

## **Cameroon: Ex Post Assessment of Longer-Term Program Engagement**

This Ex Post Assessment of Longer-Term Program Engagement for **Cameroon** was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on **March 31, 2005**. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of **Cameroon** or the Executive Board of the IMF.

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REPUBLIC OF CAMEROON

**Ex Post Assessment of Longer-Term Program Engagement**

Prepared by a staff team from the African, Fiscal Affairs, and  
Policy Development and Review Departments<sup>1</sup>

Authorized for distribution by the African Department and the  
Policy Development and Review Department

March 31, 2005

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## I. INTRODUCTION AND BACKGROUND

1. **Following a period of strong economic expansion fueled by the development of the off-shore oil fields starting in 1978, Cameroon entered a deep and prolonged economic recession in the mid-1980s.** Between 1986 and 1993, real GDP fell by a third, or by over 50 percent on a per capita basis. Several factors conspired in this precipitous decline: world market prices for its main exports fell sharply, resulting in a 40 percent drop in Cameroon's terms of trade; oil output began falling in 1986; and the real effective exchange rate appreciated by 40 percent, reflecting primarily the appreciation of the French franc to which Cameroon's currency was pegged. The overall fiscal balance turned from a small, steady surplus to a deficit averaging 6½ percent of GDP in 1986-93, which was financed by rising foreign borrowing and the accumulation of significant internal and external arrears (Table 1).

2. **The devaluation of the CFA franc in 1994 restored Cameroon's competitiveness.** Earlier internal adjustment, centered on fiscal measures including a 50 percent across-the-board cut in civil servants' wages, had been insufficient to regain macroeconomic balance.<sup>2</sup> Despite an unfavorable development in the terms of trade, the 25 percent real depreciation boosted export growth, particularly in the non-oil sector, and GDP growth averaged 2¾ percent in 1994-97 (Figure 1). Inflation, which spiked up to 30 percent following the devaluation, was rapidly brought back to single-digit levels. But despite some budgetary reforms, especially on the expenditure side, recurrent fiscal slippages forced both stand-by arrangements with the Fund off-track (Table 2). External debt, much of which had been accumulated to finance large development projects during the oil boom years, remained a heavy burden, reaching close to 90 percent of GDP by 1997. External payment arrears persisted, reaching about 17 percent of GDP by 1997.

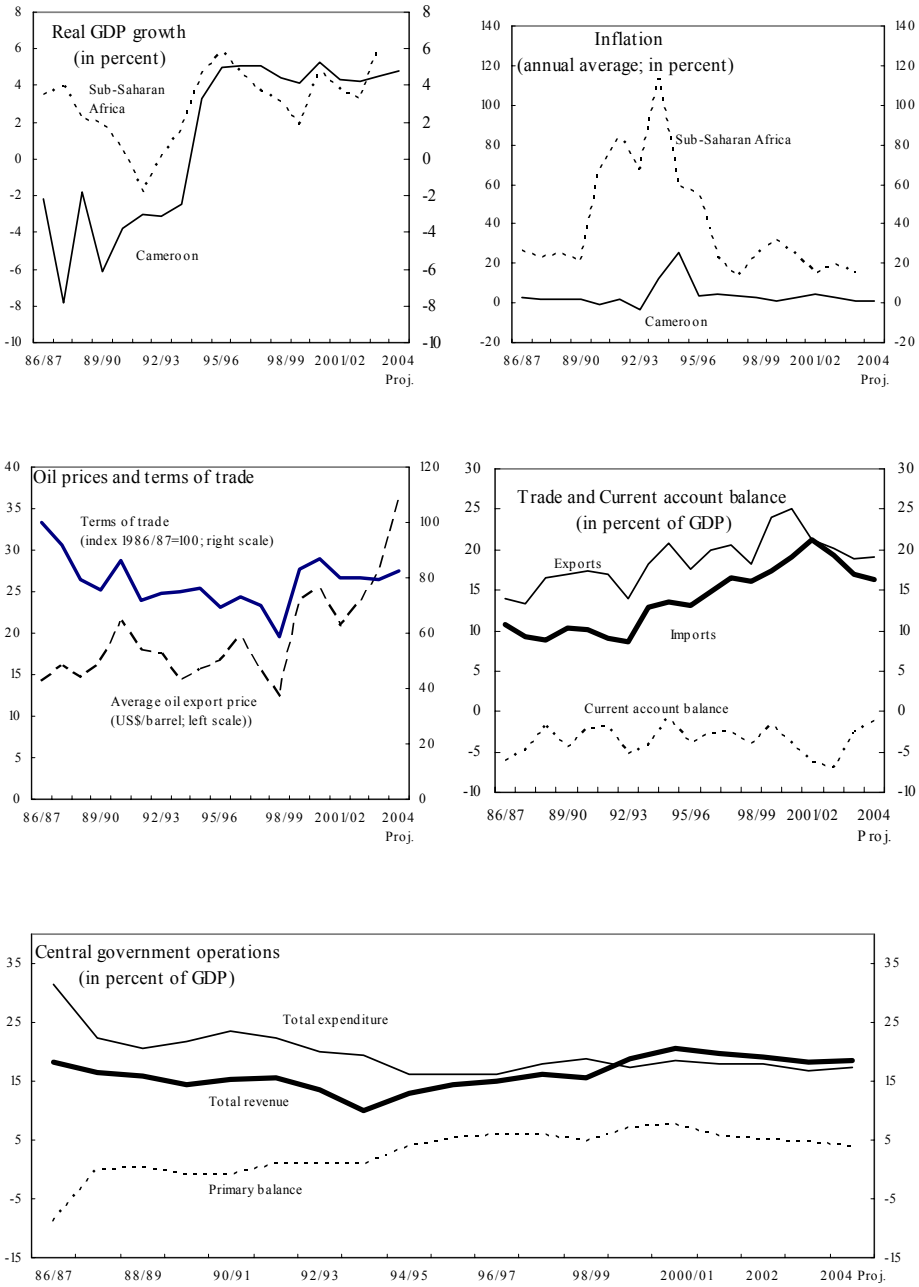
## II. ASSESSMENT OF PERFORMANCE UNDER FUND-SUPPORTED PROGRAMS 1997-2004

3. **In July 1997, Cameroon requested a three-year arrangement under the ESAF, which was later converted to a PRGF arrangement** (hereafter PRGF I). The satisfactory performance, and Cameroon's unsustainable debt burden, allowed Cameroon to reach the decision point under the Enhanced HIPC Initiative in October 2000. Upon completion of PRGF I, Cameroon entered into a second three-year arrangement (PRGF II), which was initially envisaged to cover 2000-2003 and later extended to 2004. All quarterly reviews were concluded and disbursements made under PRGF I; under PRGF II, the first three reviews were concluded as scheduled, but the fourth was completed with a one-year delay in December 2003. No further reviews were concluded and no further disbursements were made before the arrangement expired on December 20, 2004.

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<sup>2</sup> For a full discussion of the 1994 devaluation of the CFA franc, see Jean Clément, Stéphane Cossé, Jean le Dem, and Johannes Mueller, *Aftermath of the CFA Franc Devaluation*, IMF Occasional Paper 138, Washington D.C. 1996.

Figure 1. Cameroon: Main Economic Indicators, 1986/87 ~2004



Sources: Cameroonian authorities; and staff estimates.

## A. Objectives and Instruments of the Economic Programs

4. **The overall program objectives were to return the economy to a sustainable growth path, restore internal and external viability, and reduce poverty.** With the instruments of macroeconomic policy constrained by the exchange rate peg, a key role fell to fiscal policy. Strengthening non-oil revenue—against the background of the anticipated drop in oil output and corresponding government revenue—and improving expenditure monitoring and control were critical to strengthening the fiscal position and generating sufficient resources to meet social and infrastructural needs over the medium term. In addition, structural policies aimed at improving competitiveness and promoting private sector development—including by strengthening the financial sector—were important to raise Cameroon’s productive potential and generate employment. In both macroeconomic and structural policies, improving governance—including through more transparency and accountability—was assigned high priority.

## B. Economic Performance 1997–2000

5. **During PRGF I, economic performance was strong and significant reforms were initiated.** Economic growth rose to an average of 4½ percent per year. At the same time, inflation was contained at low levels (Table 4).

6. **The fiscal position strengthened significantly** (Table 3 and Figure 1). Channeling all oil revenue through the budget represented an important step toward better fiscal management (as well as better governance—see below). Moreover, non-oil revenue rose from an average of 10 percent of GDP in 1994-97 to 13¼ percent by the end of PRGF I in 2000. Combined with successful control of current expenditure, this contributed to a sharp improvement in both the overall and the primary fiscal balance; the latter reaching a surplus of over 7 percent of GDP by 2000. Together with the debt relief obtained from Paris Club creditors, this allowed for the clearance of all external payment arrears to official creditors.<sup>3</sup> In addition, a repayment plan was formulated for domestic arrears, providing for their repayment over six years. A number of structural fiscal reforms contributed to the strengthening of the underlying fiscal position, including through extensive technical assistance to improve tax policy and administration and, to a lesser extent, public expenditure monitoring and control (Box 1).

7. **Structural reforms contributed to an improvement in competitiveness** (Box 2). Notably, the electricity utility and several public enterprises were successfully privatized, and the banking sector was restructured and liberalized within a strengthened supervisory framework.

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<sup>3</sup> Agreement with commercial creditors under the London Club was reached in 2003.

**Box 1. IMF Technical Assistance**

**Since 1997, Cameroon has received extensive technical assistance from the Fund and other multilateral and bilateral sources.** Fund technical assistance concentrated on strengthening the revenue and expenditure management procedures to increase the non-oil revenue effort and improve the monitoring of budget execution. Technical assistance was primarily provided by short-term missions, supplemented by an in-depth report and supported by resident advisors.

**IMF Technical Assistance Provided to Cameroon, 1997-2004**

	TA Missions	TA Reports	TA Resident Advisors
Public Expenditure Management	6	4	1
Tax Policy and Administration	6	6	2
Other Fiscal Issues	2	2	--
Statistical Issues	3	--	--

**During 1997-2000, technical assistance in tax policy and administration focused on the introduction of a value added tax (VAT).** Introduced in 1999, the VAT is functioning well, but suffers from a relatively narrow base. A key priority, emphasized by recent follow-up technical assistance, is to reduce the wide range of exemptions. In 2001-03, assistance concentrated on measures to broaden the tax base and enhance revenue collection by introducing a global income tax (GIT), restructuring the tax department, including by establishing a Large Taxpayers Unit (LTU), modernizing the customs department, and improving audit and collection enforcement, especially at the level of small and medium-sized businesses. The GIT and the LTU reforms were introduced in 2004, and a number of customs administration measures were also implemented, including the full computerization of the single window for external trade formalities.

**Since 1998, Cameroon has embarked on a far-reaching reform program of its public expenditure management framework.** Initially, Fund technical assistance focused on improving internal audit procedures and implementing the action plan for the full integration of various information systems at the Ministry of Finance. Subsequently, attention was given to the improvement of Treasury operations in order to improve the accuracy and transparency of fiscal data. A new budget classification and a new chart of accounts were adopted, which has facilitated economic analysis. However, a reliable monitoring and recording system has not yet been fully implemented; the government continues to maintain numerous bank accounts, rather than a single consolidated Treasury account; and the new Integrated Financial Management System remains underutilized.



