC <sup>2/</sup>	NC <sup>3/</sup>	Comments and Corrective Actions
I	The system should have a well-founded legal basis in all relevant jurisdictions.		X		The system rests on a sound legal basis, but has to be completed further. A comprehensive law was prepared three years ago but has not been ratified yet by the national parliaments. The statutes of the BEAC give it legal authority to organize a payment system.
II	The system's rules and procedures should enable participants to have a clear understanding of the system's impact on each of the financial risks they incur through participating in it.	X			The rules and procedures are issued by the BEAC and distributed to all participants. The latter have a clear understanding of settlement risks.
III	The system should have clearly defined procedures for the management of credit risks and liquidity risks, which specify the respective responsibilities of the system operator and participants, and which provide appropriate incentives to manage and contain risk.		X		Procedures exist for handling crisis situations, but they have not been completely formalized.
IV	The system should provide prompt final settlement on the day of value, preferably during the day, and at a minimum at the end of the day.			X	The pre-clearing system implies that payments are only executed the day after documents are presented for settlement.
V	A system in which multilateral netting takes place should, at a minimum, be capable of ensuring the timely completion of daily settlements in the event of an inability to settle by the participant with the largest single settlement obligation.			X	If a participant is unable to settle, his counterparts have to withdraw their claims until the next day.
VI	Assets for settlement should preferably be a claim on the central bank; where other assets are used, they should carry little or no credit risk.	X			Assets for settlement are deposits held in current accounts at the BEAC or its branches.
VII	The system should ensure a high degree of security and operational reliability and should have contingency arrangements for timely completion of daily processing.		X		
VIII	The system should provide a means of making payments which is practical for the markets it serves and efficient for the economy.			X	The payment system does not allow for development—especially for automating its manual character for improving its pre-clearing practices.. Especially its manual character and the pre-clearing system are criticized.
IX	The system should have objective and publicly disclosed criteria for participation, which permit fair and open access.	X			The system is open for participation by all commercial banks, the Treasury, CFC and CCP.
X	Governance of the system should be effective, transparent, and accountable.	X			The system is in full compliance with this principle.

<sup>1/</sup> FC: Fully compliant

<sup>2/</sup> BC: Partially compliant

<sup>3/</sup> NC: Not compliant

**Principle I: Well-founded legal basis in all relevant jurisdictions.**

5. The legal basis for the Cameroonian payment system is derived from the European legal systems, in particular the French system. This solid legal basis allows bilateral settlement, but the texts are old and need to be modernized. To that end, the regional authorities have prepared a uniform law for payment instruments in the CEMAC, focusing on prevention of fraud and the centralization of information on check payment incidents. However, the law, drafted three years ago, has not yet been adopted. Cameroon faces two particularities that could interfere with the overhaul of the legal basis of the payments system, namely the OHADA-rules for the standardization of economic law in Africa based on a "civil law" system, and the existence of a British-style "common law" system in the northwestern part of the country.

6. The statutes of the BEAC mandate it to organize a payments system for the entire CEMAC. By international treaty, these statutes have force of law in the member states. Art. 1 of the statutes says that BEAC's mission includes the promotion of the proper functioning of the union's payment system. Art. 9 gives it the authority to organize a clearing system, and Art. 20 instructs it to participate in actions aimed at the stability and control of—among other things—all means of payment.

7. **Assessment:** The system is partially compliant; ratification of the uniform law for payment instruments would strengthen the legal framework.

**Principles II–III: Understanding of the system's impact on risks; and procedures for the management of risks and liquidity risks.**

8. The BEAC has issued a set of rules and guidelines on the functioning of the clearing system, which had been distributed to all participants. The banking crises and the payment system reforms of 1987 developed awareness of the risks involved among all concerned parties. The rules for solving settlement problems are known to all participants, and have been clarified with the introduction of the pre-clearing system. Crisis management procedures are supposedly in place, but have not been formalized.

9. **Assessment:** The system is in full compliance with II, and in partial compliance with III; full compliance could be achieved after formalizing crisis management procedures.

**Principles IV–VI: Final settlement; inability to settle by the participant with the largest single settlement obligation; and assets for settlement.**

10. The system of pre-clearing implies that settlement takes place the day after presentation of the payment documents. For large payments, bureaucratic execution delays that take longer than a day are not uncommon. The system does not allow for multilateral netting, and there is no facility in place to deal with an inability to pay by one of the participants. In such cases, the counterparts are supposed to withdraw their claims and present them again the following day. Assets for settlement are CFAF deposits held in

current accounts at BEAC headquarters for large payments, and at the BEAC-branches for settlement of small payments.

11. **Assessment:** The system is not compliant with IV and V, since settlement only takes place one day after the pre-clearing, and claims are withdrawn if the drawee's bank has insufficient funds; and is fully compliant with VI.

**Principle VII: Security and operational reliability; and contingency arrangements.**

12. Security procedures are in place, but could be improved. A major weakness is the extensive need to physically transport payment documents. The information systems are secured at the level of the individual BEAC branches, with procedures depending on the importance of the branch. The operational reliability could be improved substantially, as errors and delays are common.

13. **Assessment:** The system is in partial compliance; improved security procedures and operational reliability would help in reaching compliance.

**Principle VIII: Practical for the markets and efficient for the economy.**

14. The system hampers the development of the banking system, the financial sector, financial markets and the economy. Delays are common, value dates are not respected, problems and incidents (especially returned checks) are frequent. Features of the small payment system that contribute to this poor performance are the strictly local organization of the clearing centers, the existence of a pre-clearing system and the lack of automation. The large payment system maintained at BEAC's headquarters in Yaoundé hampers the development of financial markets because it is slow and bureaucratic, and transactions are not always executed flawlessly. Exchange and other controls make international payments outside the zone cumbersome and slow. The consequences of this problem are illustrated by the national capital market initiative, which was forced to include payment delays of up to five days in the settlement procedures.

15. **Assessment:** The payment system is not compliant with this principle.

**Principle IX: Objective and publicly disclosed criteria for participation.**

16. Participation is open to all commercial banks, the CFC, the Treasury and the CCP.

17. **Assessment:** The system is in full compliance.

**Principle X: Governance of the system should be effective, transparent and accountable.**

18. The system is governed in an effective way by the BEAC, which intervenes actively in settlements and in the management of the payments system. The competencies of the BEAC are described in its statutes and in international treaties, all of which are available to the public. The BEAC is accountable to its board and to the Ministerial Committee of the CEMAC.

**Assessment:** The system is in full compliance.