## Box 2. Structural Reform Program

The 1997-2000 economic programs incorporated far-reaching structural reforms with the objective of strengthening the economy's productive potential. Reforms fell into two broad areas: First, reinforcing the functioning of the market economy by privatizing state-owned enterprises, liberalizing markets, and where appropriate, establishing supportive regulatory frameworks; and second, improving the environment for private sector development through sectoral reforms in the energy, forestry, transport and financial sectors, and strengthening public administration through reforms of the civil service and the judicial system. These reforms continued in 2000-2003, when they were complemented by policies aimed at accelerating poverty reduction through the elaboration of a poverty reduction strategy and improvements in social services.

Key reforms included:

In the area of **privatization of state-owned enterprises, market liberalization, and establishment of regulatory frameworks**, several companies were successfully privatized (electricity supplier SONEL, rubber company HEVECAM, palm oil company SOCAPALM, railway company CAMRAIL, commercial bank BICEC), regulatory agencies for the telecommunications and electricity sectors were established, and the mobile telephone system was liberalized and competition was introduced. However, privatization of other companies was not attempted or failed (air carrier CAMAIR, water supplier SNEC, telephone company CAMTEL, petroleum storage facility SCDP).

In the **energy sector**, the petroleum product market was liberalized, and the national oil company SNH underwent a series of audits, adopted an accounting system conforming to international standards, and strongly improved revenue transfers to the government budget (see Box 8).

In the **forestry sector**, reforms were undertaken aiming mainly at the introduction of market elements into the allocation of cutting rights and the establishment of a framework for better monitoring of operators and enforcement of regulations.

In the **transport sector**, progress was made with the restructuring of the Port of Douala and discriminatory regulation of marine transportation was eliminated.

In the **financial sector**, the banking system was largely rehabilitated and liberalized, while banking regulation and supervision were strengthened in a regional framework. The majority of the key recommendations of the FSAP conducted in 2000 were implemented, including restructuring of the insurance sector and the regulation of the microfinance sector. Work is ongoing in modernizing the payment system.

In the area of **strengthening public administration**, the number of civil servants was successfully reduced by several thousand, and a civil service data management system was effectively implemented in key ministries. In order to strengthen governance and the rule of law, a strategy and an associated action plan to improve governance and reduce corruption were adopted, but only few concrete measures to improve governance seem to have been taken to date, and there is little indication of strengthened governance (see Box 6). Also, while an independent study of the judicial system was done and an action plan elaborated, to date the reform measures taken are not yet operational (establishment of the audit office and the constitutional council).

Finally, in the area of **accelerating poverty reduction**, a poverty reduction strategy was adopted in mid-2003 (and approved by the World Bank and the Fund), containing *inter alia* strategies for improving education and health services provision. A first annual progress report was prepared in mid-2004.

8. **Some progress was made in strengthening governance.** The government adopted a strategy and an associated action plan to improve governance and reduce corruption. Significant steps were taken by the national oil company (SNH) to become more transparent and accountable, including by adopting a new accounting system in line with international standards and conducting regular financial audits. Regulatory agencies for telecommunications and electricity were established, and reforms of public procurement procedures were initiated.

9. **There was progress in tackling poverty and social issues** (Box 3 and Table 5). Sustained economic growth contributed to a reduction in poverty: between 1996 and 2001, the proportion of the population below the poverty line dropped from 53 percent to 40 percent. Some social indicators, including school enrollment and literacy, also improved during this period. However, health indicators worsened (infant and maternal mortality) and inequality remained high.<sup>4</sup> On most measures, Cameroon scores better than average in sub-Saharan Africa. But the pace of progress falls well short of what would be needed to achieve the Millennium Development Goals.

### C. Economic performance in 2000–2004

10. **Economic growth remained robust**, averaging 4½ percent per annum under PRGF II. But while this was strong by sub-Saharan African standards, it fell somewhat short of program objectives and well short of Cameroon's potential and ambition identified in the PRSP. Domestic investment remained below expectations and the diversification of both production and exports was less than expected. While price competitiveness was maintained in the wake of the 1994 devaluation, there has been little export diversification and the business climate, as perceived by international investors, has remained difficult (Box 4).

11. **Fiscal consolidation under PRGF I was followed by significant fiscal slippages in the second half of PRGF II.** Initially, targeted increases in non-oil revenue were realized and the overall fiscal targets, including the adjusted primary balance, remained on track. But fiscal tensions were already emerging, reflected at first in a shift in expenditure composition as public investment (including social spending from HIPC resources—Box 5)<sup>5</sup> was kept well below budgeted levels, offset by overruns in current expenditure. By 2002-03, non-oil revenue collection began falling, budgetary expenditure monitoring weakened, scheduled domestic debt repayments fell into arrears, and unpaid bills by the government to utilities and suppliers started to accumulate (see below).

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<sup>4</sup> There is a growing literature linking high levels of inequality to poor growth performance. For an overview, see Nancy Birdsall, *Why Inequality Matters: Some Economic Issues*, Journal of Ethics and International Affairs, October 2001.

<sup>5</sup> As a result, Cameroon does not fit the overall experience with the Enhanced HIPC Initiative, which on average has seen a positive impact of debt relief on pro-poor spending. See *Heavily Indebted Poor Countries Initiative – Status of Implementation* ([www.imf.org](http://www.imf.org)).

### Box 3. Poverty Profile

Despite the high rates of economic growth prevailing until the mid-1980s, Cameroon experienced a high degree of poverty in rural areas, marked inequality in the distribution of incomes, and significant regional disparities. The deep recession from 1986 to 1993 led to a sharp increase in poverty, especially in urban areas, and the fiscal crisis during this period contributed to a serious deterioration of Cameroon's education and health sectors, the civil service, and infrastructure.

Two comprehensive household surveys conducted in 1996 and 2001 show a marked decrease in poverty over this period.

**Income poverty** The share of the population living below the poverty line (defined broadly as \$1 per day) declined from over 50 percent to about 40 percent. The decline was particularly sharp in urban areas, where the share roughly halved. At the same time, the depth of poverty was reduced from 19 percent in 1996 to 14 percent in 2001. Growth rather than income redistribution accounted for the much of this reduction with the Gini coefficient remaining unchanged.

Poverty Profile Indicators

	1996	2001
Incidence of poverty (in percent)		
Urban	41.4	22.1
Rural	59.6	49.9
Overall	53.3	40.2
Poverty depth (in percent) 1/		
Urban	14.7	6.3
Rural	21.5	18.3
Overall	19.1	14.1

Source: Cameroonian authorities (ECAM I and ECAM II Household Surveys).

1/ Poverty depth is a measure of the difference between the average income of the poor and the poverty line.

**Social Indicators** Some education indicators improved, with net school enrollment up from 76 percent in 1996 to 79 percent in 2001. The literacy rate also increased from 61 percent in 1992 to 68 percent in 2001. However, there are indications that the delivery of some social services may have deteriorated, reflected in the rising school dropout rates and some key health indicators. For example, the infant mortality rate increased from 85 to 95 per 1000 live births from 1990 to 2002, and the malnutrition rate rose from 32 percent to 44 percent from 1991 to 1998. Life expectancy at birth declined from 55 to 48 from 1992 to 2002, and between 2000 and 2004, Cameroon slipped from 132<sup>nd</sup> to 141<sup>st</sup> out of 177 countries ranked by the UNDP's Human Development Index.

**Gender** Poverty has significant gender dimensions in Cameroon. Gender differences in labor force participation and earnings, in time allocation, in land ownership and use rights, and in schooling and literacy are critical impediments to poverty reduction in Cameroon. Women play a central role in economic production, notably agriculture, but face discrimination—often reinforced by custom, culture and law—in access to and control of basic assets. A key challenge is to enable women to achieve much higher levels of labor productivity to promote growth, while reducing overall labor effort.

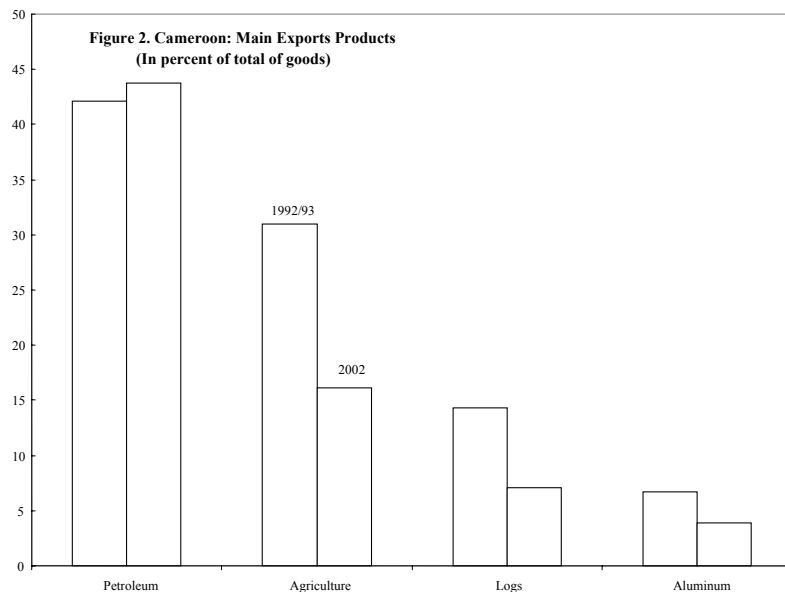
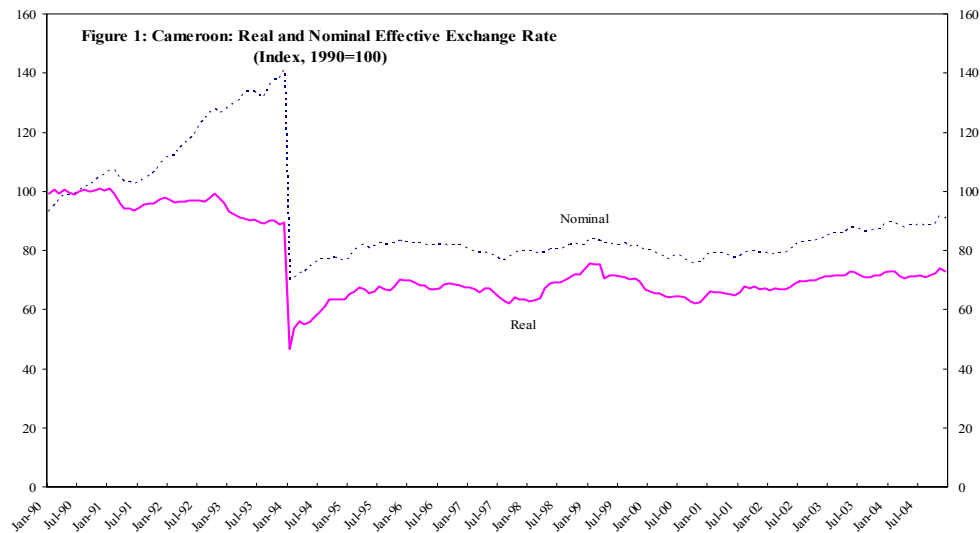
### Box 4. Competitiveness and the Business Environment

The 1994 devaluation of the CFAF of 50 percent in foreign currency terms was followed by a temporary surge in inflation. Nevertheless, it resulted in a depreciation of the real exchange rate by about 25 percent by 1996, a level that has been broadly maintained since (Figure 1).

Exports, particularly non-oil exports, responded positively to the improvement in price competitiveness, and by 2002 export volumes were 50 percent above their 1993 level. However, despite some diversification, oil, timber, aluminum, and a few agricultural products continue to account for about 70 percent of Cameroon's exports (Figure 2).

Both PRGF arrangements also supported reforms addressing structural constraints on exports, including phasing out domestic price controls, restructuring the financial system, judicial reform, trade and tax reforms to promote regional integration, and measures to improve transportation and infrastructure. Despite success in a number of areas, notably in financial sector reform, numerous constraints continue to limit private sector development, and investment – both from domestic and foreign sources – remains low.

International investors rank Cameroon's business climate as difficult. The 2001 Trade Policy Review by the WTO cited difficulties in enforcing contracts and protecting property rights as key constraints for investment. The 2004 African Growth Competitiveness Index prepared by the World Economic Forum ranked Cameroon 18<sup>th</sup> among the 25 African countries it covered. Finally a recent World Bank report, *Doing Business 2005*, notes that although Cameroon compares favorably with many other sub-Saharan countries across key dimensions of the business environment (cost of obtaining a business registration; steps and time required to establish a new business), contract enforcement remains weak.



### **Box 5. Use and Tracking of HIPC Resources**

Debt service savings arising from the HIPC Initiative are to be used in priority areas, including health, education, infrastructure, rural development, combating HIV/AIDS, and governance. With this objective, the authorities established a special account at the regional central bank, which is to be credited by monthly payments from the Treasury (in the case of bilateral debt relief) or from the World Bank on a quarterly basis.<sup>1</sup>

Although final spending authority rests with the government, the identification of high-quality expenditures—and their monitoring—is done in close coordination with civil society and the donor community, guided by the priorities established in the PRSP.

However, transfers from the Treasury have been subject to delays, and overdue transfers stood at 0.8 percent of GDP in mid-2004. Moreover, spending from the special account has been very slow, and to date less than 10 percent of the available resources have been used.

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<sup>1</sup> Establishing such special accounts and providing the budget with corresponding grants is a practice followed in several countries, including Guyana, Honduras, Mauritania, Tanzania, and Uganda, and consistent with the recommendations of *Tracking of Poverty-Reducing Public Spending in Heavily Indebted Poor Countries* ([www.imf.org](http://www.imf.org)).

12. **Progress on the structural reform agenda slowed during PRGF II.** There were some significant advances, including in restructuring Cameroon's principal port of Douala and in putting in place a regulatory framework for the sustainable exploitation of Cameroon's forests.<sup>6</sup> But in other areas, notably the planned privatization of state-owned enterprises, progress fell short of expectations. In particular, the privatization of several public utilities was not completed. More recently, the performance of several large publicly-owned enterprises, including the national airline CAMAIR, has deteriorated further, weighing heavily on public finances.

13. **Despite the courageous steps taken since 1997, problems with poor governance and corruption persist.** A large share of the measures envisaged in the ambitious governance program that was formulated by the government in their PRSP remains in delay, including key reforms of the judiciary. The lack of progress is confirmed by independent measures of governance perception (Box 6). The World Bank governance indicators (GRICS) compiled in 2002 show that Cameroon ranked below the average for sub-Saharan Africa in five of six dimensions, performing particularly poorly on those related to the rule of law and the control of corruption. The more recent World Bank Country Policy and Institutional Assessment index (CPIA), however, notes some improvement, moving Cameroon from the fifth (bottom) quintile in 2002 to the fourth in 2003 in the area of public sector management and institutions, and from the fourth to the third quintile overall.<sup>7</sup> Nevertheless, the global trend toward more transparency in the public sector has raised the bar. For example, several African oil producers have significantly increased the transparency of their resource revenue management in recent years (Table 6).

14. **Economic policies were not fully coherent with regional integration initiatives.** The PRSP sets out an ambitious strategy to exploit the economic potential of accelerating regional economic integration within the CEMAC. But progress to date has been limited. Regional commitments, for example to implement the common external tariff and to eliminate remaining nontariff barriers to intra-CEMAC trade, have not yet been reflected in domestic policy formulation, although it must be noted that Cameroon is generally ahead of most of its CEMAC partners in implementing common policies and regulations.

#### **D. Performance against program targets**

15. **The overall mixed performance was reflected in the compliance with program targets, performance criteria, and benchmarks.** During PRGF I, all quantitative and structural performance criteria were met, as were, with very few exceptions, all program benchmarks (Tables 7 and 8). In contrast, the PRGF II program experienced repeated

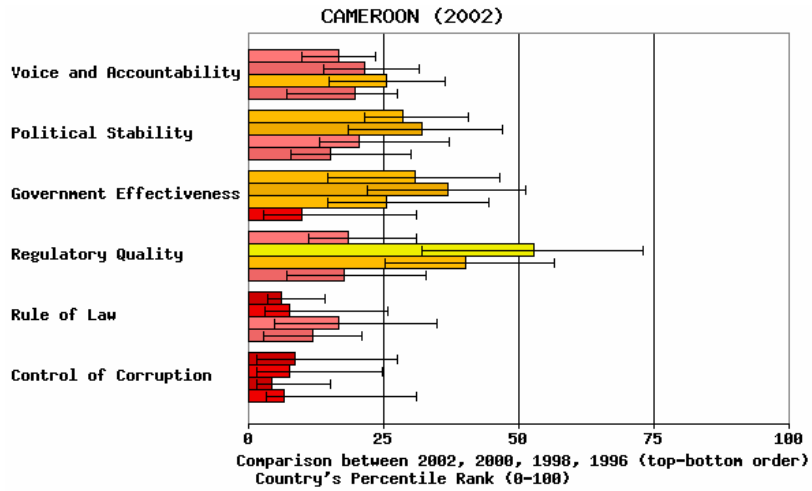
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<sup>6</sup> See World Bank Report No. 29996, *Cameroon – Implementation Completion Evaluation for a Third Structural Adjustment Credit*, November 30, 2004.

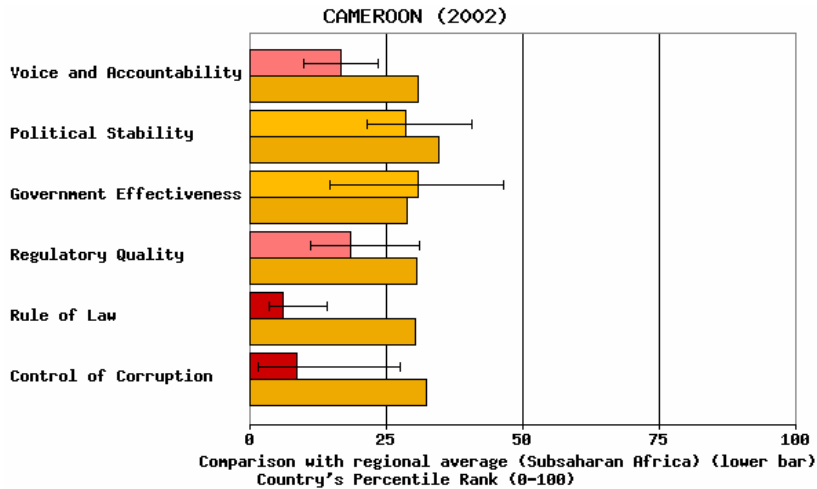
<sup>7</sup> See World Bank: <http://siteresources.worldbank.org/IDA/Resources/Quintiles2002CPIA.pdf>

### Box 6. Measures of Governance

It is difficult to measure governance, and most measures therefore draw on perceptions rather than governance directly. To offset some of the subjectivity inherent in these perceptions, the most sophisticated measures therefore provide a composite index, drawing on many sub-components. The World Bank's GRICS database is an example of such a composite index.<sup>1</sup> By available measures, Cameroon's governance is weak. The GRICS database (2002) ranks Cameroon below the average for sub-Saharan Africa in five of six dimensions, performing particularly poorly on those related to the rule of law and the control of corruption. Recently released reports by the UN Economic Commission for Africa and by Transparency International also rank Cameroon among the weakest on governance and corruption issues. The World Bank's CPIA, however, does note some improvement, moving Cameroon from the fifth (bottom) quintile in 2002 to the fourth in 2003 in the area of public sector management and institutions.



Source: D. Kaufmann, A. Kraay and M. Mastruzzi, 2003: Governance Matters III: Governance Indicators for 1996-2002 (<http://www.worldbank.org/ubi/governance/pubs/govmatters3.html>)



Source: D. Kaufmann, A. Kraay and M. Mastruzzi, 2003: Governance Matters III: Governance Indicators for 1996-2002 (<http://www.worldbank.org/ubi/governance/pubs/govmatters3.html>)

<sup>1</sup> The data and methodology used to construct the indicators are described in "Governance Matters III: Governance Indicators for 1996-2002" (World Bank Policy Research Working Paper 3106).

slippages, particularly in the fiscal area. The quantitative performance criterion for end-September 2002 on net bank credit to the central government was missed; major problems in reconciling fiscal data emerged in late 2002; non-oil revenue performance weakened in the first quarter of 2003, as VAT receipts fell; and several of the tax measures envisaged in the 2003 budget were not implemented.<sup>8</sup> Ultimately, the fourth review was completed in December 2003 with a one-year delay and the PRGF arrangement was extended by a year. Since then, fiscal performance has been weak. Quantitative performance criteria on the primary fiscal surplus and net bank credit to government were missed by considerable margins; two structural performance criteria in the area of public expenditure management were not observed; and eight out of ten quantitative benchmarks, largely in the fiscal area, were missed. As a result, no further reviews were completed.

#### **E. What accounts for the uneven program implementation?**

16. **Program design** in the two arrangements was broadly similar. Consistent with other Fund-supported programs in the CFAF zone, programs took into account that the authorities lack instruments to influence directly inflation, international reserves, and monetary aggregates (Box 7). For this reason, performance criteria concentrated on fiscal targets, including net bank claims on the government, and objectives for public debt and payment arrears. While the number of quantitative performance criteria and benchmarks remained constant throughout the annual programs, structural conditionality varied significantly, with the number of prior actions, performance criteria, and benchmarks peaking during PRGF II.

17. **Oil revenue** variability posed specific challenges for program design. Since oil output began declining in 1986, all programs hinged on the expectation of a steady depletion of Cameroon's oil reserves (Box 8). Steps taken in the context of PRGF I to improve governance and transparency in the oil sector resulted in a significant increase in the share of oil revenue allocated to the government budget.<sup>9</sup> But the projected steady decline in oil revenue was the key reason why reinforcing the non-oil revenue base received high priority in every program. And the pace of raising non-oil revenue was dictated by the expected speed with which oil revenue would be eroded, with the objective of meeting critical objectives of medium-term fiscal sustainability. In the event, projecting both output and prices proved difficult: in five out of the seven years covered by Fund-supported programs, output outperformed expectations, and prices were also subject to significant variability. Moreover, exchange rate changes between the CFAF and the U.S. dollar led to additional variability in government revenue from oil.

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<sup>8</sup> Consistent with Cameroon's regional commitments under the CEMAC, it shifted from a July-June fiscal year to a calendar-year budget starting 2003. The second half of 2002 was covered by an interim budget. The shift in budget years may have made monitoring and control during the change-over more difficult.

<sup>9</sup> As a result, Cameroon's oil collection effort, measured as the ratio of government oil revenue over oil GDP, is now the highest in the region. See Johannes Wiegand, *Fiscal Surveillance in the Petro Zone: The Case of the CEMAC*, IMF Working Paper, January 2004.



### **Box 7. Fund Financial Support to Members of a Currency Union**

Members of a currency union lack an independent monetary and exchange rate policy and, to a large degree, control over their international reserves. This poses at least two questions when members of a currency union approach the Fund for financial support: how to establish balance of payments need and how to design an economic program with targets that are under the member's control.

#### **Balance of Payments Need**

One fundamental condition for the use of Fund resources is that the member must represent *that it has a need because of its balance of payments or its reserve position or developments in its reserves* (Article V, Section 3(b)(ii)). PRGF resources are separate from the Fund's general resources. Their use is governed by the PRGF Trust Instrument, which specifies that a member must be experiencing a *protracted balance of payments problem* as a condition for approving a three-year arrangement.<sup>1</sup>

Members of a currency union are in a unique position. The union may have a balance of payments need owing to a low level of reserves—but the union is not a member of the Fund. Conversely, a member may require financing for its balance of payments but does not have direct control over the union's common reserves. In the CFAF zone, for example, each member country's access to the union's common reserves is limited by its ability to generate domestic fiscal resources. In these cases, balance of payments need—or indeed protracted balance of payments problems—has been recognized by the Fund based on other indicators, for example a government's recourse to exceptional financing through the accumulation of external payments arrears.<sup>2</sup>

#### **Program Design**

The absence of monetary and exchange rate policy—and often of accurate data on country-by-country currency circulation—limits the applicability of the Fund's traditional monetary model.<sup>3</sup> Accordingly, quantitative conditions on net domestic assets of the banking system or central bank and the net international reserves do not appear in Fund-supported program in members of a currency union. Quantitative conditionality, therefore, is typically limited to performance criteria on government's net borrowing from the domestic banking system; quantitative fiscal targets, for example on the primary budget balance and the reduction of domestic arrears; and limits on external borrowing as well as targets for the reduction or non-accumulation of external arrears.

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<sup>1</sup> The determination of a protracted balance of payments problem has been based on various external indicators—export and import performance, the terms of trade developments, access to capital markets, and the cost of debt service—in addition to the overall balance of payments position. It also requires the analysis of the past, present, and prospective external performance.

<sup>2</sup> *Need as a Condition for the Use of Fund Resources* ([www.imf.org](http://www.imf.org)).

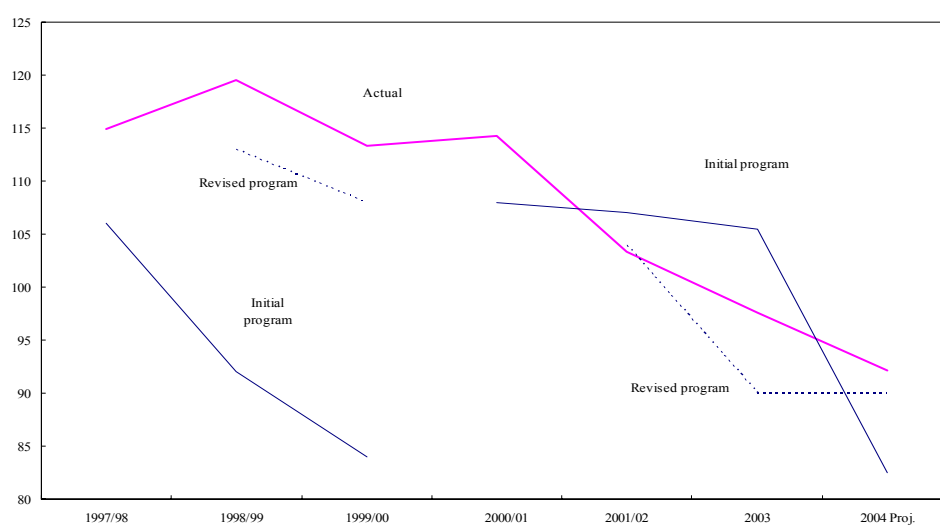
<sup>3</sup> Jacques J. Polak, *The IMF Monetary Model at Forty*, International Monetary Fund, April 1997.

### Box 8. Oil Production and Revenue

**Oil began to be commercially exploited in 1978, but production has been declining since 1986.** Nevertheless, largely thanks to favorable price and exchange rate developments, today oil still accounts for over 10 percent of GDP and over 40 percent of exports, roughly unchanged compared to a decade ago. Meanwhile, oil revenue accruing to the budget more than doubled over the same period, reflecting higher oil prices and improved collection.

**With few exceptions, program projections were conservative** and actual output was often higher than targeted, sometimes significantly so. Particularly over the three-year horizon of the PRGF arrangements, the programs assumed significantly lower oil production and lower revenue flows to the budget than actually occurred. Both in 1997 and in 2000, programs assumed a decline in oil revenue, while in the event, such revenue turned out twice as high as expected, resulting from higher production and more favorable prices and exchange rates.

**Cameroon: Oil production (In thousands of barrels a day), 1997/98-2004**



**Oil Sector, 1993/94-2004**

	1993/94	1997/98	1998/99	1999/00	2000/01	2001/02	2003	2004 Proj.
Oil Output (thousands of barrels/day)								
Program (original three-year program)	...	106	92	84	108	107	106	83
Revised program	...	...	113	108	...	104	90	90
Actual	122	115	119	113	114	103	98	92
Oil price (US\$/barrel)								
Program (original three-year program)	...	16.5	16.3	16.4	28.3	26.1	24.1	17.3
Revised program	...	...	14.3	15.2	...	21.5	19.9	23.2
Actual	14.2	15.5	12.2	23.9	25.5	20.9	27.3	36.0
Exchange rate (CFAF/SDR)	609	815	810	895	964	941	813	791
Oil revenue (in percent of GDP)								
Program (original three-year program)	...	3.2	3.0	2.6	7.2	6.0	4.2	2.3
Revised program	...	...	2.8	3.2	...	4.8	3.6	3.3
Actual	2.2	3.9	2.5	5.6	6.9	5.2	4.5	4.6
Oil exports/total exports (in percent)								
Actual	42.1	32.9	31.4	46.6	49.2	42.5	40.4	43.1
Oil GDP/total GDP (in percent)								
Actual	9.2	8.2	6.3	14.0	15.6	11.0	10.1	11.3

18. **The slower-than-anticipated erosion of oil revenue reduced the urgency of building up non-oil revenue in the short term.** Indeed, the annual programs mostly revised downward the ambitious 3-year path of non-oil revenue targets. Rightly, programs did not explicitly link oil and non-oil revenue targets. But neither did they provide an explicit framework, grounded in medium-term fiscal sustainability, underpinning the path for non-oil revenue.<sup>10, 11</sup>

19. **Ownership of the PRGF I policies was very high, contributing to the timely implementation of an ambitious reform program. By many accounts, ownership was much lower during PRGF II. What accounted for the difference?** Three factors may have played a role.

- First, could reform fatigue have constrained policy implementation after several years of significant reforms? While this cannot be excluded, there is little evidence of it—indeed, the PRSP presented by the government in early 2003 set further ambitious targets. That said, structural reforms under PRGF II were becoming more challenging, for example in the area of privatization. And as the presidential elections in late 2004 drew closer, certain reforms—particularly in the fiscal area—slowed down noticeably.
- Second, the number of program conditions and benchmarks rose under PRGF II, contrary to the trend of streamlining in most PRGF programs. Did burgeoning conditionality complicate program implementation? On the one hand, the rising number of structural benchmarks reflected mainly the step-wise implementation of the public expenditure management system, very much at the core of the program, and the incorporation of the HIPC triggers required to reach the completion point. But on the other hand, with hindsight, the Fund's response to a perceived flagging in ownership—a tightening of conditionality or, as in 2004, an insistence on rapid correction of fiscal slippages in spite of many indications that there was a low likelihood that stringent fiscal measures would be implemented in an election year—was not successful.
- Finally, a factor that made both effective policy-making and program implementation more difficult was the decision by the Cameroonian authorities in 2002 to divide the responsibilities of the Ministry of Finance, Economy, and Budget between two separate ministries: the Ministry of Finance and Budget, which remained the key counterpart of the Fund missions, and the Ministry of Economic Affairs, Programming, and Regional Development (MINEPAT), which

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<sup>10</sup> This is consistent with the findings of the Independent Evaluation Office that the rationale for the proposed fiscal adjustment in Fund-supported programs is not always very clear. See *Fiscal Adjustment in Fund-Supported Programs*, Independent Evaluation Office, IMF, 2003.

<sup>11</sup> Wiegand (2004) shows that while most CEMAC countries are meeting the basic fiscal balance target, applying a long-term sustainability criterion can change this assessment significantly.

became the primary counterpart of the World Bank. In addition, the technical monitoring committee of the PRGF (CTS—Comité Technique de Suivi) was placed under the responsibility of MINEPAT. The lengthy changeover may have blurred responsibilities and accountability, and data collection and reporting to the Fund clearly weakened.

20. **Collaboration with the World Bank weakened over time.** The Fund and the Bank had worked together closely in Cameroon, including in assisting the authorities in preparing the PRSP. But faced with two different counterparts, views on economic performance began to diverge, including with respect to the HIPC trigger points. Differing perceptions on the achievements in recent years also led to differences of view regarding the steps needed to bring the economic program back on track.

21. **In sum, there is no single reason why the second PRGF arrangement went off-track.** Program design was complicated by the difficulty in forecasting oil production and related government revenue, but the adjustors to the performance criteria successfully addressed this problem. Flagging ownership does seem to have played a role, resulting possibly from a combination of reform fatigue—especially as the elections in 2004 approached—and a weakened internal decision and implementation capacity.

### III. LESSONS LEARNED AND STRATEGY FOR FUTURE FUND INVOLVEMENT

#### A. Lessons Learned

22. Cameroon has experienced solid economic growth over the past eight years, which has allowed for some, albeit limited, progress in reducing poverty. But growth rates are clearly inadequate to make serious inroads in poverty and, on present trends, the Millennium Development Goals are not within reach for at least a generation. Any strategy for economic and social development must take the long-term nature of the challenge into account.

23. Cameroon's experience over the past decade, which has been marked by successes as well as setbacks, suggests at least four lessons going forward.

- **Achieving higher levels of economic growth will require more and better-targeted investment.** Business climate surveys have identified numerous constraints to private investment, many of which are being addressed. But fundamental weaknesses in governance and institutions continue to constrain competitiveness and remain an important deterrent for long-term investors. Effective enforcement of existing laws and regulations, supported by a functioning judiciary, needs to be a priority. Adopting and observing international standards—which has been effective in some areas, including the financial sector—can be a fast track to stronger institutions. Fiscal transparency and data dissemination are two areas in which the pay-off of observing international best practice is likely to be particularly large. Embedding Cameroon's economic

policies more firmly in a robust and credible regional integration and convergence framework could also play a valuable role in bolstering investor confidence.

- **The oil sector will remain important for Cameroon.** Despite the gradual depletion of current reserves, oil will continue to account for a large share of output and exports for years to come. The current high level of oil prices, and the expectation of persistent high prices well above the average of recent years, is likely to increase spending pressures in all oil-producing countries. This offers opportunities as well as risks. Seizing the opportunities will require ensuring that windfall oil revenue is put to good use, including in the formulation of fiscal policy (see below). More accountability by increasing natural resource revenue transparency—in which Cameroon falls short of international best practice—could help achieve this objective.
- **Sound fiscal management remains key to maintaining fiscal discipline and macroeconomic stability.** Extensive technical assistance has had a positive impact, particularly on tax collection and administration. Expenditure monitoring and control remains weak, however, and is especially important to avoid pre-election fiscal slippages and ensure the delivery of effective pro-poor social spending. The prospect of significant windfall revenue from oil in the coming years only strengthens the need for a robust expenditure monitoring and control system. Political will, rather than more technical assistance, is likely to be the key to success. In addition, better coordination and harmonization among donors and multilateral institutions would help ensure more consistent advice in this area.<sup>12</sup>
- **Economic growth is a necessary but not a sufficient condition for poverty reduction.** Eight years of robust growth has resulted in a welcome, albeit slow improvement in poverty and social indicators. However, inequality remains high, and in some areas, notably health, available data suggest that the situation has worsened. Expenditure composition, rather than its level, has constrained pro-poor spending, and the government budget has only partially reflected the priorities defined in the PRSP. Moreover, the funds generated by HIPC debt relief remain largely unspent, not least because of cumbersome administrative procedures governing the use of the funds. More transparency and accountability for expenditure composition domestically, coupled with an improvement in the coordination of HIPC spending with development partners, would be important steps to ensure more pro-poor spending in the future.

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<sup>12</sup> While Cameroon has received a large amount of technical assistance from the Fund and others, its coordination has not always been good. In the area of public expenditure management, for example, advice from different sources has been at variance, leading to significant delays.

24. This may suggest three key lessons for program design:

- **Strengthen the medium-term dimension of the programs, including in setting fiscal targets.** The importance of the oil sector for Cameroon’s economy—and the ongoing depletion of its reserves—was rightly reflected in the economic programs supported by the Fund, which correctly emphasized the need to strengthen the non-oil revenue base over the medium term. But, with hindsight, the repeated underestimate of available oil revenue may have led to more ambitious short-term targets for raising non-oil revenue than was warranted. Moreover, the treatment of oil revenue as a point estimate in the annual arrangements, with program adjusters on either side, arguably deflected from treating the exploitation of Cameroon’s key natural resource in an appropriate medium-term context. To remedy these shortcomings, an independent assessment of oil reserves and probable annual output may help in setting a more realistic path for oil revenue. And a transparent fiscal rule specifying the use of any windfall above an agreed long-term price of oil could reduce expenditure variability and facilitate setting realistic targets for non-oil revenue. Such a rule should take into account that for a developing country such as Cameroon, the best use of a windfall may be to spend rather than save it, provided that fiscal sustainability is restored and high-quality expenditure can be identified consistent with Cameroon’s absorptive capacity.
- **Structure program conditionality to reinforce ownership.** Conditionality cannot substitute for a lack of ownership. With hindsight, the tightening of conditionality in the face of a perceived weakening of program ownership did not bring the program back on track. At a minimum, it raises the question whether in the absence of strong ownership it was appropriate to proceed with a program that was weighed down with heavy conditionality. A different structure of conditionality—more far-reaching prior actions, for example, as a demonstration of ownership—may have been preferable. That said, as noted by the IEO, the tension between ownership and conditionality is not easy to resolve.
- **Where possible, aim for outcomes rather than process.** To track complex structural reform, some focus on process in setting program benchmarks is probably unavoidable. But the procedural focus cannot substitute for the ultimate objective. For example, programs rightly identified the need for better public expenditure monitoring, but its reflection in structural conditionality through a multitude of small steps never led to the introduction of a fully functional system, even when the conditions were met. Similarly, programs explicitly provided for the spending of debt relief generated under the HIPC initiative from the special account maintained at the BEAC. However, programs did not include any benchmarks for the level or composition of such spending. While primary importance needs to be given to total pro-poor spending from the government budget, a floor on spending from available HIPC resources—which is vetted by

donors and civil society and is consistent with the PRSP—would be a relatively simple way to ensure that debt relief is channeled directly to poverty reduction.

## **B. Strategy for Future Fund Involvement**

25. **In the near term, there are compelling reasons for re-engaging with Cameroon under a PRGF**, including as a basis for reaching the completion point under the HIPC Initiative. But the success of such a re-engagement will require ensuring that the necessary pre-conditions are in place. At a minimum, these pre-conditions should include a budgetary framework for 2005 that re-establishes fiscal stability, addresses the burden that public enterprises are placing on the public finances, and tackles the imbalances evidenced by the burgeoning domestic payments arrears. The Cameroonian authorities will also need to re-establish conditions for adequate program monitoring, including the compilation of reliable fiscal data and their regular provision to the Fund. Over the period of the three-year arrangement, policies will need to reinforce macroeconomic stability through a framework for durable fiscal sustainability and establish an environment conducive for sustained, private-sector led growth. This will require in particular strengthening governance and the institutional framework needed to create a good investment and business climate.

26. **Beyond the near term, the need for the Fund's continued financial engagement with Cameroon is not self-evident.** Once fiscal stability has been restored, debt relief under the HIPC Initiative and the anticipated persistence of high oil prices for the foreseeable future are likely to reduce the immediate need for Fund financing. That said, Cameroon will continue to face significant economic and developmental challenges that warrant close non-financial engagement for many years to come. In addition to the Fund's ongoing policy dialogue, this may include an effective signaling role by the Fund to inform donors as well as private capital markets, and assisting Cameroon in observing international best practice in the Fund's areas of expertise, including, but not limited to, data dissemination and fiscal transparency.

27. **Continued close engagement with Cameroon needs to be complemented by a strengthened dialogue at the regional level.** Cameroon accounts for 50 percent of GDP in the six-member Central African Economic and Monetary Community (CEMAC) and hosts the BEAC, the regional central bank. Significant scope remains for reaping the benefits of increased regional integration and harmonization. While the Fund maintains a regular dialogue with the CEMAC and the BEAC, these discussions could be elevated to the level of formal regional surveillance, akin to the practices with the euro area. This would elevate their status and ensure that issues are adequately addressed that cannot be discussed on a bilateral basis, notably monetary and exchange rate policy. While there is currently no reason to believe that the CFAF is misaligned, there is a need for a continuous dialogue on exchange

rate policy, which can only be held at the regional level.<sup>13</sup> Trade policy, which is increasingly formulated at the level of the CEMAC, also warrants closer surveillance at a regional level.

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<sup>13</sup> As reflected in the conclusions of the 2004 *Biennial Review of the Implementation of the Fund's Surveillance and the 1977 Surveillance Decision* ([www.imf.org](http://www.imf.org)) and the Chairman's Summing Up.



Table 1. Cameroon: Selected Economic and Financial Indicators, 1986/87- 2004<sup>1</sup>

	Average 1986/87-92/93	Average 1993/94-96/97	1997/98	1998/99	1999/00	2000/01	2001/02	2003	2004 Proj.
(Annual percentage changes, unless otherwise indicated)									
<b>National income and prices</b>									
GDP at constant prices	-2.6	2.7	5.0	4.4	4.2	5.3	4.3	4.5	4.8
<i>Of which</i> : non-oil GDP	-2.0	3.1	5.0	4.4	4.6	5.5	4.9	4.8	5.1
Consumer prices (12-month average)	1.2	11.5	3.9	2.9	0.8	2.8	4.5	0.6	0.8
<b>External trade</b>									
Export volume	0.3	3.0	11.1	8.2	-0.7	2.5	-1.6	6.9	4.8
<i>Of which</i> : non-oil sector	5.1	8.2	16.5	5.8	1.2	4.1	0.0	12.3	8.3
Import volume 2/	-3.4	7.5	13.5	0.8	14.9	12.5	19.4	0.2	3.8
Real effective exchange rate	4.9	-8.0	-0.6	8.5	-4.2	-4.9	4.7	0.6	...
Terms of trade	-8.7	-0.3	-4.5	-15.7	41.5	4.5	-8.4	-0.5	4.1
<b>Money and credit (end of period)</b>									
Credit to the private sector	-5.2	0.5	30.3	11.2	10.5	8.7	10.8	8.9	10.2
Broad money (M2)	-1.8	8.1	7.8	9.7	18.8	17.9	11.6	-0.9	10.9
(In percent of GDP, unless otherwise indicated)									
Gross domestic investment	19.1	15.3	17.5	18.7	16.4	17.7	18.0	17.0	17.3
Public	6.4	1.0	2.0	2.3	1.4	2.1	1.8	1.5	2.0
Private	12.7	14.3	15.5	16.4	15.1	15.6	16.2	15.4	15.3
<b>Central government operations</b>									
Total revenue, incl. grants	16.5	13.3	16.5	15.7	18.8	21.0	19.9	18.8	17.8
Non-oil revenue	10.7	10.1	12.3	13.0	13.2	13.6	14.3	13.7	13.7
Total expenditure	23.0	16.9	17.9	18.9	17.4	18.6	18.1	16.8	17.5
Current expenditure	18.0	15.1	14.9	15.2	14.5	15.1	0.0	14.5	14.2
Capital expenditure	7.4	1.7	2.9	3.6	2.7	3.3	2.9	2.3	2.9
Overall fiscal balance (excl. grants)	-6.0	-3.8	-1.7	-3.4	1.4	2.0	0.0	1.4	1.1
Overall fiscal balance (incl. grants)	-6.5	-3.6	-1.4	-3.2	1.4	2.4	1.9	2.0	1.2
Primary balance	-0.8	4.0	5.9	4.6	7.2	7.5	5.5	4.6	3.9
<b>External sector</b>									
Current account balance (including grants)	-3.7	-3.0	-2.5	-4.1	-1.7	-4.1	-6.4	-2.5	-1.2
External public debt	45.9	97.7	87.8	90.2	79.5	77.3	58.5	48.2	40.7
External public debt (in millions of USD)	5311.4	8117.6	7639.9	7683.9	7035.0	6568.6	5282.7	6025.8	5879.2
Gross reserves (in months of imports)	4.5	6.2	3.5	3.3	1.1	0.4	1.5	1.5	1.8

Sources: Cameroonian authorities; and staff estimates and projections.

1/ Fiscal year (July-June) up to 2001/02 and calendar year starting in 2003.

1/ From 1999/00 until 2001/02, the increase in the import volume was related to pipeline imports.

**Table 2. Cameroon: History of Lending Arrangements Since 1988**  
(In millions of SDRs)

Facility	Date of Arrangement	Date of Expiration or Cancellation	Amount Agreed	Amount Drawn	Percent Drawn	Notes
SBA	9/19/1988	6/30/1990	61.8	38.63	62.5	Only the initial purchase and the purchase following the first review were made. Subsequent attainment of program targets was made impossible by shortfalls in non-oil tax revenue; slower-than- envisaged restructuring and privatization of public enterprises; and a deterioration of Cameroon's terms-of-trade.
SBA	12/20/1991	9/19/1992	28.0	8.0	28.6	Only the first purchase was made under the arrangement. Then the program went off track because of shortfalls in fiscal revenue and external financing as well as delays in the implementation of structural reforms.
SBA	3/14/1994	9/13/1995	81.0	21.9	27.0	Only the first purchase was made under the arrangement. The program veered off track soon after it was launched because of revenue shortfalls and delays in the implementation of structural reforms.
SBA	9/27/1995	9/26/1996	67.6	28.2	41.7	The first review was completed and two purchases were made under the program. No further reviews could be completed because of slippages in fiscal and structural policies.
PRGF	8/28/1997	12/20/2000	162.1	162.1	100.0	All reviews were completed and disbursements made.
PRGF	12/21/2000	12/20/2004	111.4	79.6	71.4	Three reviews were completed and associated disbursements made as initially planned. In December 2003, after a delay of one year caused by inconsistencies in fiscal data, the fourth review was completed, the corresponding disbursement made, and the program extended by one year. Subsequent large slippages in fiscal performance prevented the completion of another review.

Source: International Monetary Fund, Finance Department.

Table 3. Cameroon: Selected Fiscal Indicators, 1997/98-2004 1/

(In percent of annualized GDP, unless otherwise specified)

	1997/98		1998/99			1999/00		
	Orig. Prog.	Outcome	Orig. Prog.	Rev. Prog.	Outcome	Orig. Prog.	Rev. Prog.	Outcome
Total revenue and grants	15.4	16.5	16.6	15.8	15.7	17.9	17.0	18.8
Total revenue	15.4	16.2	16.6	15.8	15.5	17.9	16.7	18.8
Oil sector revenue	3.2	3.9	2.9	2.8	2.5	2.5	3.2	5.6
Non-oil sector revenue	12.2	12.3	13.7	13.0	13.0	15.4	13.5	13.2
Total grants (current)	0.0	0.3	0.0	0.0	0.2	0.0	0.3	0.0
Total expenditure	17.4	17.9	18.4	18.6	18.9	19.6	19.6	17.4
Total HIPC expenditure	...	...	...	...	...	...	...	...
Current expenditure	14.3	14.9	14.6	14.6	15.2	14.7	14.6	14.5
Wages and salaries	4.6	4.9	4.5	4.9	5.1	4.5	5.2	5.0
Other goods and services	2.4	2.6	3.3	2.9	3.1	4.0	3.0	3.3
Of which: HIPC spending	...	...	...	...	...	...	...	...
Subsidies and transfers	1.6	1.6	1.7	1.8	1.9	1.9	1.8	1.9
Interest due	5.7	5.7	5.0	5.0	5.2	4.3	4.6	4.4
Capital expenditure	3.1	2.9	3.8	3.9	3.6	4.9	5.0	2.7
Of which: HIPC spending	...	...	...	...	...	...	...	...
Restructuring	0.3	0.2	0.2	0.4	0.5	0.0	0.5	0.5
Unclassified expenditure	0.0	0.1	0.0	0.0	0.1	0.0	0.1	0.2
Overall balance (budget implementation)								
Excluding grants	-2.0	-1.7	-1.8	-2.7	-3.4	-1.7	-2.9	1.4
Including grants	-2.0	-1.4	-1.8	-2.7	-3.2	-1.7	-2.6	1.4
Net change in arrears	-10.1	-9.8	-0.7	-3.8	-0.9	0.0	-7.2	-1.7
External (interest)	-7.7	-6.2	0.0	-1.7	0.7	0.0	-6.0	0.0
Domestic	-2.4	-3.6	-0.7	-2.1	-1.6	0.0	-1.2	-1.7
Overall balance, cash basis								
Excluding grants	-12.1	-11.5	-2.5	-6.6	-4.3	-1.7	-10.1	-0.3
Including grants	-12.1	-11.2	-2.5	-6.6	-4.1	-1.7	-9.8	-0.3
Financing	1.5	11.2	2.4	5.8	4.1	-2.4	0.8	0.3
External financing (net)	0.5	9.0	2.7	4.8	3.3	-1.7	0.5	1.3
Domestic financing (net)	1.0	2.3	-0.3	1.1	0.7	-0.7	0.3	-1.0
Remaining financing needs	-10.5	0.0	-0.1	-0.8	0.0	4.1	9.0	0.0
Memorandum items:								
Primary budget balance (+ surplus) 2/ 3/	5.7	5.9	5.5	5.0	4.6	5.4	5.2	7.2
Overall balance (budg. Impl., excl. grants, + surplus)	-2.0	-1.7	-1.8	-2.7	-3.4	-1.7	-2.9	1.4
Non-oil revenue (in percent of non-oil GDP)	13.2	0.0	14.6	14.0	0.0	16.3	14.5	0.0
Nominal GDP (in billions CFA francs)	5269.0	5240.0	5659.0	5649.0	5406.0	6078.0	5785.0	5827.5
Domestic public debt (before audit)	...	25.6	22.3	22.3	23.3	20.3	20.3	20.0

Table 3. Cameroon: Selected Fiscal Indicators, 1997/98-2004 (concluded) 1/  
(In percent of annualized GDP, unless otherwise specified)

	2000/01			2001/02			2003			2004		
	Orig. Prog.	Rev. Prog.	Outcome	Orig. Prog.	Rev. Prog.	Outcome	Orig. Prog.	Rev. Prog.	Outcome	Orig. Prog.	Rev. Prog.	Proj.
Total revenue and grants	21.2	20.8	21.0	20.5	19.3	19.9	19.5	19.2	18.8	18.4	19.3	18.6
Total revenue	20.8	20.4	20.6	20.0	18.8	19.6	19.0	18.6	18.2	17.7	18.7	18.4
Oil sector revenue	7.2	6.8	6.9	6.0	4.8	5.2	4.2	3.6	4.5	2.3	3.3	4.6
Non-oil sector revenue	13.6	13.6	13.6	14.0	14.0	14.3	14.7	15.0	13.7	15.4	15.4	13.8
Total grants (current)	0.4	0.4	0.4	0.5	0.5	0.4	0.5	0.6	0.5	0.7	0.6	0.1
Total expenditure	18.7	18.4	18.6	18.7	18.7	18.1	17.6	19.4	16.8	18.1	17.1	17.5
Total HIPC expenditure	...	...	...	...	...	...	0.9	0.7	0.2	1.0	1.2	1.0
Current expenditure	15.0	15.2	15.1	14.6	15.0	14.8	13.9	15.3	14.5	13.9	13.7	14.8
Wages and salaries	5.2	5.4	5.3	5.2	5.8	5.6	5.1	5.8	5.8	6.0	5.9	6.0
Other goods and services	3.8	3.8	3.7	4.0	4.5	4.2	4.0	4.8	4.5	4.0	4.1	5.0
Of which: HIPC spending	...	...	...	...	...	...	0.3	0.3	0.1	0.5	0.3	0.3
Subsidies and transfers	2.1	2.1	2.1	2.1	1.8	1.9	2.0	1.8	1.7	1.5	1.7	1.8
Interest due	3.9	4.0	3.9	3.2	3.0	2.9	2.7	3.0	2.5	2.4	2.0	2.1
Capital expenditure	3.7	3.2	3.3	4.1	4.6	2.9	3.7	4.1	2.3	4.1	3.5	2.7
Of which: HIPC spending	...	...	...	...	...	...	0.6	0.4	0.1	0.5	0.9	0.7
Restructuring	0.5	0.4	0.5	0.4	0.3	0.3	0.0	0.1	0.2	0.1	0.3	0.3
Unclassified expenditure	0.0	0.0	0.2	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (budget implementation)												
Excluding grants	2.1	2.0	2.0	1.3	-0.7	1.5	1.4	-0.2	1.4	-0.3	1.5	1.0
Including grants	2.5	2.4	2.4	1.8	-0.2	1.9	1.9	0.4	2.0	0.4	2.2	1.1
Net change in arrears	-8.4	-2.9	-2.9	0.0	-5.4	-5.9	0.0	-0.3	-0.5	-0.2	-0.7	-0.2
External (interest)	-5.0	-0.1	-0.1	0.0	0.0	-5.4	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-3.4	-2.8	-2.8	0.0	-5.4	-0.6	0.0	-0.3	-0.2	-0.2	-0.7	-0.2
Overall balance, cash basis												
Excluding grants	-6.3	-0.9	-0.9	1.3	-6.1	-4.4	1.4	-0.5	0.9	-0.5	0.8	0.8
Including grants	-5.9	-0.5	-0.5	1.8	-5.5	-4.1	1.9	0.1	1.5	0.2	1.5	0.9
Financing												
External financing (net)	-5.5	0.5	0.5	-4.8	-3.2	4.1	-1.9	-0.1	-1.5	-2.3	-1.5	-0.9
Domestic financing (net)	-4.7	0.4	1.9	-1.7	-2.0	6.2	0.2	1.3	0.4	-0.2	0.7	0.4
Remaining financing needs	-0.8	0.2	-1.3	-3.1	-1.2	-2.1	-2.0	-1.4	-1.8	-2.1	-2.2	-1.3
Memorandum items:												
Primary budget balance (+ surplus) 2/ 3/	-11.4	0.0	0.0	3.0	8.7	0.0	0.0	0.0	0.0	2.1	0.0	0.0
Overall balance (budg. impl., excl. grants, + surplus)	7.6	7.4	7.5	6.6	4.2	5.5	5.6	4.0	4.6	3.9	4.7	3.7
Non-oil revenue (in percent of non-oil GDP)	2.1	2.0	2.0	1.3	-0.7	1.5	1.4	-0.2	1.4	-0.4	1.5	1.0
Nominal GDP (in billions CFA francs)	16.2	15.9	15.9	16.2	15.8	16.1	16.4	16.0	15.3	16.5	16.6	15.6
Domestic public debt (before audit)	6326.0	6320.0	6320.4	6803.0	6652.0	6612.0	7639.0	7203.0	7259.7	7684.0	7750.3	7783.1
	11.3	14.6	15.6	7.3	11.1	16.7	13.4	13.2	13.8	7.1	9.3	11.4

Sources: Cameroonian authorities; and staff estimates and projections.

1/ As of 2003, the fiscal year begins in January 2003.

2/ Excluding external grants and privatization proceeds

3/ Excluding foreign-financed investment, restructuring expenditure and separation grants.

4/ Excluding foreign-financed investment and separation grants, including restructuring expenditure.

Table 4. Cameroon: Performance Under PRGF Arrangements, 1997/98-2004

	1997/98	1998/99	1999/00	2000/01	2001/02	2003	2004 Proj.
<b>Real GDP growth (in percent)</b>							
Program (original three-year program)	5.0	5.2	5.3	5.4	5.7	6.1	5.3
Annual program	5.0	5.2	4.8	5.4	5.5	4.9	4.7
Actual	5.0	4.4	4.2	5.3	4.3	4.5	4.8
<b>Inflation rate (average; percent change)</b>							
Program (original three-year program)	2.1	2.0	2.0	2.0	2.0	2.0	2.1
Annual program	2.1	2.0	2.0	2.0	2.0	2.7	2.0
Actual	3.9	2.9	0.8	2.8	4.5	0.6	0.8
<b>Broad money growth (percent change)</b>							
Program (original three-year program)DP at constant prices	11.0	10.5	10.0	10.3	7.8	8.2	7.2
Annual program	11.0	16.1	12.5	10.3	8.8	5.8	11.0
Actual	7.8	9.7	18.8	17.9	11.6	-0.9	10.9
<b>Net claims to public sector ( in percent of beginning of period broad money)</b>							
Program (original three-year program)	-0.9	-3.4	-3.5	-16.8	-8.5	-0.1	-0.7
Annual program	-0.9	1.3	0.0	-16.8	-8.1	2.8	1.2
Actual	1.8	4.2	-7.1	0.6	-1.2	-0.6	1.3
<b>Net claims to private sector ( in percent of beginning of period broad money)</b>							
Program (original three-year program)	8.6	11.1	9.1	15.0	13.2	13.4	11.4
Annual program	8.6	9.3	12.1	15.0	12.2	9.9	12.0
Actual	30.3	11.2	10.5	8.7	10.8	8.9	10.2
<b>External current account balance, incl. official transfers ( percent of GDP)</b>							
Program (original three-year program)	-2.3	-2.3	-2.1	-2.5	-2.7	-2.8	-4.5
Annual program	-2.3	-2.5	-3.2	-2.5	-3.2	-4.3	-2.7
Actual	-2.5	-4.1	-1.7	-4.1	-6.4	-2.5	-1.2
<b>External debt (percent of GDP)</b>							
Program (original three-year program)	82.1	80.9	79.1	71.8	64.4	54.9	53.2
Annual program	82.1	59.3	78.7	71.8	62.6	57.9	41.4
Actual	87.8	90.2	79.5	77.3	58.5	48.2	40.7
<b>Terms of trade (annual percent of change)</b>							
Program (original three-year program)	-6.8	2.0	1.8	7.4	-2.7	-0.6	0.0
Annual program	-6.8	-2.9	7.0	7.4	-7.1	-1.0	-0.8
Actual	-4.5	-15.7	41.5	4.5	-8.4	-0.5	4.1

Table 4. Cameroon: Performance Under PRGF Arrangements, 1997/98-2004 (concluded)

	1997/98	1998/99	1999/00	2000/01	2001/02	2003	2004 Proj.
Total fiscal revenue (percent of GDP)							
Program (original three-year program)	15.4	16.6	17.9	20.8	20.0	19.0	17.7
Annual program	15.4	15.8	16.7	20.8	18.8	18.6	18.7
Actual	16.2	15.5	18.8	20.6	19.6	18.2	18.4
Non-oil fiscal revenue (percent of GDP)							
Program (original three-year program)	12.2	13.7	15.4	13.6	14.0	14.7	15.4
Annual program	12.2	13.0	13.5	13.6	14.0	15.0	15.4
Actual	12.3	13.0	13.2	13.6	14.3	13.7	13.8
Current expenditure (percent of GDP)							
Program (original three-year program)	14.3	14.6	14.7	15.0	14.6	13.9	13.9
Annual program	14.3	14.6	14.6	15.0	15.0	15.3	13.7
Actual	14.9	15.2	14.5	15.1	14.8	14.5	14.8
Capital expenditure (percent of GDP)							
Program (original three-year program)	3.1	3.8	4.9	3.7	4.1	3.7	4.1
Annual program	3.1	3.9	5.0	3.7	4.6	4.1	3.5
Actual	2.9	3.6	2.7	3.3	2.9	2.3	2.7
Overall fiscal balance, incl. grants (in percent of GDP)							
Program (original three-year program)	-2.0	-1.8	-1.7	2.5	1.8	1.9	0.4
Annual program	-2.0	-2.7	-2.6	2.5	-0.2	0.4	2.2
Actual	-1.4	-3.2	1.4	2.4	1.9	2.0	1.1
Primary fiscal balance (in percent of GDP)							
Program (original three-year program)	5.7	5.5	5.4	7.6	6.6	5.6	3.9
Annual program	5.7	5.0	5.2	7.6	4.2	4.0	4.7
Actual	5.9	4.6	7.2	7.5	5.5	4.6	3.7
Reduction of external arrears (in billions of CFA francs)							
Program (original three-year program)	-406.0	0.0	0.0	-453.0	0.0	0.0	0.0
Annual program	-406.0	-95.0	-523.0	-453.0	-580.0	0.0	0.0
Actual	-324.4	39.6	-9.3	-8.9	-580.0	0.0	0.0
Domestic debt 1/							
Program (original three-year program)	...	22.3	20.3	11.3	7.3	13.4	7.1
Annual program	...	22.3	20.3	11.3	11.1	13.2	9.3
Actual	25.6	23.3	20.0	15.6	16.7	13.8	11.4

Sources: Cameroonian authorities; and staff estimates.

1/ Based on the audits carried out by debt agency operations (last completed in December 2003 covering debt up to end-June 2003), but excluding most public enterprise debt. In FY 1999/00 about CFAF 450 billions (7.7 percent of GDP) of unvalidated claims were rejected, which explains the large drop in the stock of domestic debt between FY 1999/00 and FY 2000/01.

Table 5. Cameroon: Selected Social and Demographic Indicators

	Cameroon		Sub-Saharan Africa		Low-income countries	
	1992	2002	1992	2002	1992	2002
<b>I. Population characteristics</b>						
Life expectancy at birth (years)						
Total	55	48	50	46	57	59
Female	56	49	52	47	58	60
Male	53	48	49	45	57	58
Mortality rate, infant (per 1,000 live births)	92 3/	95	...	103	...	79
Birth rate, crude (per 1,000 people)	41	36	43	39	33	29
Death rate, crude (per 1,000 people)	13	16	15	18	12	11
Fertility rate, total (births per woman)	6	5	6	5	4	4
<b>II. Education</b>						
Illiteracy rate (in percent)						
Adult total (of population 15+)	83	90 1/	...	80	66	81 1/
Young adult female (aged 15-24 years)	79	88 1/	...	76	57	69 1/
Young adult male (aged 15-24 years)	88	92 1/	...	84	73	81 1/
School enrollment (in percent)						
Primary, gross enrollment	93	107 2/	73	87 2/	90	94 1/
Female	88	99 2/	67	80 2/	81	88 1/
Male	98	115 2/	80	94 2/	99	100 1/
Secondary, gross enrollment	28	33 2/	24	...	37	46 1/
Female	23	29 2/	21	...	30	40 1/
Male	34	36 2/	27	...	44	51 1/
Pupil-teacher ratio, primary education	...	61 2/	39	45 2/	32	40 1/
<b>III. Health</b>						
Immunization (in percent of children under 12 months)						
DPT	37	48	49	54	55	65
Measles	41	62	50	58	54	65
Access to safe water (in percent of population)	...	58 2/	...	58 2/	...	76 2/
<b>IV. Land use</b>						
Arable land (in percent of total land area)	13	13 2/	6	7 2/	12	13 2/
<b>V. Labor force</b>						
Total (in percent of total population)	40	41	44	44	44	46
Female (in percent of total)	37	38	42	42	37	38

Sources: World Bank, *World Development Indicators*, 2004, [www.developmentgoals.org](http://www.developmentgoals.org).

1/ Data as of 2000.

2/ Data as of 2001.

3/ Data as of 1995.

Table 6. Current Practice in Governance and Transparency of the Oil Sector Operations

		Table 6. Current Practice in Governance and Transparency of the Oil Sector Operations						
	National Oil Company	Production Sharing Contracts (PSCs)	Contract Transparency	External Audits	Data Availability	Extractive Industry Transparency Initiative (EITI)	Fiscal Rules for the Use of oil Windfalls/Creation of Funds	
Angola	Sonangol	Yes	Profit sharing agreements are confidential	External audits for Sonangol are conducted, but audit reports are not published	Partial data are collected during missions Few data are available to the public.	The authorities have indicated their tentative interest in adhering to EITI, once Angola has a program with the Fund.	The authorities in September 2004 have manifested their desire to establish an oil reserve account. No guidelines have been released on this reserve account.	
Cameroon	SNH	Yes, between the SNH and private oil companies.	Confidential. Not shared with Fund staff.	An annual audit by a reputable auditor is carried out since 2000. These audits are not published, but have been made available to Fund staff.	The SNH prepares quarterly data on oil sector operations. These data are made available to the Fund. They are not available to the public.	At a conference in Yaoundé in June 2004, Cameroon expressed an interest in adhering to the EITI, but no further steps have been taken since.	There is no fiscal rule or fund.	
Chad	None.	The government has a royalty-sharing arrangement with oil companies that guarantees the government a fixed percentage of oil sales after transportation costs.	The royalty-sharing arrangement is confidential	Audits are scheduled to be conducted and published annually.	The authorities prepare monthly data on oil sector operations. They are not published. Most data, except those covered by explicit confidentiality agreements, are provided to the Fund.	The authorities have expressed interest in adhering to the EITI.	Windfall revenue, defined as the difference between budgeted revenue based on the oil price projected in the WEO and actual receipts, is deposited in a stabilization account.	
Congo, Republic of	SNPC	Yes	They are public.	Completion, by an audit firm of international reputation, of the 1999-2001 and 2002 external audits of the SNPC. Some parts of the 1999-2001 audit were published on the web, and it is expected to be the case for the 2002 one.	Most of the data covering oil sector operations are available on the web	The government announced in June 2004, to the IMF, World Bank and UK authorities, its intention to adhere to the EITI. This will require to release the companies of any confidentiality clause standing in the way of publication of payments.	Government budget observes a fiscal expenditure rule based on a conservative oil price projection.	



Table 6. Current Practice in Governance and Transparency of the Oil Sector Operations

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	National Oil Company	Production Sharing Contracts (PSCs)	Contract Transparency	External Audits	Data Availability	Extractive Industry Transparency Initiative (EITI)	Fiscal Rules for the Use of oil Windfalls/Creation of Funds
Equatorial Guinea	Gepetrol	There is a PSC model, but it is not consistently applied.	PSC are confidential.	An external audit of oil company operations and government oil revenue payments was undertaken for the first time in 2001, but it was not available to the public.	Oil revenue is presented in the budget and in the budget execution reports	The authorities have expressed their desire to participate in the EITI and requested the assistance of the World Bank and the Fund to facilitate the process. No specific measures have been taken yet.	A Fund for Future Generations (held at the central bank) receives 0.5% of the oil revenue collected by the Treasury. The budget includes a line for transfers to a Special Reserve Fund, but these transfers do not result from a pre-defined rule.
Gabon	None	Most fields are operated under PSCs, but older license regimes persist.	PSC are confidential	Financial audits of the six main oil companies were conducted in 2002 by a firm of international reputation, and the recommendations of the audits were implemented in 2003. The audit reports have not been published, but have been made available to Fund staff.	The published budget document reports total oil revenue collected in the previous year and expected revenue in the coming year, broken down between royalties, profit tax, production sharing, and dividends. In addition, Fund staff receive detailed information by company and type of revenue.	The authorities have adhered to the EITI in June 2004, and are in the process of completing the EITI templates with the required information.	A Fund for Future Generation was established in 1998. Since 2002, 10 percent of budgeted oil revenues and any windfall over budgeted oil revenues have been deposited in this fund.
Nigeria	Nigerian National Petroleum Corporation (NNPC).	Most of the oil is produced by the NNPC, but there are a few PSCs with other producers.	PSCs are not publicly available.	There are no external audits.	NNPC publishes monthly data on production, exports, and sales. In addition, revenues accruing to the Federal government and the States are published on a monthly basis, and the federal authorities have begun publishing windfall savings in excess of the budgetary reference price.	In order to meet the EITI criteria, a national stakeholder working group has been formed with civil society participation. The group is drafting terms of reference for external audits. The group will also oversee eventual publication of audited government accounts.	Price-based rule: windfall is saved in a special account at the central bank. Central bank net foreign assets increase accordingly.

Source: IMF staff analysis.

Table 7. Cameroon: Quantitative Performance Criteria and Benchmarks Under PRGF Arrangements 1/

	PRGF I					PRGF II					
	Dec. 1997	Dec. 1998	Dec. 1999	Jun. 2000	Mar. 2001	Jun. 2001	Sep. 2001	Mar. 2002	Sep. 2002	Dec. 2003	Jun. 2004
<b>Performance Criteria</b>											
1. Ceiling on the increase in net claims of the banking system on the central government	M	M	M	M	NMW	-	M	M	NMW	NM	NM
2. Floor on the primary budget balance	M	M	M	M	M	-	M	M	M	NM	NM
3. Floor on the net reduction of the external payments arrears of the public sector 2/	M	M	M	M	M	M	M	M	M	M	NM
4. Ceiling on new medium- and long-term nonconcessional external debt contracted or guaranteed by the central government	M	M	M	M	M	M	M	M	M	M	M
5. Ceiling on the net disbursement of external loans with a maturity of less than one year	M	M	M	M	M	M	M	M	M	M	M
<b>Benchmarks</b>											
6. Ceiling on the increase in net claims of the banking system on the nonfinancial public sector	M	M	NM	NM	-	-	-	-	-	-	-
7. Floor on total revenue of the central government <i>Of which: non-oil revenue</i>	M	M	M	M	M	M	M	M	NM	NM	NM
8. Floor on reduction of domestic arrears 3/ <i>Of which: cash payments</i>	-	-	-	-	NM	NM	NM	M	NM	NM	NM
10. Floor on reduction of domestic debt to utilities	-	-	-	-	-	-	-	-	-	NM	NM 4/

Source: Fund staff.

1/ M = met, NM = not met, NMW = not met and waiver was granted, and - = the particular item was not a quantitative target during that test date.

2/ Changed to "Ceiling on the accumulation of external payments arrears of the central government" in the original program.

3/ Changed to "Floor on reduction of domestic debts" in Country report No. 03/401.

4/ Data not available, but based on the larger fiscal picture, Fund staff believes it is unlikely that the benchmark was met.

Table 8. Cameroon: Structural Conditionality Under the PRGF Arrangements, 1997/98 - 2004

	Jul 1997 - Jun 1998			Jul 1998 - Jun 1999			Jul 1999 - Jun 2000			
	Prior Actions	Performance Criteria	Benchmarks	Prior Actions	Performance Criteria	Benchmarks	Prior Actions	Performance Criteria	Benchmarks	
Tax policy and administration	0	1	2	0	1	0	0	0	1	0
Expenditure policy and administration	0	0	0	0	1	1	0	0	2	1
Other public administration (e.g., judicial system)	0	0	1	0	0	1	0	0	1	4
Public enterprises, incl. privatization	0	1	3	0	0	9	0	0	0	7
Liberalization	0	0	4	0	0	2	0	0	0	0
<b>Total</b>	<b>0</b>	<b>2</b>	<b>10</b>	<b>0</b>	<b>2</b>	<b>13</b>	<b>0</b>	<b>4</b>	<b>4</b>	<b>12</b>
Met on time		2	10		2	10		4	4	11
Met with some delay		0	0		0	2		0	0	1
Met with considerable delay/Not met		0	0		0	1		0	0	0

	Jul 2000 - Jun 2001			Jul 2001 - Dec 2002			Jan 2003 - Dec 2004			
	Prior Actions	Performance Criteria	Benchmarks	Prior Actions	Performance Criteria	Benchmarks	Prior Actions	Performance Criteria	Benchmarks	
Tax policy and administration	0	1	0	0	1	1	1	2	1	1
Expenditure policy and administration	1	0	1	4	3	6	1	1	2	4
Other public administration (e.g., judicial system)	0	1	2	1	0	5	0	0	1	2
Public enterprises, incl. privatization	1	0	3	1	0	4	0	0	0	1
Liberalization	0	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>2</b>	<b>2</b>	<b>6</b>	<b>6</b>	<b>4</b>	<b>16</b>	<b>3</b>	<b>4</b>	<b>4</b>	<b>8</b>
Met on time		2	6		2	8		2	2	7
Met with some delay		0	0		1	8		1	1	0
Met with considerable delay / not met 1/		0	0		1	0		1	1	1

Source: Fund staff.

1/ A considerable delay is defined as a delay of six months or more.

**Republic of Cameroon  
Ministry of Economy and Finance  
Office of the Minister**

**VIEWS OF THE CAMEROONIAN AUTHORITIES ON THE  
EX POST ASSESSMENT OF PROGRAMS EXECUTED  
WITH SUPPORT FROM THE IMF UNDER THE ESAF/PRGF**

## I. INTRODUCTION

1. The staff of the International Monetary Fund have drafted an ex-post assessment of the programs supported by the ESAF/PRGF in Cameroon from 1997 to 2004. Useful discussions were held on the content of the report on December 4 and 5, 2004 in Yaoundé during the IMF Article IV Consultation mission that took place December 3 to 18, 2004.
2. The Cameroonian authorities are pleased with the open-mindedness of this report and the relevance of the suggestions made in the section “Lessons Learned and Strategy for Future [Fund Involvement],” and they would also like to take this opportunity to express their deep gratitude for the commitment of IMF senior management, in allowing their opinion to be taken into account in this report and this response to be published as an annex to the report. This is a first in the Fund’s relations with Cameroon, and it should lead to a better, more objective appreciation of the facts and the results of Cameroon’s programs.

## II. CAMEROON/IMF COOPERATION FROM 1997 TO 2004

3. The report does not sufficiently emphasize the successes of the Cameroonian economy, for which the IMF’s multifaceted assistance must be credited. The Cameroonian authorities would like to point out, and express their satisfaction with, the positive growth of the economy for the past close to a decade, after the severe depression between 1987 and 1994 (Figure 1 in the report). Significant progress has been made in controlling public expenditure, developing the government auxiliary accounts, improving governance, implementing the structural reform program under the CAS III to the satisfaction of the Bank, etc.
4. In contrast, the surprisingly long delays in completing the fourth review under the PRGF in 2002/2003 (one year), which cannot be laid entirely at Cameroon’s door, had a particularly negative impact.
5. The causes of these delays included the multiplication and constant changes in the bases for assessing the benchmarks during the program. For example, IMF staff departed from the provisions of Cameroonian legislation and practices during the first program when they suddenly, after the fact, decided no longer to include uncleared certified checks in revenue.
6. When the letter of intent was finally signed in early December 2003, neither the targets nor the bases for the projections were updated. The quantitative targets of the program were thus no longer relevant and, when combined with the unrealistic fiscal revenue forecasts imposed on Cameroon for 2004 under threat of suspension of the program, led inexorably to the slippage.
7. The Cameroonian authorities believe, moreover, that the IMF mission team fixated on the impact—in their view negative—of a political decision by the Head of State to reorganize the government in August 2002. It is curious to note that from the moment that this

restructuring of the government was decided, the assessment of program criteria and benchmarks by the Fund became stricter, with a tightening of conditionality and multiplication of prior actions for the completion of reviews.

8. Some major reforms, including the introduction of an integrated government finance management system and the creation of the Large Enterprise Division, which were undertaken at the insistence of the IMF, required greater support, particular in the form of technical assistance. The difficulties encountered in implementing these reforms partially reflect this shortfall in technical assistance, complicated by the lack of preparation of staff owing to training programs little suited to the profound changes sought.

9. The more frequent and stronger differences of opinion between the IMF mission chief and the chief of the World Bank macroeconomic mission, which came to a head when the macroeconomic and budgetary frameworks for the PRSP were being finalized and during the tripartite discussions in Washington and Yaoundé to agree on the performance indicators for the completion point triggers for Cameroon under the HIPC Initiative [sentence incomplete].

10. It is unfair to speak of reform fatigue on the part of the Cameroonian authorities: in the case of privatizations, for example, the procedure was fully implemented for all the enterprises concerned. The negotiations were not successful because of the increased complexity of the reforms and the very rapid changes in certain sectors, such as the telecommunications sector, or the very unsatisfactory bids on the part of the provisional successful bidders.

### **III. LESSONS LEARNED AND STRATEGY FOR FUTURE FUND INVOLVEMENT**

11. Cameroon intends to continue its close cooperation with the IMF and the World Bank, which has over the past decade led to a substantial improvement in the macroeconomic and fiscal framework and made it possible to carry out important structural reforms that can today be considered fully accomplished and even assets for the national economy. However, the programming of reform measures should be more realistic, to take better account of the real absorptive capacity for these reforms.

12. The rigidity of the conditionality of the PRGF program in terms of external loans has been, and still is, a serious handicap in the implementation of growth-oriented investment projects (expansion of AES SONEL's power-generating capacity, expansion of the shipbuilding facilities of Chantiers Navals Industriels du Cameroun, expansion of ALUCAM), which is paradoxical when you consider the prospect of enhanced growth. Even more important, this will for the past two years have deprived the Cameroonian economy of an important engine for growth and poverty reduction.

13. The current structure of conditionality does not favor "ownership" of programs by recipient countries. Cameroon fully shares the position expressed on this subject in Mr. Nord's report and fervently advocates its overhaul so as to allow for effective ownership of programs by recipient countries.

14. The abandonment of the practice of offsetting enterprises' tax claims, which is advocated by the IMF experts, should be further discussed, in particular to provide a definitive solution to the issue of the required balance sheet restructuring of public enterprises accepted for the privatization process. Essentially this involves conducting a prior audit of these claims and retaining those which seem justified in the budget framework.

15. The low usage of HIPC funds does indeed, as the report so clearly indicates, suggest a need for a review of the procedures to make them less cumbersome. Steps are already being taken in this regard.

16. Regarding the public administration reforms, the Cameroonian authorities intend to emphasize the need for periodic assessments of the pace of these reforms and the absorptive capacity of the structures and staff responsible for their implementation. Cameroon hopes that in future such assessments will be integrated in the process of reform of the administration.

#### **IV. CONCLUSION**

17. The misunderstandings during the second year of execution of the PRGF II should not be an obstacle to the continuation of cooperation between Cameroon and the IMF, which the Cameroonian authorities consider to be very productive overall. Experience has shown, however, that future commitments by the Fund in Cameroon should take better account of the country's specific characteristics and give greater importance to improving public and private investment, both in volume and quality. It is this improvement that will bring stronger growth to Cameroon.